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

DOMINICAN REPUBLIC

PROJECT PAPER

AGRIBUSINESS PROMOTION

AID/LAC/P-240

Project Number:517-0186
Loan Number:517-T-051

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number: N/A

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Dominican Republic

3. PROJECT NUMBER: 517-0186

4. BUREAU/OFFICE: Latin America and the Caribbean — 05

5. PROJECT TITLE (maximum 40 characters): Agribusiness Promotion

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 88

7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4)

A. Initial FY 85 | B. Quarter 4 | C. Final FY 87

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY: B. FX	C. L/C	D. Total	LIFE OF PROJECT: E. FX	F. L/C	G. Total
AID Appropriated Total						19,800
(Grant)	(1,740)	( )	(1,740)	(2,500)	( )	(2,500)
(Loan)	( )	(4,200)	(4,200)	( )	(17,300)	(17,300)
Other U.S. 1						
Other U.S. 2						
Host Country		15,000	15,000		30,868	30,868
Other Donor(s)						
TOTALS	1,740	19,200	20,940	2,500	48,168	50,668

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) FN	160B	150	150	-	-	1,740	4,200	2,500	17,300
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 040 | 840 | 150 | 140 | 075

11. SECONDARY PURPOSE CODE: 730

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BF	BL	COOP				
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To initiate new or expand existing agribusiness investment projects devoted to production of new or processed agricultural commodities for sale in export and domestic markets, and to improve the mechanisms for agribusiness promotion and financing.

14. SCHEDULED EVALUATIONS: Interim MM 01 YY 87 | MM YY | Final MM 11 YY 88

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [X] 000 [ ] 941 [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

Approval of Method of Implementation/Financing: [signature]
Steven G. Liapis, Controller

17. APPROVED BY

Signature: [signature]

Title: Henry H. Bassford, Mission Director

Date Signed: MM 08 DD 22 YY 85

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

/ 1

PROJECT AUTHORIZATION

Name of Country/Entity: Dominican Republic

Name of Project: Agribusiness Promotion

Number of Project: 517-0186

Number of Loan: 517-T-051

1. Pursuant to Section 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agribusiness Promotion Project for the Dominican Republic involving planned obligations of not to exceed $17,300,000 in loan funds and $2,500,000 in grant funds over three years from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is three years from the date of initial obligation.

2. The project consists of assistance (1) to establish an agribusiness loan fund which will be drawn on by private banks to provide capital for fixed assets and working capital for the expansion or establishment of private agribusiness enterprises, and (2) to develop the institutions that are essential to the expansion of the agribusiness sector in the Dominican Republic by improving their capacity to assist promising agribusiness ventures in locating foreign partners, defining markets, conducting feasibility studies, strengthening their capability to identify, analyze and support feasible agribusiness ventures, and facilitating the export of non-traditional, agricultural products.

3. The Project Agreements which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following additional terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within twenty-five (25) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the Date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. <u>Source and Origin of Commodities, Nationality of Services -- Loan Funded</u>

Commodities financed by A.I.D. for the Project shall have their source and origin in countries included in A.I.D. Geographic Code 941 and the Dominican Republic, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries included in A.I.D. Geographic Code 941 and the Dominican Republic as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessel of the United States, other countries in Code 941 and the Cooperating country.

c. <u>Source and Origin of Commodities, Nationality of Services -- Grant Funded</u>

Commodities financed by A.I.D. for this Project shall have their source and origin in the United States (AID Geographic Code 000) and the Dominican Republic, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the supplier of commodities or services shall have the United States and the Dominican Republic as their place of nationality, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

d. <u>Conditions Precedent to Disbursement</u>

<u>First Disbursement.</u> Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(i) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(ii) A statement of the name of the person holding or acting in the office of representative of the Borrower and of any additional representatives, together with a specimen signature of each person specified in such statement;

(iii) Identification of an appropriate full time Project Manager;

(iv) Written operational guidelines which describe the procedures (e.g., sub-loan application forms, approval and disbursement arrangements, use of recuperations and auditing and accounting procedures) and eligibility criteria which will be applied to the use of A.I.D.-furnished loan funds; and

(v) A draft agreement to be utilized between Fondo de Inversiones para el Desarrollo Economico (FIDE) and the Participating Financial Institutions (PFIs) which describes the terms, conditions and procedures to be employed by the PFIs to access project funds for their lines of credit.

e. Special Covenants

The Borrower shall covenant as follows;

(i) Evaluation Plan. Except as A.I.D. may otherwise agree in writing, the Borrower will prepare and submit to A.I.D. within 12 months of the signing of this Agreement a time-phased plan for evaluation described in Section 6.1.

(ii) Support of Agribusiness Development. Except as A.I.D. may otherwise agree in writing, the Borrower;

(a) Agrees to review with A.I.D. the structure of interest rates proposed under the Project each year from the date of the first disbursement of loan funds, within the guidelines established by the Monetary Board and recognizing the prevailing conditions in Dominican financial markets.

(b) Agrees, for the life of the loan, to utilize the principal repayments made by the PFIs for lines of credit which meet the original purpose and objectives of the project.

(c) Agrees that loan funds will not be used for projects involving the production or processing of sugar, citrus, African palm oil, and pesticides and severe chemical treatment such as tanneries or extensive land clearing or road construction in hillside areas, nor for traditional exports as defined under Dominican Law No. 69.

(d) Agrees to convene periodic meetings with representatives of the public and private sectors, as well as A.I.D., to review progress toward objectives and constraints to increased investments and exports.

Henry H. Bassford
Director
USAID/Dominican Republic

8/22/85
Date

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LIST OF ACRONYMS AND SPECIAL TERMS

ABD	Asociación de Bancos de Desarrollo
ADOEXPO	Asociación Dominicana de Exportadores
APHIS	Animal/Plant Health Inspection Service, U.S. Department of Agriculture
CEA	Consejo Estatal de Azúcar
CEDOPEX	Centro Dominicano para la Promoción de Exportaciones
CNHE	Consejo Natlonal de Hombres de Empresa
CNZFI	Comisión Nacional de Zonas Francas
CORDE	Corporación de Empresas Estatales
CPI/IPC	Comisión para Promoción de Inversión
FIDE	Fondo de Inversión para el Desarrollo Económico, Banco Central
Financieras	Development finance companies, now referred to as development banks
FONDOPREI	Fondo de PreInversión
IAD	Instituto Agrario Dominicano
IDB	Inter-American Development Bank
INDOTEC	Instituto Dominicano de Tecnología
INDHRI	Instituto Dominicano de Recursos Hidraúlicos
ISA/CADER	Instituto Superior de Agricultura/Centro de Administración del Desarrollo Rural

JACC/DR	Joint Agricultural Consultative Committee - Dominican Republic Chapter
LAAD	Latin American Agribusiness Development Corporation
OPIC	Overseas Private Investment Corporation
PRE	Private Enterprise Bureau, AID
SEA/SV	Secretaría de Estado de Agricultura - Sanidad Vegetal
STP	Secretariado Técnico de la Presidencia
USAID	Mission of the United States Agency for International Development in the Dominican Republic
TDP	Trade and Development Program

Note: The functions of many of these entities as they relate to agribusiness are summarized in Exhibit I on page 10.

Project Development Committee

Peter Bittner, Private Sector Officer, USAID/DR

Rodolphe Ellert-Beck, Program Office, USAID/DR

Pirie Gall, Project Development Officer, USAID/DR

Steven Lack, President, LAAD/Caribe

Steve Liapis, Controller, USAID/DR

Roberto Liz, Director, FIDE

Gary Kilmer, Development Alternatives

Joseph Kwiatkowski, Agriculture Officer, USAID/DR

Delbert McCluskey, Agriculture Officer, USAID/DR

Horacio Ornes, President, JACC/DR

Arthur Valdéz, Rural Development Officer, USAID/DR

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I SUMMARY AND RECOMMENDATIONS

A. Recommendations

The Agribusiness Promotion Project Committee recommends that a loa be made in the amount of $17,300,000 to the Central Bank, and that a grant be made to the Joint Agricultural Consultative Committee of the Dominican Republic (JACC/DR) in the amount of $2,500,000 in order to establish an agribusiness promotion program. Within this grant amount are earmarked $400,000 for a project advisor, evaluation and audit services; $300,000 for technical assistance to the participating banks; $155,000 for produce inspection services; and $500,000 to the Trade Development Program (TDP) for feasibility studies. This program will be implemented over a three year period and it will be complemented by RD$90,000,000 in local currencies for the loan fund.

B. Summary Project Description

The goal of the project is to contribute to increased employment, income, and foreign exchange earnings or savings, while fostering equitable distribution of benefits produced by private enterprise. The purposes are to (1) establish a credit fund and provide technical advice to private agribusiness firms and their supporting industries that produce fresh or processed commodities for export and domestic markets; and (2) improve the mechanisms and policy framework for promoting and financing agribusiness projects.

Through an agribusiness loan fund directed by private banks, the project will finance the expansion or establishment of 80 to 90 agribusiness enterprises, providing capital for fixed assets and working capital. The project will encourage joint ventures, opening opportunities for new entrepreneurs, and raw material supply by small- and medium-scale commercial farmers. Through private business groups, the project will establish a new system for identifying promising ventures, financing feasibility studies, packaging financial proposals, channelling funds to these ventures, and tracking their progress. Policy objectives include adequate application of investment and export incentives, reduction of business regulation, and accelerated lending procedures. Lastly, the project will support establishment of pre-clearance plant health inspections for produce destined for U.S. markets.

C. Negotiating Status

USAID has conducted discussions and surveyed the aspirations, concerns, and alternative proposals with a wide range of agribusiness investors, bankers, and government officials. These discussions have covered both problems and opportunities, means of financing and promoting agribusiness, and a host of related topics.

At present, the project is well known and agreed to by key representatives of the private and public sectors. Discussions have been completed with the Central Bank and with private banks about the detailed procedures for implementing the loan mechanism. Startup support for JACC/DR has been provided out of local currency resources. Details on the plant health inspection component has been worked out with USDA and with the Secretary of Agriculture's Plant Health Division (SEA/SV). The establishment of a feasibility loan fund and for providing technical assistance to participating banks has been defined with the Association of Private Development Banks (ADB). A special transfer of funds to TDP to enhance their capability to service U.S. investors has also been agreed to.

D. Issues

This section briefly addresses the points raised by the DAEC in its guidance as provided in State 065441, attached as Annex A.

1. Constraints

During the nearly six months since the preparation of the PID, we have observed a continuing growth of awareness on the part of the GODR, expressed in a number of Presidential announcements and actions, that they must adjust and actively apply policies and procedures that are favorable to agribusiness. In addition, we have drawn directly on the experience of the Rural Saving Mobilization Project to analyze the financial aspects of this project; completed the design of an Economic Policy Analysis and Training Project to influence directly the top economic decision makers in the country; and drawn directly on the expertise at Superior Institute of Agriculture/Center for Rural Development Management (ISA/CADER) in the area of facilitating policy discussions and changes. In our demand analysis, we have found that there are 108 ventures pending or seeking financing for new starts or expansions in this area, suggesting that in spite of the obstacles, a number of Dominican and foreign investors are eager to enter the market and work with the existing system, while pressing for changes favorable to their efforts. This project is based on the tested assumption that private sector activity, in the form of job and income expansion, will be the best object lesson to bring about needed changes in government's role. See further discussion of our planned actions in this area in Section II-C-4.

2. Counterpart Selection

As discussed in more detail in Section II-C-5, we have elected to channel AID funds through the Central Bank's Economic Development Investment Fund (FIDE) with a line of credit mechanism to selected private financial institutions (PFIs), while negotiating with FIDE a minimal role in assuring elgibility of the banks, and conducting post-audits of their uses of the funds. In this way, we have solved problems of exchange risk, while showing that FIDE's relationship with the banks can be a less restrictive and more mature one.

The technical assistance activity will be handled through a grant to JACC/DR, based on a series of considerations explained in Section II-C-5. USAID, with input from JACC/DR, will carry out a competitive selection of a technical assistance contractor, with provisions for expansion.

3. Criteria for Sublending

As spelled out in Section III-C-3, loans will be available for non-traditional agricultural export projects or high priority domestic projects in areas such as animal feeds or oil seeds which will save foreign exchange. Other criteria will be employed in order to identify ventures that generate significant direct and indirect employment, generate significant demand for local crops (e.g. through contract growing), do not require excessive imported technologies, provide geographical diversification, have pilot activities under way, and where financing for diversification is sought. Further, projects from industries such as those supplying fertilizer, seeds, packaging material and agricultural implements will also be eligible so long as the borrower is operating under competitive circumstances and not protected under the DR's import substitution laws.

Maximum loan size will be RD$6 million for any one project. Financing will not be available to projects without at least 40 percent Dominican ownership. The usual prohibitions of PD-71 will be applied.

4. Funding

With adjustments to the OYB for FY 1985, we are now planning to fund the project as fully as possible, avoiding the mortgaging problem experienced by the USAID in recent years. As additional funds become available near the end of the current fiscal year, additions to Agribusiness Promotion will be made.

5. Interest Rates

AID will provide a 25 year loan to the Central Bank at 2 percent during a 10 year grace period and at 3 percent for the remaining repayment period. The Central Bank will on lend to the participating banks at 13%. These rates will be revised on a yearly basis, adjusted upward or downward according to inflation. The banks will lend to the end users at prime market rates, which are currently averaging 20 percent, including fees and commissions.

These rates were established after careful consideration of factors such as the projected rate of inflation, FIDE rates, expected returns on investments of sub-projects, risk, and banks' cost of funds from non-FIDE channels. Section III-C-4 discusses these points in more detail.

II BACKGROUND AND RATIONALE

A. Background

1. Economic Setting 1/

During recent years the Dominican Republic has experienced serious economic problems that are manifested by widening trade and capital imbalances, growing public sector deficits and indebtedness, depreciation of the national currency, slowing GDP growth, inflation and unemployment. In an effort to deal with this economic situation the GODR in April 1985 reached a one-year Stand by Agreement with the International Monetary Fund (IMF), and in May 1985 concluded an agreement with commercial banks for a long-term rescheduling of public debt.

To stay in compliance with the IMF agreement, the GODR must undertake a series of adjustments with regard to monetary and credit, fiscal and balance of payments policies. It is within the context of the GODR economic adjustment program that USAID proposes to contribute resources that will lead to an improved trade balance and reduce the balance of payments gap.

The nation's overall balance of payments projections show deficits of $45 million in 1985 and 1986, primarily as a result of the decline in world prices of major export products and increased prices of petroleum imports. One major factor contributing to the deficit is that serious obstacles have constrained the expansion of exports. These obstacles fall into two categories: an imbalanced export orientation involving a few traditional crops which have limited potential for expanded marketing; and an import substitution structure of production which has evolved from a set of laws, policies and regulations from the 1960s that promote and protect industry geared to the domestic market.

The structure of commodity exports during 1979-1983 was such that approximately 90 percent of all export earnings were derived from commodity exorts of sugar, coffee, cacao, tobaccos, and minerals, commodities that are subject to wide price fluctuations in the world market. The share earned by non-traditional products remained between nine and thirteen percent, and was distributed among 436 distinct products. However, only 41 of these 436 products had sales in excess of $500,000, indicating a very underdeveloped status of the non-traditional export sector.

1. For details concerning the macro economic situation, the reader is referred to the May 1985 Mission Action Plan.

Another factor contributing to balance of payments deficits is the increased importation of agricultural commodities, many of which could be produced locally. The value of imported food products increased from $58 million in 1978 to roughly $120 million in 1983. These imported commodities include such basics as corn and edible oils as well as animal fats, tobacco, beans, and live poultry. Substitution of these imports under circumstances allowing competition, with production by local agribusinesses appears to be both economically and technically feasible, and essential to any plan to relieve the economic situation.

2. Agribusiness Characteristics[2/]

The agribusiness or agro-industrial sector (the preferred Dominican term is agro-industry) is characterized by a large number of small firms and a few relatively large firms dealing mainly in traditional agricultural products. Most of the larger agro-industrial establishments are concentrated in the Santo Domingo and Santiago urban areas. According to a 1983 survey there are 790 agro-industrial firms i.e., businesses dealing in food, fiber, clothing, leather and tobacco. Approximately half of these firms are involved in the export of agricultural products, although average sales are less than $400,000.

In addition to the Dominican firms, most of which are oriented toward the Dominican market and only occasionally export, there are Dominican affiliates of multinational corporations. The multinationals involved in non-traditional agribusiness activities for the export market can be classified as those that: (1) produce fresh agricultural products, with additional processing limited to classifying and sorting; or (2) contract with private farmers to obtain their agricultural raw materials which they then process and market; or (3) provide technical assistance and financing to small producers under contract for the production of fresh produce that is packaged and exported.

Demand for agro-industrial products in the domestic market generally is being satisfied by established firms, with the few possible exceptions of import-substitution production and/or new products for which demand might be created. The established agribusinesses have been protected from significant and aggressive competition by effective protectionist measures and "grandfather" clauses. These firms generally are either long-established (over 50 years) or headed by members of families long powerful in Dominican commerce.

[2/] Agribusiness as used here includes the production, processing and marketing of agricultural products by private firms for sale in domestic or export markets.

3. Demand for Credit

Owing to the generally favorable investment climate and other related factors, numerous Dominican entrepreneurs have undertaken plans for expanding or establishing agribusinesses, which will greatly augment the demand for credit. According to an extensive credit survey conducted by Latin American Agribusiness Development Corporation (LAAD) in 1985, there is a bona fide demand for new agribusiness finance to be in place before mid-1985 that amounts to at least the equivalent of US$79 million, and at least US$126 million by mid-1988 . This credit demand represents needs for both working capital and longer term credits for genuine needs consonant with start-up or expansion of projects already underway, and/or for projects which have sponsors' determined support.

The credit demand estimated above is broken down in more detail in Section V-A.

B. Relationship to USAID Strategy

This project is fully consistent with the main emphases of AID policies. It is directed toward private sector investment and growth. Through technical assistance and promotion of joint ventures with foreign firms, it will transfer both management skills and improved production practices and technology in agricultural and agro-industrial activities. The project seeks institutional change, through enhancing private and public organizations' capabilities to support and expand agribusiness on a fee-for service basis, and through reducing government involvement and regulation. Policy dialogue has been an ongoing feature of the project, drawing from actual experience with firms seeking opportunities for expansion, and with attention to broader policy concerns. We have reviewed the March 1985 revision of the AID Policy Paper on Private Enterprise Development, and have sought to apply its precepts to the design of this project.

USAID's longer term strategy is to assist the GODR on its path to sustained economic growth. However, the Dominican Republic can no longer sustain growth based on import substitution and the exports of traditional crops. Therefore AID resources will be utilized to assist the GODR to stimulate new investments and diversify and expand its agricultural and industrial base. This strategy also re-orients the USAID program which has been directed essentially towards the public sector.

The Agribusiness Promotion Project is the first project to implement this new strategy, under which USAID will support the expansion of the agribusiness subsector, in order to increase exports of fresh and processed commodities for foreign markets as well as establishing new industries to meet the needs of domestic consumers. The creation of these enterprises will in turn create substantial direct and indirect employment.

This project implements the above strategy by incorporating several elements critical to its successful execution.

1. It establishes a system for identifying promising foreign partnerships; packaging investment proposals; and fostering a partnership among prospective investors and the production, managerial, and marketing expertise to undertake new or expanded agribusiness ventures. The project addresses directly an essential part of the strategy and, encourages diversification of agricultural production.

2. The underlying criteria for selecting these new ventures are that the firms either produce or process non-traditional agricultural commodities, many of which are grown for the export market, or they supply key inputs such as seeds, fertilizers, packaging materials, and farm implements. This project will thus encourage the expansion of exports.

3. The project will provide some supporting institutional infrastructure, to facilitate the financing of these enterprises and the promotion of exports.

4. The project will provide inspection services, to assist commodity exporters to guarantee that their products meet U.S. phytosanitary standards, and facilitate the export of produce to the U.S.

Thus, by encouraging agricultural diversification, promoting exports, creating employment, encouraging joint venture partnerships, and providing necessary financial and phytosanitary support to achieve the objectives, the Agribusiness Promotion Project is fully consistent with the new USAID strategy.

C. Rationale

1. The Potential for Agribusiness Development

Clearly, the greatest potential for Dominican agribusiness development is the expansion of exports, especially of non-traditional products. The Dominican Republic's comparative advantage in agro-industrial exports is related to its labor, its natural resources, and its close proximity to the United States and Puerto Rico. In addition, the Dominican Republic can benefit from the close cultural ties and similarity in customs and tastes with the growing U.S. Hispanic and Caribbean populations.

There is an under-utilization of national resources (land, water, labor, traditional technology) and existing production capacity that could be dedicated to increased agricultural production. There are extensive areas of agricultural land devoted to low-return uses, or left idle during one or two growing seasons, even in irrigated areas. Agricultural labor is plentiful, low cost and vastly under-employed -- perhaps 60 percent of the agricultural labor force is idle during part of the year. Technology for the production of certain basic crops, particularly for import substitution products such as corn and peanuts which could be produced competitively if price controls to producers were lifted, is adequate for greatly increasing supply for internal markets. Further, there are hundreds of agribusiness firms with excess production capacity, most of which have some prior experience in exporting their products.

2. Activities Related to Agribusiness

a. Private Sector

Private sector entities involved in promoting increased production, processing, and marketing of agricultural products are described below:

There are 18 private development banks (or financieras) that provide medium and long-term development financing. They also provide export financing. In very few instances, they make equity investments. The financieras cannot accept deposits. They either channel funds obtained from the Economic Development Investment Fund (FIDE), a unit of the Central Bank, or secure funding through bond issues. For reasons discussed below in the constraints section, many of the financieras seem to have concluded that lending to new or small industrial enterprises is too risky and less financially rewarding than other alternatives. Thus, they are not always eager to finance these activities.

Commercial banks serve as sources of short-term working capital, and some banks also provide term loans using FIDE funds. There are 12 private commercial banks operating in the Dominican Republic; some of these are joint ventures and foreign-owned operations. These banks account for about four-fifths of the total resources of the financial system. Their credit to manufacturing and agriculture represents about half of the total disbursed to the private sector. The largest commercial bank is the Banco de Reservas, a government-owned bank, which in practice operates as any other commercial bank.

Numerous consulting firms, both foreign and domestic, offer services to agribusiness enterprises. With some exceptions, most appear to be expert in legal, administrative and accounting areas rather than in providing economic, financial and technical agro-industrial assistance.

There are also numerous private voluntary organizations that carry out activities related to agribusiness. For the most part they deal with small projects at the community level, often involving formation and management of agribusiness enterprises.

Trade associations are primarily involved in lobbying the government in the interests of their membership. There is a significant degree of overlap in the membership of their various directorates, which generally are dominated by the economically powerful families. The most important are the National Council of Businessmen (CNHE), the American Chamber of Commerce of the Dominican Republic and the Dominican Association of Exporters (ADOEXPO), and associations of industrialists, merchants and producers, that are formed along commodity lines, type of economic activity or regional location.

b. **Public Sector**

In the recent past, the GODR has introduced a series of laws which reflect a change in economic development strategy. The new laws and decrees imply a policy of promoting non-traditional exports as a source of foreign exchange, and of attracting private foreign direct investment to develop those export industries. Some of the most important include: (1) amendment of the Foreign Investment Law to increase profit remittances to 25 percent of invested capital, to allow registering in any freely convertible currency, and to include registration of the value of imported equipment and capital goods; (2) creation of a private sector-controlled Commission for Foreign Investment Promotion (IPC), with a permanent staff and budget; (3) revitalization of the duty exoneration of raw materials to all producers; (4) establishment of the regulatory procedures necessary to implement the Agro-Industry Law; (5) leasing of government land to private domestic investors for an import substitution project (vegetable oil), and a number of other measures to encourage the financing and operations of export-oriented businesses.

A number of government institutions are involved in promoting, regulating and financing agribusiness activities. The lead institutions are the Secretariat of Industry and Commerce and its Technical Agro-Industrial Department; the Technical Secretariat of the Presidency (STP); and the Central Bank through its FIDE. Other relevant institutions are shown in the Exhibit I on the following page.

EXHIBIT I

DOMINICAN AGENCIES AFFECTING AGRIBUSINESS

Agency	Functions
Dominican Center for Export Promotion (CEDOPEX)	Promotes and regulates exports.
Investment Promotion Commission (IPC)	Promotes foreign investments.
Dominican Institute of Industrial Technology (INDOTEC)	Formulates industrial standards. Does studies and provides technical services.
Agrarian Reform Institute (IAD)	Assists reform settlers' involvement in joint ventures with Dominican and foreign agribusiness firms.
National Price Stabilization Institute (INESPRE)	Supervises some government sponsored agro-industrial enterprises, and regulates farm prices of important commodities.
National Council of Free Zones (CNZFI)	Administers export processing free zones and supervises activities of special agribusiness plants designated as free zones.
State Sugar Council (CEA)	Runs State sugar mills, administers State land devoted to sugar, and leases land to agribusiness enterprises producing pineapple and edible oil.
Industrial Development Corporation (CFI)	A State development/banking institution.
National Irrigation Institute (INDHRI)	Constructs and administers irrigation system and regulates water use.
Dominican Corporation of State Enterprises (CORDE)	Administers State enterprises including some relevant to agribusiness such as manufacture of glass bottles and cardboard materials.
Preinvestment Fund (FONDOPREI)	Funding of feasibility studies.

3. Constraints

During design of this project, we reviewed our findings at the PID stage and concluded that the previous statements were indeed valid. These constraints are summarized below.

In addition, however, we have highlighted two important issues, that relate to national policies, and that have to be addressed in the context of our dialogue on a broad range of issues; these are land access and implementation of policy.

a. Policy

National policy regarding agribusiness is: to encourage foreign investment; to achieve food self-sufficiency; to increase exports of non-traditional products, to improve distribution of income through employment generation among low-income farmers; and to develop markets for expanded production.

The formulation of agricultural and agribusiness policy, however, is characterized by lack of integration and internal consistency. There are six major policy-makers in the agricultural arena who can and do operate largely independently of each other. The policy mindset is manifested by government controls, particularly for domestic crops, on farm gate, wholesale and retail prices of agricultural products, on inputs used in the production process, and on the exportation and importation of agricultural commodities. Although complete abandonment of controls and regulation of private agribusiness enterprise is not desirable, there is an evident need to streamline regulations, reduce controls and generally bring greater coherence to policy.

Additional concerns relate to land access and the implementation of policy. Large tracts of land are either not in production or are being used for sugar. The State Sugar Council (CEA) and the Agrarian Reform Institute (IAD) often control these properties. In recent years, progress has been made in leasing these lands to foreign and domestic investors or, in some cases, in making contract growing arrangements with occupants of agrarian reform land. However, not enough land has been opened up, and the time and bureaucracy involved in accessing properties, for both small and large firms, is excessive. These issues are vital to the attraction of foreign investment and to the export of non-traditional products.

Another constraint is the government's inaction at implementing, supporting, or facilitating polices and incentives already established. Businessmen have said that, while the incentives (e.g. laws 69 and 409) are excellent, on the one hand, on the other hand the government has either stood in the way of exporters or not facilitated their efforts. For example, customs clearance procedures for imported machinery and raw material (that is supposedly tax exempt for export projects) are cumbersome, time consuming, arbitrary and unevenly applied. Credit for new projects has been expensive and harder to obtain than for traditional activities. Foreign exchange controls of the Central Bank, until recently, forced many exporters to violate official regulations by keeping dollars offshore in order to have liquidity available to import and export their inventories. In sum, the GODR has to implement its incentives rather than impeding their application.

These issues will be addressed through policy dialogue and project management seminars, backed up by case studies and other policy studies conducted by business groups and faculties, the Rural Development Management Center of the Instituto Superior de Agricultura (ISA/CADER) and others. These efforts will be funded with grants under related projects and from our local currency trust funds. We will also use the Export and Investment Promotion Project as a lever and resource to work with governmental offices in order to improve the implementation of policies and incentives.

b. Institutional

The public sector institutions have limited ability to promote agribusiness development as reflected by trade statistics, which show that despite the efforts of many public institutions, only limited progress has been made in promoting the production of agricultural and agro-industrial products. The operation of public institutions is often hindered by conflicting policy guidance, overlapping or ill-defined responsibilities, excessive bureaucratic procedures, lack of well-trained personnel, and insufficient operating budgets. Investors must follow lengthy procedures to apply for incentives, permits and exonerations.

In addition, the different institutions do not have standard procedures for the formulation, elaboration, and evaluation of project profiles, prefeasibility, and feasibility studies. Project profiles and evaluations made even within the same entity during the same period of time do not have to meet the same standards. Finally, the bureaucratic procedures required to qualify for any of the benefits provided by the different incentive and promotion laws appear to be excessively complicated and time-consuming, regardless of the magnitude, complexity, importance of the project, investment, or export involved.

c. Know-How

Local agribusiness entrepreneurs generally lack pertinent knowledge about what the real opportunities are for Dominican products in the U.S. markets. In addition, they are ignorant of the U.S. markets' requirements for quality standards, packaging, labeling, and presentation for specific products. They lack the appropriate information on how and through what channels, potential buyers and agents can market their products in the United States. They are not familiar with the intricacies and commercial practices (customs, financial and shipping requirements and procedures) involved in exporting to the foreign market. This inexperience, lack of information, and the overall complexities involved in capturing export markets overwhelms many potential investors. Moreover, prospective investors generally are unable to obtain an objective, well-conceived assessment of potential agribusiness ventures that would allow them to package their projects to attract financing or foreign partners. Hence many need a reliab partner to provide such expertise, which may include assistance with market and feasibility analysis, production methods, quality standards and import/export procedures.

In addition, would-be investors must overcome competiti from established firms supplying the local market. Established firms often show an aversion to export-oriented endeavors because until recently, macro-economic distortions (e.g. lack of free currency conversion exchange rate) added to the preference for producing for the domestic market.

d. Financing

Financing for agro-industrial projects comes from a variety of public and private sources. On the private side, commercial banks provide working capital and term credits, whereas the development banks generally lend only for more than one year. On occasion, the commercial bank will also lend for more than one year, often through their own development bank subsidiary. Of the total credits provided through the development banking system (some 18 banks), we estimate that between 40 and 50 percent ar derived from funds that originated in the FIDE. Those funds not derived from FIDE come from the development banks' own equity, bond issues, or retained earnings.

FIDE is the Central Bank's department for channeling long-term (and some short-term export financing) credits to private firms. FIDE credits flow from the government's own resources as well as those of international donors. FIDE does not provide credits directly to the final users, but channels them through local commercial and development banks.

There are several problems with this system of working through FIDE. The most frequently cited are:

- Collateral requirements are high, especially for new ventures. Heavy mortgage or highly liquid guarantees are required. This is partially a result of the banking systems' lack of familiarity with non-traditional export projects.

- Investment capital and short-term (less than one year) working capital often must come from at least two different sources, as development banks are not equiped to lend for less than one year.

- FIDE's procedures are cumbersome for the borrower as well as the intermediary bank. That is, FIDE examines projects from the standpoint of both eligibility and commercial risk, even though FIDE does not usually share the risk. This results in lengthy discussions over precise needs and uses, rather than focusing only on eligibility. As a result, FIDE approvals may take one year or more to obtain.

- Joint ventures are inhibited by FIDE's eligibility requirement of 51 percent Dominican ownership.

- Firms obtaining FIDE credits are subjected to a reduced level of credit availability each time they apply for a new project loan. This has the effect of holding back credit from successful firms without regard to the merits of the project.

- Banks frequently on-lend for short periods with their own limited funds while awaiting approval from FIDE. Since there is no line of credit mechanism available from FIDE, this has the effect of aggravating the tight credit situation.

e. **Raw Material Supply**

Raw agricultural products currently supplied to agribusinesses constrain expanded marketing because of their low quality, insufficient volume, and unreliable and untimely delivery. Moreover, the location of sources of supply is a problem for city-based processors. Trading companies exporting agricultural products report that inadequate labeling techniques and poor quality packaging materials restrict export sales. Lastly, the lack of high quality raw material for some of the firms has resulted in the under-utilization of their plant capacity.

To resolve these supply problems, new firms are either providing technical assistance, credit, and close supervision to their agriculture product suppliers, or directly undertaking the production of the raw products themselves. This latter action leads to a highly integrated structure of production and lends itself to large-scale production by investors with modern and imported technology.

f. **Access to U.S. Markets**

In order to gain access to U.S. markets for fresh fruits, vegetables, flowers, etc., all produce must comply with U.S. phytosanitary regulations enforced by the USDA Animal Plant Health Inspection Service (APHIS). Almost all exports of fresh produce from the Dominican Republic are being inspected in the U.S., where delays often are encountered because of the great demand for inspections and weekend arrivals, resulting in reduced quality and prices of export products.

One large firm (a melon exporter) has contracted with APHIS for the services of an inspector. However, these services are not available to other exporters because of the large volume of produce to be inspected, the limited duration of the contract, and the proprietary nature of the service. Individual small exporters are unable to absorb the cost of an inspector while the pooling of exporters to purchase inspection service is not feasible on a sustained, year-round basis. This constraint will be addressed by this project through the establishment of a system for providing APHIS inspection services for fees that will be sufficient to sustain a long term program.

4. USAID and Other Donor Actions Related to Constraints

It is evident from the foregoing discussion that the problems facing agribusiness promotion are complex and intertwined with major issues that affect the economy as a whole. Resolution of these issues will require actions that go beyond the scope of this discrete project. At the same time, there are a range of activities supported by the USAID Mission program and by other donor programs that will favorably influence several of the factors summarized above, and contribute to the project's objectives.

a. USAID's Actions

The relationship of USAID's existing and planned projects to the key constraints to agribusiness is summarized in Exhibit 2. The proposed Agribusiness project will in effect pick up where other USAID supported programs leave off, or provide the basis for follow-on efforts in new projects now being designed or authorized.

Activities are intended to foster an environment that is supportive, either directly or indirectly, of business investment. To pick a few key examples, the On-Farm Water Management Project will assist in the rational delivery of water and the dissemination of relevant agricultural production methods to farmers involved in export production, thereby reducing the raw material constraint. Other projects, such as Export and Investment Promotion, and Economic Policy Analysis and Training, are envisioned with numerous public and private organizations. In general terms, these projects will: (1) promote joint ventures between Dominican and U.S. businessmen; (2) stimulate export enterprises by providing financial and technical assistance through dollar and local currency resources; (3) provide investor services (such as market information, contact with buyers in the U.S., access to new technologies, contacts with qualified agricultural or industrial producers/manufacturers, and advice on local laws, rules, and regulations); (4) focus on broad policy issues that constrain private business; and (5) streamline current bureaucratic procedures in several government organizations.

EXHIBIT 2

USAID PORTFOLIO AND CONSTRAINTS TO AGRIBUSINESS

CONSTRAINTS

Project	Policy	Institutional	Marketing Know-How	Financing	Raw Material
Existing:					
On-Farm Water Management		X			X
Rural Dev. Management	X	X	X		
Rural Savings Mobilization	X	X		X	
Agric. Policy Analysis	X	X			
Natural Res. Management		X			X
Planned:					
Agric. Research & Technology Transfer		X			
Economic Policy Analysis & Training	X	X			
Export & Invest. Promotion	X	X	X		
AGRIBUSINESS DEVELOPMENT	X	X	X	X	X

b. **Other Donors' Actions**

The IMF and the World Bank are encouraging policy changes that will reduce protection and regulation, encourage foreign exchange earnings, and improve both the content and the application of investment incentives for private agro-industry.

At present, the Inter-American Development Bank (IDB) is the most active in financing industry. The Industrial Reactivation Project, which channels US$50 million through FIDE, offers short term working capital for the importation of raw materials, and is now 44% committed. Agro-industries are eligible borrowers under this program.

A new IDB agribusiness project, on the order of US$25-30 million, is being studied for signature in 1986/87. The purpose of the proposed loan is to stimulate both the production of raw materials suitable for either export or for import substitution, and to finance the processors of those materials. The products to be financed by the project are peanuts, coconut, African palm, rice, milk, wheat, maize, sorghum, cotton, industrial tomatoes, and light tobacco.

5. **Alternative Approaches**

The PID discussed several possible borrower/grantee arrangements. After extensive discussions with members of the private and public sector, an analysis of the demand for financing and technical assistance requirements, and an assessment of the strengths and weaknesses of many public and private institutions, we have selected an approach which we believe will have a broad and deep impact on the services provided to agribusiness firms, and on the way in which term credit is provided.

a. **Lending Institutions**

Alternatives considered included: an AID loan to the Central Bank with lines of credit to the development banks; an AID loan to the Central Bank, but managed by FIDE on a sub-project by sub-project basis; and a direct AID loan to one or mor private banks. After careful consideration, we chose an AID loan to the Central Bank with lines of credit to selected, pre-qualified development banks. The alternatives are discussed below.

* Central Bank - Lines of Credit: (Modified FIDE approach) This alternative was chosen as the most viable because, while the Central Bank assumes the foreign exchange risks, the private development banks will have the sole authority to approve loans. Over the long run, this alternative will bring about a major structural changes in the way the Central Bank and FIDE provide credit to the development banks, dramatically reduce the government's role in approval of sub-projects, begin to reduce FIDE's near monopoly position in the provision of longer term credits, and at the same time place more responsibility for project appraisal and monitoring where it belongs -- on the banks themselves.

* Central Bank - Managed by FIDE: (Traditional FIDE approach) This approach would be similar to the programs currently underway, whereby FIDE reviews individual subloans submitted by commercial or development banks against loan requests submitted by private businesses. If the loan qualifies for FIDE financing, the Central Bank advances funds to the bank which in turn lends the money to the business. Unless the loan is guaranteed by FIDE, the bank assumes the risk of loss.

Although attractive because the procedures are well-defined, we rejected this alternative because it would not help overcome many of the financing constraints previously identified. Also, the mechanism does not permit rapid disbursement of funds.

* Private Banks. A direct AID loan to one or more private banks was discussed as an alternative. We considered how and whether this arrangement would be viable under two conditions: (a) without government coverage of foreign exchange risk and (b) with a government guarantee to convert pesos to dollars at a predetermined rate through some form of a two step loan. We considered these arrangements with a lead bank as well as under the possibility of forming a new bank or consortium of banks.

The alternative possibilities were rejected because the private banks were unwilling to accept the foreign exchange risk themselves, due to the fact that many potential borrowers would not assume a U.S. dollar liability even though some of these clients would be earning dollars. Thus, the banks could not transfer the risk to their clients. This is understandable since the country's laws are unclear as to whether U.S. dollar loans by banks operating in the country would be legal. Many people believe that these loans are not legal and that borrowers could chose to repay their obligations in pesos despite the fact that the loan agreement may have specified dollars.

Further, with regard to a consortium of banks, the banking community acknowledged that assembling the right banks and agreeing upon a single leader, borrower and manager of AID funds would consume many months, and might never lead to a workable arrangement because of the many vested interests and the number of possible participants.

b. Technical Assistance

We considered five different organizational alternatives, and ultimately selected the Joint Agricultural Consultative Corporation/Dominican Republic (JACC/DR), with a TA unit. Analysis of the various alternatives was based on the intended functions of the technical assistance unit and the principles against which it will operate, including that it (1) be a private sector entity, (2) operate in a flexible manner, (3) have the potential to deliver high caliber technical services, and (4) contribute to improving the capability of agribusiness managers and the policy climate for agribusiness development.

* <u>JACC/DR with a Technical Assistance Unit</u>: JACC/DR will be provided with a grant and supporting technical assistance from a U.S. contractor and the Trade and Development Program (TDP) to establish a professional technical assistance (or consulting) unit within its secretariat. We chose this alternative because: it was a natural extension of JACC/DR's activities and fully consistent with its purpose while providing it with the means to implement its program; it makes good use of existing JACC/DR resources engaged in the Dominican agribusiness sector; and offers access to various types of assistance from agribusiness firms in the United States through its affiliation with JACC/US.

* <u>ISA/CADER with a Technical Assistance Unit</u>: This is similar to the former model except that the support would be provided to ISA/CADER in Santiago. It would offer ready access to a pool of skilled managerial and technical consultants and a location more nearly in the center of agribusiness activity. However, ISA/CADER is primarily an academic institution, and there is a danger that the technical assistance activity might be either approached in an academic manner, or not play a central role in the overall CADER program. CADER is not yet intimately tied to the agribusiness community, and its location away from the center of governmental and commercial activity in Santo Domingo are factors which argue against this alternative.

* <u>New Non-Profit Corporation</u>: Another approach would be for USAID to facilitate the establishment of a new non-profit corporation for the specific purpose of implementing the technical assistance component of the project. This organization might be formed under the leadership of a board drawn from the various private sector organizations with interests in the agribusiness field. One advantage would be that this group could generate considerable support within the private sector and influence the national policy environment for agribusiness development. These factors are offset by the complexities involved in establishing such an organization, and a reluctance to introduce still another organization into an already crowded field.

* <u>Association of Private Development Banks with a Technical Assistance Unit</u>: This alternative would provide a sure link between the two components of the project, to ensure a focus on good project planning to facilitate decision making within the banks and be a good base for providing technical assistance to the member banks. On the other hand, it would very likely become an official or unofficial loan evaluation unit on behalf of the banks. This would reduce its effectiveness in working with private sector clients considerably by violating the principle that the credit and technical assistance functions, while related in their intent, be kept operationally separate.

* <u>Develop a For-Profit Consulting Firm</u>: This alternative would involve the establishment of a new, private, for-profit consulting firm or the selection of an existing well-qualified firm. This

alternative was rejected after surveying the local consulting community. Only one firm (of four persons) can claim to have some expertise in agribusiness. Other firms have no depth, and only offer expertise in finance, accounting, engineering or legal services. Further, the few existing individual consultants lack a close connection with the agribusiness community or ready access to outside resources. Thus, outside advisors would still be required.

6. Policy Achievements

One of the objectives of this project has been to streamline the mechanism for accessing agribusiness loan funds. This objective has been pursued from the outset and was one of the factors influencing our choice of borrowers. Changes in policy have resulted from the design process itself.

Through extensive discussions with private bankers and agribusiness firms we were able to define the financing constraints more precisely and arrive at a consensus of what changes in the system were needed. We were then able to articulate our concerns and the concerns of the Dominican business community to the Central Bank, and through our negotiations we were able to revise a number of policies even before loan signature. These revisions will be reflected in the loan agreement (project description) not as conditions precedent, but as agreed upon operating policies. The changes include:

-An upward adjustment in interest rates on FIDE funds to end users from a maximum of 17% to a floating rate which will start at 20%.

-A stipulation that reflows from sub-loans made by PFIs remain in a special account to be re-lent for agribusiness purposes over a 12 year period. Previously, reflows reverted to the Central Bank. This change not only streamlines the mechanism for obtaining funds, but further strengthens the capital base of PFIs.

-A subloan review process whereby the Central Bank approves/disapproves PFI applications based only on whether the subproject meets eligibility criteria of the program, and not based on an appraisal of the subproject's feasibility. This change further accelerates the flow of funds to the borrowers, and it places the responsibility for appraising subprojects and assuming risk on the PFIs where it belongs.

-Increased margins, from 5% to 7%, for the PFIs because of their increased responsibilities, and to encourage greater risks by financing new non-traditional projects and a reduction in collateral requirements.

-A reduction, from 51% to 40%, in the minimum Dominican ownership required to obtain FIDE funds. This change should further stimulate joint ventures because previously, companies which were majority owned by foreign firms could not access FIDE credits.

III. PROJECT DESCRIPTION

A. Goal and Purpose

The project goal is to increase employment, incomes and foreign exchange earnings or savings, while fostering an equitable distribution of benefits produced by private enterprise.

The purposes are: (1) to establish a credit fund and provide technical advice to private agribusiness firms and their supporting industrie that produce commodities for export and domestic markets; and (2) to improve the mechanisms and policy framework for promoting and financing agribusiness projects.

B. Expected Outputs

The principal outputs of this project will be:

- initiation of 80-90 new agribusiness projects;

- establishment of a technical assistance unit for identifying promising agribusiness ventures, packaging investment proposals, and fostering a partnership among prospective investors;

- strengthened project appraisal capacity in PFIs by provision of TA for training and advisory services.

- policy and procedural changes to the traditional manner in which Central Bank allocates credits,and a streamlined mechanism for obtaining financing for agribusiness ventures;

- a linkage between Dominican and foreign investors for the promotion of new agribusiness ventures; and

- the establishment of support services for the inspection of export commodities that are subject to U.S. phytosanitary regulations.

C. Components and Activities

1. Overview

This project will work with existing agribusinesses to expand their operations and with new agribusinesses to reduce significantly the time it might otherwise take to get new projects into operation. Problems will be addressed primarily by channeling credit and technical assistance to accelerate the agribusiness investment subprojects that are already in the pipeline.

The major activities to be undertaken by the project are: (1) the identification, and formulation of investment proposals, including the promotion of business partnerships between Dominican and foreign investors; (2) the strengthening of the institutional capacity of the participating financial institutions (PFIs); (3) the financing of promising agribusiness ventures; and (4) the provision of commodity inspection services.

2. Identification, Analyses and Promotion of Projects

a. Technical Assistance

The formulation of a bankable investment project represents a serious obstacle to many prospective Dominican and foreign investors. This project will establish an integrated system of investment formulation, evaluation and financing which will draw upon the resources of public and private sector organizations and individuals in the Dominican Republic and the United States. This system will be coordinated by the JACC/DR which will use USAID grant support to establish a small technical assistance unit within its secretariat.

JACC/DR is an autonomous Dominican organization with a membership drawn from private sector firms representing all of the major sub-sectors of Dominican agribusiness activity. Its purpose is to help Dominican agribusiness firms gain access to the U.S. private sector so that local firms can identify potential joint venture partners, obtain technologies, and purchase managerial and technical expertise. By participating in this program, JACC/DR will be able to enhance its ability to work directly with local agribusiness firms by providing high-caliber technical assistance in the areas of business planning, marketing, management and other areas.

The ability of JACC/DR to effectively respond to requests for services will be greatly enhanced by its affiliation with the U.S. office of JACC, as well as its own local network of private agribusiness firms, business groups, and supporting institutions. JACC/US has the means to attract responses from U.S. firms to various requests for assistance received from affiliated JACC organizations overseas.

USAID grant support will enable JACC/DR to address three of the objectives of the project: (1) to support the implementation of the credit portion of the agribusiness project, (2) to develop the capability to provide high quality management and technical advisory services to private sector enterprises in their planning and operational phases, and (3) to enhance managerial capacity of the private sector and improve the policy environment for agribusiness development in the country. At the same time the grant will enhance JACC/DR's capability to become financially self-supporting, while providing a broad range of needed services to the Dominican agribusiness community.

Grant funds will be used for the following activities:

1) Support the implementation of the agribusiness project loan component.

- Assist potential borrowers to analyze their credit needs, package their proposals in an acceptable format, and complete the necessary loan application forms.

- assist client enterprises in the preparation of feasibility studies and business development plans;

2) Provide "hands-on" assistance in planning and implementing agribusiness enterprises.

- carry out specific market and technical surveys on behalf of clients;

- provide problem-oriented, short-term assistance to clients in technology, management, finance, marketing or other areas;

- assist potential new domestic or foreign investors to develop investment strategies, and carry out pre-investment negotiations and studies.

3) Enhance local managerial capability and improve the policy climate for agribusiness development.

- work with ISA/CADER and others to develop and conduct management workshops and seminars on topics related to agribusiness management;

- work with appropriate organizations to analyze specific policy constraints, identify/develop alternatives and promote those alternatives to appropriate government agencies.

In order to provide these services, JACC/DR will establish a small technical assistance unit attached to its secretariat. Three of the four members of the technical assistance unit will be Dominican professionals. They include the Executive Director of JACC/DR, who will be a senior professional with experience in the agribusiness field, an experienced Business Finance Specialist, and a qualified Industrial Engineer. These three will be complemented by a Senior Agribusiness Development Advisor who will be provided by a U.S. consulting firm under contract to JACC/DR. This advisor will have experience in agribusiness development and have advised agribusiness enterprises in feasibility study preparation, business planning and problem solving. The advisor will also have experience in analyzing and formulating government policy related to agribusiness.

The same firm will provide a U.S. based marketing specialist who will respond to specific requests for marketing assistance generated by the technical assistance unit. They will also serve as the U.S. contact point to search for specialized technical assistance or look for other sources of financial and technical assistance on behalf of client enterprises. This expertise will be specified as needs arise (e.g. training, food technology, or management information systems).

Although there is a substantial amount of high quality technical personnel available in many areas, there are relatively few local firms that are qualified to undertake consulting assignments that require a combination of such skills, some of which might need to be brought in from outside the country. Most of the local firms which do have this capability have relatively little experience in the agribusiness field. The JACC/DR technical assistance unit is designed to fill this gap.

Sources of U.S. assistance which will be drawn on by the JACC/DR technical assistance unit will include the following:

- JACC/US -- Responds to requests for technical assistance and joint venture partners through its US agribusiness network.

- Chicago Association of Commerce and Industry -- Operates an AID-supported program, with a representative in Santo Domingo, to foster trade and investment links between Dominican and US firms.

- International Executive Service Corps -- Runs an AID-supported program in the Dominican Republic and many other developing countries to provide senior-level short-term managerial and technical assistance to business firms.

- Other USG agencies such as Overseas Private Investment Corporation (OPIC), TDP and AID's own Private Sector Bureau (PRE) for feasibility studies and project financing.

It will be very important that the US firm contracted to provide technical assistance to the project have a thorough knowledge of the assistance offered by the above organizations and the many others which might be called on in response to specific problems. These would include the following:

- Produce Marketing Association.
- United Fresh Fruit and Vegetable Association.
- Universities
- American Society of Agricultural Consultants
- Volunteers in International Technical Assistance
- Various Producer and Trade Associations
- Tropical Products Institute
- Government Agencies (USDA, APHIS)
- Management Consulting Firms

There are also a number of Dominican resources which can provide direct assistance complementary to the JACC/DR staff effort. These include the following:

- ISA/CADER -- A Santiago based university with a management institute; can also serve as a source of short-term technical consultants.

- Dominican Pre-Investment Fund (FONDOPREI) -- An office of the Technical Secretariat of the Presidency which provides financing for feasibility studies carried out by private consulting firms.

- Office of Foreign Investment Promotion -- A government agency charged with attracting and assisting potential foreign investors.

- Dominican Institute for Industrial Technology -- INDOTEC

- Dominican Center for Export Promotion -- CEDOPEX

- Banco Agricola

- Technical Agro-Industrial Department of the Secretariat of Industry and Commerce -- TAD

The technical assistance unit is intended to become self-sustaining over a three year period on the basis of fees generated from services provided to private sector clients. USAID grant funds will be used to subsidize the activities described above and to develop JACC/DR's ability to generate revenues. Cost for 3 years will be $950,000 for U.S. technical assistance plus RD$1,400,000 for local salaries and operating expenses.

It is projected that this unit will be able to cover from its revenues all of its direct operating costs, excluding the cost of the long-term U.S. advisor, after the initial three year period. Projections indicate that it will cover 25 percent of these expenses from earned revenues in the first year, 50 percent in the second year and 75 percent in the third year. However, the option to continue providing long-term advisory assistance to the unit will be kept open, as will the possibility of providing continuing support for a U.S. based marketing advisor if that function proves to be as useful as it is expected to be.

The basis of the fees charged will be the actual cost of providing the requested service. Local Dominican companies will be asked to pay only the local cost equivalent for services provided by the long-term U.S. advisor, with the balance being considered a USAID subsidy during the grant period. All firms will generally be asked to pay the full commercial rates for services provided by the U.S. based marketing advisor because such rates will be a normal cost of acquiring such services even when the grant period has concluded. In certain cases, services may be provided at discounted rates if a sub-project will have a particularly beneficial impact on the economy or a low income population group, or if it will provide JACC/DR with particularly valuable learning experience or test an innovative technical approach or subproject concept.

The charging of fees is not intended to make JACC/DR a profit making enterprise for the benefit of its members or staff. Any surpluses earned will be used to develop the consulting unit or enhance the development of agribusiness enterprises in other ways. The fees will serve as a filter for separating the serious entrepreneurs from those who are not so serious and will provide the basis for developing a highly beneficial institutional capability which will last far beyond the USAID grant period.

b. <u>Feasibility Study Fund</u>

A fund will be established to assist in financing the preparation of feasibility studies and business plans for projects being considered for loan financing under the project. STP will provide RD$750,000 to the Development Bankers Association to operate the fund. These funds will:

* encourage entrepreneurs to be more thorough in the assessment and planning of their projects and make it easier for them to acquire the outside technical assistance they require to carry out such studies.

* encourage development bankers to demand and make better use of detailed feasibility studies and business plans in their loan evaluation processes, and to modify their security requirements on the basis of such studies and plans.

* begin to break down the barriers between bankers and entrepreneurs as they begin to work together more effectively in the design, evaluation and implementation of new agribusiness ventures.

To complement the peso funds that will be used to hire local firms, USAID will also provide US$500,000 to the TDP to add on to their capability to assist US firms interested in investing in the Dominican Republic.

The criteria to be applied in evaluating requests for assistance from the fund will be similar to those applied to loan funds (discussed below.) In addition, the fund will be used for those entrepreneurs who demonstrate a high degree of need based on the cost of necessary services or the limitations of their available resources.

Operating procedures for the peso fund will insure that: (1) the application process is kept simple and that applications are acted upon quickly; (2) that no funds are advanced until the entrepreneur has committed his or her own resources to the project, and that total funds for any one project do not exceed RD$30,000 or 50 percent of the total cost of the research and planning work to be financed; (3) the administering agency shall receive a reasonable fee (say 5 percent) of each loan made to cover administrative costs; (4) monies are repaid out of loan proceeds should a bank ultimately agree to finance a project; (5) projects which are not subsequently financed shall be forgiven from repaying their allocation; and, (6) all allocations and repayments shall be denominated in pesos.

For the money allocated to TDP, operating policies of TDP will be adhered to.

3. Strengthening the Participating Financial Institutions (PFIs)

The development banks seldom lend to new or small industrial or agricultural enterprises. They have limited capability to analyze technical proposals, and many times consider these investments too risky and less financially rewarding than other alternatives. Commercial banks are oriented primarily to short-term, low-risk, non-agribusiness or traditional agribusiness transactions; also, they sometimes own or are closely affiliated with a particular development bank. For these reasons, this component will provide assistance which will strengthen the managerial and analytical capacity of the development banks. For commercial banks, assistance will be focused on analytical capacity only.

The combined professional staffs of the development banks number about 180, of which a third are agricultural appraisors/technical advisors. We also expect to train 15-20 agricultural technicians and loan officer from the 3-4 commercial banks which are likely to participate in this program. Although in all likelihood, not all of these people would receive training, we expect a substantial portion to benefit by this program.

To implement this program, and to support the overall implementation of the loan component, the project will fund a technical assistance group to work with the PFIs under the supervision of the Association of Development Banks (ADB). Cost is estimated at $300,000.

It will consist of a long-term development banking advisor contracted for 12-18 months, and up to 12 months of short-term assistance to meet specifically identified needs. This technical assistance will be provided in the form of seminars and workshops using case studies, many of which will be developed by ISA/CADER, and specialized help to individual banks. The technical assistance group will:

- develop evaluation criteria and standard formats for loan applications, and administration and reporting processes to be used for agribusiness lending;

- assist PFIs to adjust their internal systems to handle medium and long-term agribusiness lending more effectively;

- offer training in the revision/upgrading of internal control systems, accounting, cash controls, and projections, etc.;

- train loan officers in agribusiness project analysis, especially on how to analyze new export-oriented projects.

- offer training in monitoring and supervising techniques, especially on how to spot problems early;

- train loan officers in appraisal banking methods as opposed to collateral banking which they already know;

- offer training to bank personnel on the use of personal computers as an analysis tool (especially for sensitivity analyses, market analyses, and financial analyses); and

- offer training in agribusiness marketing/distributions systems in the U.S.

In addition, this training will be re-enforced by project sponsored short-courses to be conducted by the Association of Latin American Development Financing Institutions (ALIDE). They have developed four short-courses (1-2 weeks each) that deal with subjects directly related to this project, and address such topic areas as portfolio management, internal auditing and control, international commerce, and the evaluation of investment project proposals.

4. Credit Program

AID's loan to the Central Bank will be on-lent through the country's development and commercial banks to the agribusiness borrowers. The foreign exchange risk will be born by the Central Bank. That is, the Central Bank will drawdown the loan in dollars and convert the funds to pesos at the unified exchange rate. The borrowers and the PFIs will be obligated to repay the Central Bank in pesos. The following exhibit summarizes the terms and conditions of the loans.

EXHIBIT 3
SUMMARY OF TERMS AND CONDITIONS

Borrower	Terms	Interest Rate	Conditions/Obligations
Central Bank loan	25 years, including 10 year grace period	2% during grace; 3% thereafter	Responsible for AID repayment. Assumes foreign exchange risk
Participating Financial Institution (PFI)	Line of credit for 12 years, with 12 year option to renew	Floating rates to start at 13%	Assumes full commercial risk
	Grace of 5 years Payments of interest and/or principle every 6 months		Responsible to repay Central Bank in pesos for amount borrowed during loan drawdown
Private agribusiness firms	6-12 months for working capital loans Up to 12 years for capital investments (3-6 yr. average)	Floating rate based on 7% above PFI costs; to start at 20% for end users.	Repayment to PFI on commercial terms

a. **Mechanism/Borrower**

1) **Overview**

The mechanism for identifying and appraising subprojects as well as for reviewing and disbursing funds from the Central Bank to the PFIs and ultimately to the final borrower was designed on three basic premises. These are: (1) this project should be driven by the demand for sub-project loans which meet the eligibility criteria; (2) the PFIs should have full responsibility for appraising and approving subloans because the PFIs should and will assume the commercial risk; and (3) access to FIDE funds should be available to all PFIs which are financially healthy and have the capacity to properly administer agribusiness loans. One important end result of the procedures which have been negotiated is that the institutional capacity of the PFIs will be improved by participating in this program; another result is that their capital base will be expanded.

2) **Qualifying PFIs**

All PFIs will be considered eligible to participate in the program. However, prior to accessing funds under the program, AID and the Central Bank will review factors such as financial strength of the PFI, the soundness of its agribusiness portfolio, the capacity of its staff to identify, appraise and monitor agribusiness loans and demand for new project financing. We estimate that 8-10 banks will qualify initially and assume that others will qualify later.

Based on this review, a PFI will be allocated funds according to its capital base and its projections of demand. An "initial minimum line" will be allocated to qualified PFIs for one year. During this period those PFIs will be assured that funds will be available subject to presentation of eligible projects. Those PFIs who are not approved for a line of credit, will have access to funds upon submission of eligible subprojects at a later date.

The PFIs will invest funds through term loans for plant, equipment (e.g. 3 year minimum) and permanent working capital (e.g. 1 year minimum). Reflows of principal from those subloans which are being repaid will be re-invested in similar projects.

3) **Sub-Project Review and Disbursement**

As the PFIs will be assuming full commercial risk for subloans, the responsibility for review, appraisal and determination of "bankability" will remain at this level. Should PFIs and their clients require technical assistance to determine project viability, this assistance will be available through JACC/DR or the feasibility study fund as described previously.

PFIs will review sub-projects based upon commercial and development banking practices. This includes determining that the subproject is viable, and also that the borrower can manage it, that sufficient equity is invested and that collateral is reasonable to secure the loan. Based on this review and approval by appropriate credit committees and top management, PFIs will forward a request for disbursement to the Central Bank. This request will summarize the proposed loan, highlight key findings (such as return on investment, sales and foreign exchange projections, jobs to be created, etc.) and project disbursement requirements. The PFIs will also certify that the subloan meets AID's eligibility criteria for financing under this project.

The subloan requests will be reviewed by a FIDE "mini-committee" comprised of one or two FIDE representatives, and a representative from both JACC/DR and USAID. This mini-committee will review the subloan, determine whether it meets the eligibility criteria of the program, and either approve or disapprove the loan within 2 weeks. Upon approval, loan funds will be disbursed to the PFI within 5 days. For loans of less than RD$400,000, disbursement will be made in full. For projects greater than RD$400,000, disbursement will be based upon a disbursement schedule to meet the clients' requirements.

During the disbursement period of the AID loan, the PFIs will be required to submit monthly reports on the status of sub-projects under review as well as a forecast of disbursement needs.

Under these new procedures, PFIs will be obligated to maintain files on the documentation which they required to appraise each subproject. They will also maintain separate accounting for the initial disbursements and loan recuperations under this program. The Central Bank, in turn, will contract with an audit firm to verify that the fund accounting is sound and that sub-project documentation is in order. This contract will be paid for through peso funds programmed by STP and USAID. During the period when PFIs are recuperating their loans, this accounting will continue. And, in periods where the Agribusiness Fund might have excess liquidity, the PFIs will be required to place these funds in an account at the Central Bank. This account will earn interest at the same rate which PFIs will be paying for their funds. The purpose of these deposits is to avoid a misuse of funds during periods when PFIs might not have an eligible project on-hand.

Recuperations of principal from these loans will remain with the PFI to be reused for similar agribusiness projects during a 12 year period. Subject to the AID/Central Bank agreement, this period could be extended for an additional 12 years. In cases where the audit firm or the Central Bank identify violations, penalities will be assessed based on the severity of the violation.

b. Eligibility Criteria

Financing will be provided to private Dominican firms for non-traditional agricultural, aquaculture, or livestock export projects or high priority domestic agricultural projects in areas such as animal feeds and oil seeds. In addition, firms which provide key supplies, (such as packaging, fertilizers, seeds, and agricultural implements) will also be eligible so long as they are operating under freely competitive circumstances.

In order to qualify for funding, a subproject will be required to produce significant direct or indirect employment and generate or save foreign exchange. Desired additional criteria will be employed to identify projects which generate demand for local products; produce early results in terms of economic impact (i.e. export sales); do not require excessive and expensive technologies; provide geographical diversification; already have pilot activities underway and where financing for expansion is being sought; and have low capital to labor ratios.

Financing will not be made available to projects unless there is at least 40% Dominican ownership.

The maximum size loan to any one project will be RD$6 million. (This loan could be pooled among a group of banks.)

No funding will be available for sugar, citrus, african palm, or pesticide projects. In addition, no financing will be available for traditional exports such as coffee and cacao unless the project is directed at processing the commodity in a non-traditional manner.

5. Produce Inspection Services

The purpose of this activity is to provide preclearance/certification services to exporters of agricultural produce at four principal ports located in Azua, Boca Chica, Haina and the air terminal at Las Americas Airport, and to provide information about meeting clearance requirements for exporters who prefer to have their produce inspected in the U.S.

At present, U.S. regulations require inspection of all fresh produce entering U.S. markets. The establishment of preclearance programs in foreign countries is one approach that enhances the export process, since products cleared under this system are able to access U.S. markets without further inspection at the U.S. port of arrival.

An APHIS inspector will provide advice to private exporters, the Plant Health Division of the Secretariat of Agriculture (SEA/SV) of the Dominican Government, the USAID Mission and other Dominican institutions (i.e.

CEDOPEX, ADOEXPO, etc.) on matters relating to USDA entry requirements, and preclear and certify Dominican agricultural products for entry into the United States. The Inspector will also arrange for, or provide, training to the appropriate personnel from the Plant Health Division of SEA in preclearance, inspection and fumigation functions so that they can advise exporters and assist them on these matters.

In the Dominican Republic a broad program for the preclearance of agricultural commodities is in the development stage. The only preclearance arrangement that is currently in force is financed by a private company (ABC Dominicana, C. por A.)., for inspection of melons and cucumbers during its harvest season (January-March). This cooperative agreement has been very successful, and other companies, FRUDOCA (pineapples) and CODOFLOR (cut flowers), have expressed an interest in having their products inspected in the Dominican Republic.

We find that there is now an opportunity to establish a year-round preclearance program by the SEA/SV as a service to private exporters. During the past two years, the SEA/SV has become increasingly interested in sponsoring the preclearance program, and last year PL-480 funds were set aside to bring a U.S. Plant Protection and Quarantine (PPQ) officer to the country for one year. This inspector is expected to be in the D.R. this summer. The Agribusiness Promotion Project, under this component, will provide grant funds to continue the services of the PPQ inspector and to finance a share of the inspector's salary and certain training costs for two additional years. Training of a limited number of Dominican inspectors to assist the U.S. technician will be a related objective under this activity.

The SEA/SV is experiencing the same lack of operating funds as the rest of the GODR during the present economic squeeze. However, we have designed this component to provide limited support to the SV unit for inspection services related only to export-oriented production. The inspector and the Agribusiness Advisor will work with SEA and an IDB technical assistance team to establish an improved and cost-based fee-setting and collection system that will shift to the private sector users the burden of paying for the services. The component will provide for short-course training in quarantine techniques and in specialized fields such as nematology and entomology, in Florida and Puerto Rico, during the first two years for a limited number of SEA/SV inspectors. A vehicle will be provided to the unit for counterparts working on export crops, and a minimal amount of working and lab equipment will be financed.

Funding of this activity will be primarily from three sources: AID grant funds (US$155,000); the GODR budget (RD$139,000); and private sector funds (US$217,000) that may be in dollar amounts or local currency equivalent.

D. Cost Estimate and Financial Plan

1. Narrative

The AID contribution to this three-year project is US$ 2,500,000 in grant funds and US$ 17,300,000 in loan funds. The GODR contribution is RD$ 90,000,000, or approximately US$ 30,000,000 equivalent.

a. AID

Tables 1 and 2 summarize the source and use of AID funds to the project. The use of these funds are described below, by component.

(1) Identification/Analysis/Promotion of Subprojects

Approximatly US$1,010,000 of the funds granted to JACC/DR will fund technical assistance and some limited commodities for JACC/DR. The technical assistance (estimated at US$ 950,000) will fund a long-term senior agribusiness development advisor and a marketing specialist as well as short-term technical assistance. In addition, approximately US$ 60,000 of commodities support for JACC/DR will be procured (see Appendix G for procurement listing). In addition, US$ 500,000 from funds granted to JACC/DR will be provided to the TDP to assist U.S. firms interested in investing in the Dominican Republic.

(2) Strengthening PFI's

JACC/DR grant funds will provide US$ 300,000 to the ABD to contract for a long-term banking advisor and approximately 12 person months of short-term assistance to strengthen the managerial and analytical capability of the PFI's.

(3) Credit Program

AID will loan US$ 17,300,000 to the Central Bank to help establish a credit fund for agribusiness development. These funds will be managed by FIDE, acting as an intermediate credit institution (ICI) for the PFI's.

(4) Produce Inspection Services

US$ 155,000 of JACC/DR grant funds will support SEA/SV preclearance and certification services for non-traditional agricultural exports. These services include training, will be contracted for through a USDA PASA.

(5) Project Advisor

A long-term project advisor will be contracted to assist in the overall management of the project. This advisor will be funded under the JACC/DR grant at a cost of about US$ 350,000.

(6) Evaluation and Audit

Two evaluations and one non-federal audit will be undertaken during the life of the project, at an estimated cost of US$ 50,000.

b. GODR

(a) Identification/Analysis/Promotion of Subprojects

JACC/DR will become self-sustaining by the end of the three-year project. Until such time, local currency operating costs in excess of revenues will be funded by the GODR contribution, at an estimated cost of RD$ 1,400,000. In addition, the GODR will contribute about RD$ 750,000 to the feasibility study fund managed by the ABD.

(b) Credit Program

The GODR will contribute RD$ 90,000,000 to the credit fund.

(c) Produce Inspection Services

The GODR will contribute US$ 100,000 to the USDA/PASA contract for the preclearance and certification services

c. Methods of Implementation and Financing

Table 3 below illustrates the methods of implementation and financing to be utilized. These are the preferred methods of financing under the Administrator's Payment Verification Policy Statements and represent no deviation from the Mission's general assessment of financing policy and procedures. Therefore, no further justification of the methods of financing is required.

Two host country contacts are planned within this project. Although each utilizes JACC/DR grant funds, ABD will be the contracting agent for TA under the component to stregthen PFI's. JACC/DR is a newly created institution while the ABD has no previous experience with AID. As a result, both JACC and ABD plan to consult closely with the USAID during the contracting process, and the method of payment will be through direct letters of commitment, to better provide USAID with greater monitoring control. USAID foresees no problems with host country contracting, and expects it to enhance the institutional capacity of both the JACC/DR and the ABD.

Exhibit 4

METHODS OF IMPLEMENTATION AND FINANCING

Component Method of Implementation	Method of Financing	Approx Amount (000's US$)
Subprojects		
TA-Host Country Contract(non-profit or profit)	Direct L/Com	$ 950
TA-AID Direct Contract (non-profit or profit)	Direct Pay	500
USAID Procurement-P.O.	Direct Pay	60
Strengthening PFIs		
TA-Host Country Contract(non-profit or profit)	Direct L/Com	300
Credit Program		
[illegible]	Direct Pay (advances)	17,300
Produce Inspection		
PASA	Direct Pay	155
Project Advisor		
TA-PSC	Direct Pay	350
Evaluation/Audit		
AID Direct (non-proifit or profit)	Direct Pay	50
Contingency	n/a	135
TOTAL		$ 19,800

D. Cost Estimate and Financial Plan

1. Narrative

The costs for services that were used to prepare the financial plan were based on current costs to USAID of foreign advisors, including salaries, benefits, overhead and fee rates being charged by contractors, and local support services currently offered to contractors.

Wherever possible, we have sought to allocate local currency funds to those project costs that are going to be spent on the local economy, and to draw on local currencies held by the GODR under the ESF/CBI programs. Where conversion from dollars to pesos is required, we have used a rate of exchange of RD$3.0 to US$1.0.

The Summary Financial Plans are shown on the following pages. Detailed budgets are provided in the Annexes.

TABLE 1

SUMMARY FINANCIAL PLAN
AGRIBUSINESS PROMOTION PROJECT

Use of Funds	AID Loan (L/C)	AID Grant (FX)	GODR a/	TOTAL
			(US$ 000)	
1. Identification/Analysis/Promotion of Subprojects				
-JACC/DR				
-Technical Assistance		950		950
-Commodities		60	14	74
-Operational Expenses			458	458 b/
-Feasibility Studies				
-ABD			250	250
-TDP		500		500
2. Strengthening PFIs		300		300
3. Credit Program c/	17,300e/		30,000	47,300
4. Produce Inspection Services d/				
-SEA/SV				
-Inspectors		85	33	118
-Equipment & supplies		25	6	31
-Training		45	7	52
5. Project Advisor		350		350
6. Evaluation/Audit		50	100	150
7. Contingency		135		135
TOTAL	17,300	2,500	30,868	50,668

a/ Source of GODR contribution is ESF/PL-480 generations.
b/ JACC/DR operation costs will be reduced by a projected RD$738,000 in fees which JACC/DR will charge its clients.
c/ Credit Fund excludes approximately RD$ 38 million in estimated new equity investment by the agribusinesses.
d/ Produce Inspection excludes approximately RD$ 651,000 to be collected by SEA/SV in fees for pre-inspection services.
e/ Disbursed by AID and Central Bank in pesos.

TABLE 2

AGRIBUSINESS PROMOTION PROJECT

DISBURSEMENT FOR INPUTS BY YEAR
(US$000)

	YEAR ONE		YEAR TWO		YEAR THREE	
	AID	HC	AID	HC	AID	HC
1. Identification/Analysis/ Promotion of Project						
a. JACC/DR						
TA Contract	240		400		310	
Commodities	60	12				2
Staff & Oper. Exp.		122		144		192
b. Feasibility Studies						
ABD		66		100		84
TDP	170		170		160	
2. Strengthening PFIs	125		145		30	
3. Credit Program	4,200	15,000	7,900	7,500	5,200	7,500
4. Produce Inspection Services						
-Inspectors	128	17	60	6	25	7
-Equipment & Supplies	25	1		1		
-Training	25		20			6
5. Project Advisor	110		115		125	
6. Evaluation/Audit		33	25	33	25	34
7. Contingency			70		65	

*Local costs are expressed in US$ equivalent at an exchange rate of RD$3.0 to US$1.0

IV IMPLEMENTATION PLAN

The plans for implementing the project are described in the following text. These are to be read as indicative, and subject to change as annual work plans are developed by the project advisor and the various institutions involved.

A. Activity Schedule

The schedule of activities is shown below. We plan to employ the agribusiness advisor as soon as possible. This contractor has been selected on the basis of competitive advertising. This individual will then assist JACC/DR with the competitive selection of a technical assistance firm to support subproject promotion activities, and to work out the final operational details of the lending program with the banks. The advisor will also provide such coordination as is needed with USDA and SEA/SV to assure the smooth startup of the inspection activity.

Event	Target Date to Occur
1. Project Agreements signed	8/85
2. Agribusiness advisor contracted	8/85
3. Peso disbursements for loan begin	9/85
4. JACC/DR Hires Executive Director	9/85
a. C.Ps met on grant agreement	10/85
b. JACC/DR employs additional staff	11/85
c. RFP for JACC TA services issued	11/85
d. Contract for TA services awarded	1/86
e. JACC TA advisor arrives	2/86
5. ABD designates project manager	9/85
a. Procedures for feasibility funds established (CPs met)	10/85
b. RFP for ABD TA services issued	11/85
c. Contract for TA services awarded	1/86
d. ABD TA advisor arrives	2/86
e. PFI training program begins	3/86
6. C.P.s met on loan agreement	9/85
7. Loan agreement ratified by Congress	12/85
8. Loan disbursements begin	1/86
9. First Evaluation and Audit	1/87

B. Implementation and Financing Methods

Exhibit 4 identifies how the various implementation steps will be managed and financed. The project will require a single grant to JACC/DR. This grant will permit the obligation of AID funds. Following obligation a series of subcontracts or cooperating agreements will be written by JACC/DR with the ABD (for technical assistance to the PFIs), with SEA/SV (for the PASA arrangements with USDA), and with TDP for feasibility study funds directed at U.S. companies. This will also be used for the agribusiness advisor and USAID.

Two host country contracts, one PASA and one direct AID contract are expected. One host country contract will be signed between JACC/DR and a U.S. organization for the technical advice for JACC and the Dominican agribusiness firms. Another host country contract will be signed between the ABD and a U.S. organization for the technical advice and training program directed at the PFIs. PASA will extend the current arrangements for inspection services between USDA and SEA. An AID direct contract will be used to employ the agribusiness advisor.

Due to the complexities of AID procurement rules and regulations, the fact that JACC/DR is a new organization and that ABD has not had previous experience with AID, USAID will work closely with both groups in the preparation of RFPs and award of these two contracts.

If the availability of dollars becomes a limiting factor to agribusiness development, USAID, in conjunction with the Central Bank and after sub-loan approval by the PFIs, will make dollars available to the subborrowers for those aspects of the sub-projects which require dollars.

Exhibit 4
IMPLEMENTATION AND FINANCING METHODS

Agribusiness Promotion Project

Component	HC, AID Direct or Grant	Selection Method	Type Contract	Financing Method
Services				
TA Unit	Grant (L/C funds)	-------	------	Direct Reimb.
TA for JACC/DR	Direct	RFTP	Cost Reimb.	Direct Pmt.
Project Advisor	Direct	Competitive	Cost Reimb.	Direct Pmt.
APHIS Inspector	PASA	-------	Cost Reimb.	Direct Pmt.
SEA/SV Training	Direct	USDA courses	Fixed Price	Direct Pmt.
Evaluation	Direct	RFP or IQC	Cost Reimb.	Direct Pmt.
Non-Federal Audit	Direct	Local RFTP	Cost Reimb.	Direct Pmt.
Commodities				
For JACC	Direct	Informal RFQ	Fixed Price	Direct Pmt.
For SEA/APHIS	Direct	Informal RFQ	Fixed Price	Direct Pmt.

C. Project Management and Reporting

USAID's Private Sector Office will manage the project with the full time assistance of an agribusiness advisor (contract employee). The advisor will have day to day monitoring and supervisory responsibilities for the loan and grant components. The Private Sector Officer will report on project accomplishments and issues in quarterly USAID sector reviews, and provide a written summary for the USAID's semi-annual reports to LAC/DR.

D. Evaluation and Audit

USAID will draw on outside evaluators to assess the Agribusiness Promotion project, once after 18 months of operation, and once near the project completion date. Project management workshops are planned shortly after each evaluation, to take account of the results, and make necessary adjustments or plans for the future.

The first evaluation and audit will largely focus on operational matters and initial outputs, and assess such factors as:

- The effectiveness of the project identification/analysis/promotion activity in obtaining financing for suitable ventures;
- Effectiveness of the FIDE-development bank relationship in processing loans and making disbursements;
- Effectiveness of the plant health inspection activity.

The second and final evaluation will focus more on the impact and purpose achievement. It will look at the policy impact of the project, the institutionalization of the JACC/DR service and its potential for self-sufficiency, the outcomes of the training sessions, and the impacts in communities of the new subprojects, as well as the economic benefits of the project effort. It will help determine whether the project should be expanded, continued, or become the basis for a second-generation effort of some sort.

A non-federal audit, probably conducted by a local CPA firm, will be carried out at about the mid-point of the project in order to assess the cost and fee structures of the various services (JACC/DR and APHIS/SEA/SV), and recommend any changes in fee-setting, collection, and use.

E. Negotiating Status, Conditions and Covenants

1. Negotiating Status

USAID has conducted discussions and surveyed the aspirations, concerns, and alternative proposals of a wide range of agribusiness investors, bankers, and government officials. These discussions have covered both problems and opportunities, means of financing and promoting agribusiness, and a host of related topics.

At present, the project is well known and agreed to by key representatives of the private and public sectors. Discussions have been completed with the Central Bank and with private banks about the detailed procedures for implementing the loan mechanism. Startup support for JACC/DR has been provided out of local currency resources. Details on the plant health inspection component have been worked out with USDA and SEA/SV. The establishment of a feasibility loan fund and for providing technical assistance to participating banks has been defined with the ABD. A special transfer of funds to TDP to enhance their capability to service U.S. investors has also been agreed to.

2. Conditions and Covenants

Annex H, the Draft Project Authorization specifies the conditions and covenants in more detail. The principal points are summarized below:

- Conditions Precedent to First Disbursement (Loan)

The Central Bank will submit for USAID's approval its operational guidelines that describe the eligibility criteria and procedures (e.g. subloan applications, approval and disbursement formats and use of cooperations) to be applied to the use of AID loan funds.

The Central Bank will submit for USAID's approval a draft agreement to be utilized between FIDE and the PFIs which describes the terms, conditions and procedure to be utilized to account for and disburse the AID loan funds.

- Covenants (Loan)

The Central Bank will agree to review with USAID the interest rate structure each year from the date of the first disbursement of loan funds and to revise the rates upward or downward based upon the country's consumer price index and rate of inflation.

The Central Bank will agree to convene periodic meeting with representatives of the private and public sectors in order to determine progress toward objectives as well as to review policy and procedural constraints to increased investments and exports.

- Conditions Precedent to First Disbursement (Grant)

For JACC/DR: Evidence that JACC/DR has hired a full-time executive director. Also, a statement setting forth the standards, procedures and fee structure to be used by JACC for assistance to clients.

V. PROJECT ANALYSIS SUMMARIES

A. Technical/Financial Analyses

1. Demand for Credit

The demand estimates for this project show that there is a bona fide demand for new agribusiness finance to be in place before mid-1986 that, at least, exceeds the equivalent of US$79 million. The corresponding, inclusive figure for finance to be in place by mid-1988 is US$126 million.

Demand figures were obtained for entities which break down into product/service groupings as follows:

Fruit/Vegetables (Fresh, Frozen and Processed)	:	33	Coconut Products	:	7
Farming Inputs	:	5	Beef Related	:	12
Food Additives	:	4	Seafood Related	:	5
Financial Intermediary	:	1	Chocolate Related	:	2
Dairy Related	:	4	Fibre Related	:	4
Cereals/Grains Related	:	8	Tobacco Related	:	1
Floriculture	:	6	Root Crop Related	:	2
Poultry	:	1	Apiculture	:	2
Fats/Oils Related	:	3	Citrus Related	:	3
Export Trading Houses	:	1	Coffee	:	1
Agricultural Machinery/Equipment	:	2	Sugar-cane Related	:	1
TOTAL				:	108

Of the 108 projects identified, 88 described a financing need to be met over the next 12 months. Many of the firms and their requirements appear to be entirely bankable, and all else being equal, disbursements to meet such requirements could probably become effective within several months after loan signature. In many instances, such loan requests are already under review by different financial intermediaries.

Projected financial and economic/social returns on the investments reported so far are summarized as follows:

a. Average projected return on investment: 44%.

b. Aggregate full-time and equivalent full-time jobs created: 14,000.

c. Aggregate annual incremental income to workers: US$9,872,600.

d. Average capital/employment ratio: US$5,700 to create one job.

e. Aggregate project net FX impact for year one: US$69,000,000. 1/

Of the 108 entities interviewed, 17 already have joint-venture partners. Most of these partners are from the U.S. and 23 firms indicated some interest in a U.S. partner.

2. Interest Rates

Currently, effective interest rates, charged to end borrowers for term loans range from about 12% to 24%, in the regulated banking system. These rates include the interest itself, plus fee commissions and closing costs. The low end represents loans from FIDE funds to firms located in the Haitian border area. At the upper end are rates charged to borrowers from the PFIs' own resources. In the middle, clients are borrowing from FIDE at 17% (FIDE allows a 5% spread to PFIs, which when combined with loans at 12%, equals 17%).

1/ The economic analysis assumes a capital/employment ratio of US$3,400 to create one job. This lower figure was arrived at by eliminating a few of the more capital intensive investments.

In the non-regulated system, rates run from 1 1/2% - 5% per month. However, the majority of these loans are for consumer credits or commercial loans for inventory which have a 60-120 day turnover.

Development banks estimate that their portfolio of loans now provides about a 20% yield. (That is, the average rate is about 20% on older and newer loans when combined with FIDE and non-FIDE funds.) For agricultural loans, they estimate the yield is somewhat lower, i.e. 17%-18%.

3. Conclusions

The analysis of demand as well as interest rates plus an investigation of six specific projects demonstrate immediate financial requirements, impact on jobs and foreign exchange earnings, joint venture potential and the variety in size, nature and type of business venture in this country. Details on these findings are presented in the Annexes.

Rates to be charged in this project are based on current lending practices, regulations governing how much the regulated banks can legally charge, demand for funds, risk, and administrative costs associated with monitoring export-oriented loans. The rates will revised and adjusted by the Central Bank and USAID upward or downward to the banks and to the sub-borrowers once each year, based on inflation in the country as well as other factors such as rates of interest being paid on certificates of deposit, and U.S. interest rates.

To start, interest rates will be 13% to the PFIs (FIDE funds are currently averaging 10%) and 20% to end users (FIDE funds are currently averaging 15%). The rationale for these rates is more fully explained in the Annexes.

B. Institutional/Administrative Analyses

1. Borrower/Supervisors

a. Central Bank/FIDE

The Central Bank will be the borrower. USAID currently supports other projects with the Central Bank, including the Small Industry Program and Rural Savings Mobilization. In addition, the World Bank and the IDB currently have industrial/agricultural programs with the Central Bank. The Central Bank has many years of experience with donor agencies in managing specific credits directed through the country's private commercial and development banks. Although their procedures at times have been cumbersome, the Central Bank has always proven itself as one of the country's most responsible administrators. Thus, except for changing the manner in which it has supervised credit programs, we do not believe the Bank will need to employ additional staff to manage this new project.

FIDE will be responsible for supervising the program. However, FIDE's role will be drastically revised from current practices as described previously. FIDE was selected by the Central Bank as the unit best equipped to supervise the program and disburse the funds. Except for the Department for Tourism Infrastructure Development (INFRATUR), which handles tourism projects, no other units are currently established to direct a credit program.

Although there is some risk that FIDE could attempt to revert to old practices (in effect to meddle in the proposed new procedures), we do not believe this will occur. Negotiations were conducted with the Central Bank's top management, with whom we have reached an understanding and commitment to change.

b. **Sub-Lending Institutions**

Interviews were conducted with 18 development banks, 2 commercial banks and 2 government institutions as part of the demand and institutional analysis conducted by LAAD.

1) **Commercial Banks**

LAAD recommended that the commercial banks be eligible for several reasons. Among these were that several commercial banks have agribusiness loans outstanding, all of which originated with FIDE funds. Several banks also own development banks. Thus, short- and long-term financing needs can be combined and provided from two sources. Finally, some banks have branches in rural areas not currently reached by the development banks; thus, these banks have clients which can be served and supervised through commercial networks. Some 4-5 commercial banks are expected to participate.

2) **Development Banks**

All of the 18 development banks will be eligible to participate. However, 3 banks do not appear qualified to access funds from the outset. These 3 banks could be included at a later date should their financial position improve, and they show an interest and capacity to work in the areas of agriculture and agribusiness.

The analysis and determination as to which banks should participate was based on the banks' financial strength (ability to borrow, degree of leverage, quality of portfolio, arrearages, etc.); capacity of staff to appraise and monitor agribusiness projects; size and type of current agribusiness portfolio; branch office network; and existing demand for new project funds. (Annex F provides detail on these factors.) The 15 eligible banks I constitute those banks best able to successfully accomplish the project's objectives (based on above factors). This analysis also facilitates a Central Bank/FIDE transition to a "line of credit" program rather than a sub-project disbursement approach. Since IS banks are the strongest and most capable of carrying out the program, and because they have the greatest number of sub-projects meeting the criteria of this program, USAID and the Central Bank can be better assured that this new AID loan will be implemented effectively and rapidly.

We expect the Central Bank to declare most of the IS banks as pre-qualified, and therefore eligible to participate in the program, and be assigned a minimum line of credit for start-up immediately after loan signature and compliance with the initial conditions precedent. This line will be reserved for 12 months and if at the end of that period the line is not fully utilized, the unused portion will be assigned to other banks. If the line is fully utilized it could be increased. The 3 banks which do not appear initially qualified would also be eligible to participate in the loan program, but would receive no line of credit. Their projects would be considered individually on their merit.

2. Grant Program

a. Introduction

The AID grant will be signed with JACC/DR. JACC/DR in turn will sign a series of subgrant agreements with SEA and the ABD to permit these groups to utilize the grant funds as outlined previously. Thus, JACC/DR's responsibilities will be limited to periodic, summary reports on the use of the funds.

b. JACC/DR

JACC/DR was established as a private, non-profit organization in the Dominican Republic in February of 1985. Its primary purpose is to: work with the JACC organization in the U.S. to assist Dominican private sector agribusiness firms to gain access to the agribusiness sector in the United States; identify potential joint venture partners; obtain appropriate technologies under licensing or other types of agreements; and acquire the necessary technical and management assistance.

JACC/US was established with the assistance of AID's PRE Bureau to stimulate the flow of investments, technology and technical assistance between U.S. agribusiness firm and their counterparts in targetted countries. The JACC/US office assists in the formation of independent local JACC committees in each of the targeted countries. These committees are responsible for identifying the needs of local agribusiness firms, and forwarding them to the JACC/US for circulation among its network of participating agribusiness firms. The JACC/US will facilitate the participation of firms which are interested in responding to particular requests. There is no financial relationship among the JACC affiliates, and each local unit is responsible for meeting for its own financial needs.

JACC/DR currently has about 40 members representing a wide range of Dominican agribusiness firms, entrepreneur groups and supporting private sector organizations. Membership is open to anyone with an interest in the development of the Dominican agribusiness sector, and a nominal membership fee of RD$500 per year is charged to support the operations of the organization.

USAID is presently providing limited grant support for the establishment of a small secretariat for the organization. Activities are now underway to recruit a qualified Executive Director. An Executive Secretary was hired, and office facilities are established in Santo Domingo. We expect the Secretariat to be fully functional prior to initiation of this project.

c. <u>Association of Private Development Banks</u>

This association was founded in 1975. It has about 100 members comprised of representatives from the country's 18 private development banks. The group is a professional association where members meet to discuss problems and common interests; it also serves as a focal point for organizing/lobbying on laws and government policies. The association is governed by a board of directors elected every year; it has a full time business manager to handle day to day correspondence and account for revenues (from dues and training programs) and expenses.

In the past, the association has sponsored some training programs on behalf of its members and in this regard has worked closely with the Central Bank. ALIDE is one of the groups which has provided assistance in training.

For the association to properly administer the feasibility study fund it may need to employ an additional person; this will depend on the volume of applicants and operational procedures required to determine eligibility and then to account for disbursement of funds. At the outset, the association believes that the business manager can handle this additional responsibility under the direction of the board. The board itself will review and approve the application for feasibility study funds. Should additional personnel be required to administer the fund, the association is prepared to do so.

The association will also serve as the base for the technical assistance provided to the PFIs. The TA team will operate from the association's office. Although on a day to day basis and for the training courses themselves, much of the work will be conducted in the PFI's themselves or in suitable conference facilities.

d. SEA/Sanidad Vegetal

The counterpart GODR agency for the APHIS component, the Plant Health Division of the SEA, is staffed by 30 professionals located in 5 principal port areas and 9 regional offices. In addition, the Division is the implementing agency for a four year technical assistance program financed by the IDB.

While GODR budgetary constraints have impeded the attainment of the IDB program goals, it is our belief that the SEA/SV will transform the preclearance program into a self-financed operation through a system of user fees to be paid by private agribusiness exporters.

C. Economic Analysis

1. Introduction

The purpose of this analysis is to estimate the macro-economic impact of the proposed project on the Dominican economy, particularly on national income, employment and foreign exchange earnings. Benefits will be realized as a result of investment by private firms in a number of promising agribusiness sub-projects. These sub-projects have been examined from the point of view of financial benefit to individual investors, as well as their contribution to the national economy in the form of additional value added, foreign exchange generation and employment. The basic premise of this project is that promotion of investment by private firms in new and expanded agribusiness ventures will have an extremely beneficial pay-off to investors and the economy as a whole. The economic analysis strongly supports that premise. Annex F contains the complete analysis.

2. Approach

The proposed agribusiness project will involve the financing of agribusiness/agro-industrial ventures that meet certain financial criteria and macro-economic objectives. The sources of capital are: AID loan funds (US$17.3 million), GODR loan funds (RD$90 million) and investors' equity contributions (RD$76 million, of which 50% is new equity). This amounts to a total incremental investment of US$60 million at an exchange rate of RD$3.0 to US$1.0, while at RD$3.5 to US$1.0 the total incremental investment is US$53.9 million. The entire loan portion of this investment capital will be channelled through the PFIs to their private sector clients.

3. Financial Results

The credit demand survey examined investment proposals for 108 agribusiness ventures. Although complete feasibility analyses were not prepared for these sub-projects, they were judged to be generally reasonable in their financial projections. The average financial return on investment was estimated at 44 percent. This relatively high rate of financial return, even if revised downward in a final analysis, implies very favorable prospects for more ventures than can be financed by this project. However, it must also be appreciated that these projections are based either on feasibility studies or on 2-3 years of recent experience. They have not yet been tested over a 5-10 year period.

4. **Economic Results**

The overall economic impact of this project was calculated by estimating the incremental income (value added) for the Dominican economy produced by the ventures that receive project financing. If the rate of investment in new ventures (and project disbursement) occurs as postulated, then after a short lag, income, employment and foreign exchange benefits will be generated for the duration of the investment.

At the current cost of capital, investing US$60 million in the agribusiness project yields a net present value of US$13.5 million and US$76 million depending on the assumptions regarding the return on investment, depreciation rates, taxes, etc. The corresponding internal rates of return for this project vary between 27 percent and 64 percent. This compares very favorably with rates of return that could be expected from alternative investments.

5. **External Benefits**

Other tangible but not easily measured benefits of the project include employment, national value added and foreign exchange. By giving priority to projects having a low capital investment per employee ratio (i.e., one permanent job for every US$3,400), the project will stimulate the creation of employment for 17,820 persons; it will annually produce national value added of US$72 million, and generate approximately US$105 million annually in foreign exchange once the agribusiness ventures are fully operating. Hence the economic effect of the project will spread to workers' families, entrepreneurs and foreign currency markets. The multiplier effect from increased employment could be valued at 50 percent of aggregate wages paid by the agribusiness ventures, or US$5 million annually. Also, the foreign exchange earnings, which are projected to reach almost 15% of current aggregate exchange earnings, will have the beneficial effect of stabilizing the peso free market exchange rate. Although they could significantly improve the overall economic environment, and justify undertaking this project, no effort was made to estimate the value of these benefits to the economy.

D. **Social Soundness Analysis**

Based on our investigations, we believe that this project is socially and culturally feasible. Traditionally, the society of the Dominican Republic was rural and agrarian, and even today, the majority of the workforce finds employment in the agricultural sector. The project model of producers contracting with outgrowers for their raw material needs is a socially accepted method of production here, and is currently employed by agribusiness producing and/or packing pineapples, okra, cantaloupes, tomatoes, peppers, and cucumbers.

The project will directly benefit the owners and operators of agribusinesses, the workers who will be provided jobs in the expanding agribusiness sector, and the suppliers who will provide the necessary input materials needed by the agribusinesses to operate.

Farmers who sign outgrowing contracts will generally realize higher incomes compared to farmers who do not grow for contract. Providing jobs to the currently unemployed and under-employed will result in higher income levels for agribusiness labor.

Agribusiness ventures of the sort proposed tend to be labor intensive. Accordingly, they will involve direct impact on the lives and labor of (a) contract outgrower farmers, their mates, children, and hired laborers, as well as (b) processing plant laborers and (c) agribusiness owners and managers. Attention will be given to developing an integrated program of research and case studies in collaboration with ISA/CADER. Among the issues to be examined are gender division of labor (including total workload), gender division of resources and income involved, nutrition, school attendance of outgrower families, and local community effects, gender composition of the labor force in the various jobs, seasonality, wages and working conditions, and effects on the households of the workers.

See Annex F for a more detailed analysis of the social and cultural impacts of this project.

E. Environmental Analysis

The IEE was approved with the submission of the PID; it called for a negative determination. As stated at that time and per Section 216.2 (c)(2) categorical exclusions, AID's environmental regulations are generally not required for projects with intermediate credit institutions when AID does not review and approve individual subloans.

We have discussed our environmental guidelines with FIDE. Representatives from FIDE share our concerns and told us that infrequently sub-projects are submitted which have adverse environmental impacts. Further, FIDE does not have in-house capacity to carefully monitor or analyze projects from an environmental viewpoint.

In order to satisfy FIDE's and AID's concerns, as well as those of the PFIs and ultimate borrowers, we have elected to utilize a negative list of subprojects which will not be eligible for financing under the program. This list was based on experience obtained by gruops such as LAAD, as well as from the demand study conducted for this project which identified 108 potential borrowers in search of financing.

Thus, unless USAID otherwise approves in writing and an environmental examination is conducted by qualified personnel, the borrower will covenant that AID loan funds will not be used for sub-projects involving pesticides, severe chemical treatments such as tanneries, or extensive land clearing or road construction in hillside areas. No difficulties are foreseen in enforcing these rules, as the demand for funds is sufficient strong to permit FIDE and the PFIs to disqualify any potentially troublesome loans and substitute those without question.

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A/RF	✓
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AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: GUIDANCE CABLE, AGRIBUSINESS PROMOTION (517-0186), PID REVIEW

1. CONSTRAINTS: THE PID IDENTIFIED A SERIES OF CONSTRAINTS, SUCH AS POLICY AND INSTITUTIONAL WEAKNESSES, WHICH COULD AFFECT THE FUNCTIONING AND SUCCESS OF THIS PROJECT. SOLUTIONS TO THESE CONSTRAINTS WAS LEFT TO OTHER AID PROJECTS OR A POSSIBLE FOLLOW-ON PROJECT. DURING THE PP PREPARATION THE MISSION SHOULD REVIEW THE IMPLICATIONS OF THESE CONSTRAINTS AND ADDRESS THOSE WHICH WOULD IMPEDE PROJECT SUCCESS IF NOT OVERCOME.

2. COUNTERPART SELECTION: THE DAEC AGREES WITH THE MISSION'S ASSESSMENT THAT IF, UNDER THE OPTIMUM SCENARIO, CHANGES COULD BE MADE IN THE CENTRAL BANK, WHEREBY FIDE PROCEDURES WERE RELAXED AND STREAMLINED, THE PROJECT WOULD ACHEIVE A MAJOR IMPACT ON CREDIT POLICIES TOWARD THE PRIVATE FINANCIAL INTERMEDIARIES. A SYSTEM WHEREBY AID FUNDS RECEIVE EXPEDITIOUS TREATMENT, THE REQUIREMENT FOR 51 PERCENT DOMINICAN PARTICIPATION IS WAIVED, AND SUCH OTHER CHANGES AS ARE NECESSARY FOR PROJECT SUCCESS ARE UNDERTAKEN, WOULD BE ACCEPTABLE. ON THE OTHER HAND, A FULLY PRIVATE MECHANISM WOULD OFFER OTHER ADVANTAGES IN TERMS OF RESPONSIVENESS TO THE COUNTRY'S PRIVATE SECTOR AND A MORE AGILE SYSTEM OF LENDING, AND IS THE PREFERRED ALTERNATIVE. THE MISSION IS FREE TO PURSUE ALL ALTERNATIVES, BUT MUST ADVISE AID/W ON ITS CHOICE AND RATIONALE FOR SELECTION PRIOR TO AUTHORIZING THE PROJECT. IN THIS PROCESS THE MISSION SHOULD BEAR IN MIND THAT AID IS CLOSE TO ISSUING A NEW POLICY PAPER ON INTEREST RATES. A PRELIMINARY DRAFT OF THIS PAPER, WHICH IS BEING SENT TO THE MISSION VIA APO, STATES IN PART QUOTE THERE ARE TWO DIFFERENT REQUIREMENTS WHICH MUST BE CONSIDERED IN DETERMINING THE APPROPRIATE INTEREST RATE TO BE CHARGED A PRIVATE ENTERPRISE. THESE ARE 1) THE NEW STATUTORY REQUIRMENT THAT INTEREST RATES FOR PRIVATE SECTOR BORROWERS MUST NOT BE LESS THAN THE COST OF MONEY TO THE U.S. TREASURY AT THE TIME AID OBLIGATES THE FUNDS 'TO THE MAXIMUM EXTENT PRACTICABLE'. AND 2) THE AID POLICY OBJECTIVE THAT INTEREST RATES FOR

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PRIVATE BORROWERS SHOULD NOT BE LESS THAN THE PREVAILING FREE MARKET LOAN INTEREST RATES. THE FINAL DRAFT OF THE POLICY PAPER WILL BE SENT TO THE MISSION AS SOON AS IT IS ISSUED, TO FURTHER ASSIST IN FIXING AN APPROPRIATE INTEREST RATE. UNQUOTE

-2.

A PRIVATE SECTOR UNIT SUCH AS JACC APPEARS REASONABLE AS A GRANTEE AND SHOULD OFFER SIGNIFICANT ADVANTAGES IN BEING ABLE TO SERVICE THE NUMEROUS AND VARIED NEEDS OF AGRIBUSINESS INVESTORS. AN ADDITIONAL ADVANTAGE APPEARS TO BE THE ROLE SUCH A UNIT COULD PLAY IN IDENTIFYING AND ANALYZING PROJECTS AS WELL AS SUPERVISING AND MONITORING SUBLOANS. MISSION SHOULD BE REMINDED THAT CONTRACTUAL ASSISTANCE TO JACC, WHICH MIGHT BE PROVIDED BY LAAD OR OTHER PRIVATE FIRMS, WOULD HAVE TO BE COMPETITIVELY SELECTED. IT IS SUGGESTED THAT THE MISSION PREPARE THE RFP IN SUCH A MANNER THAT THE RESULTING CONTRACTS COULD BE EXTENDED OR EXPANDED WITHOUT NEED FOR REBIDDING. MISSION IS REMINDED THAT, IN EVENT LOAN FUNDS ARE PROVIDED BY THE PRIVATE SECTOR, ARRANGEMENTS MUST BE MADE TO GUARANTEE REPAYMENT OF AID LOAN IN DOLLARS.

3. CRITERIA FOR SUB-LENDING: A. DOMINICAN PARTICIPATION. IN ORDER TO ENCOURAGE DOMINICAN PARTICIPATION THE MISSION'S PROPOSAL TO REQUIRE A MINIMUM (E.G. 30 PERCENT) DOMINICAN PARTICIPATION IN A COMMERCIAL VENTURE APPEARS REASONABLE. HOWEVER, IN ORDER NOT TO DISCOURAGE A WHOLLY US OWNED OR OTHER FOREIGN OWNED UNDERTAKING THAT OFFERS UNIQUE DEVELOPMENT POTENTIAL, PROVISION SHOULD BE MADE TO ALLOW THAT CRITERION TO BE WAIVED BY USAID. THE REQUIREMENTS SHOULD NOT BE MANAGED IN SUCH A WAY AS TO PROVIDE AN UNFAIR NEGOTIATING ADVANTAGE TO LOCAL INVESTORS. THE CRITERIA FOR A WAIVER WOULD HAVE TO BE IDENTIFIED BY THE MISSION, BUT UNIQUE DEVELOPMENTAL POTENTIAL, AS DEFINED BY PROMISE OF CONSIDERABLE JOB OR EXPORT GENERATION (QUOTE CONSIDERABLE UNQUOTE SHOULD BE QUANTIFIED) ARE SUGGESTED CRITERIA.

B. THE RESPECTIVE PROS AND CONS AS TO WHETHER A FEW LARGE LOANS OR MANY SMALL LOANS WOULD BE MORE EFFICIENT DEVELOPMENT VEHICLES WERE DISCUSSED AT THE DAEC. IT WAS AGREED THAT, RATHER THAN SET AN ARBITRARY LIMIT FOR THE MISSION IN TERMS OF LOAN SIZE OR QUANTITY, DECISION ON SIZE OF SUB-PROJECTS SHOULD BE MADE DURING PP PREPARATION BASED ON JUDGEMENTS REGARDING WHICH COMBINATION OF PROJECTS OFFERS MAXIMUM IMPACT ON JOB CREATION AND FOREIGN EXCHANGE SAVINGS/EARNINGS. DAEC, HOWEVER, SEES NO REASON FOR LIMITING A PROJECT'S SIZE.

4. FUNDING. IT WAS POINTED OUT AT THE DAEC THAT, WHILE THE MISSION PROPOSES A LOAN OBLIGATION OF DOLS 5 MILLION

UNCLASSIFIED

-3-

DURING FY 1985, THE OYB LEVEL FOR THE PROJECT IS ONLY DOLS 2.7 MILLION (L) AND DOLS 1.8 MILLION (G). THE MISSION REPRESENTATIVE TO THE DAEC INDICATED THAT THE MISSION WILL OBLIGATE ONLY THE ABOVE AMOUNTS DURING FY 1985; DOLS 10 MILLION (L) DURING FY 1986, AND; THE BALANCE IN FY 1987. IT WAS ACKNOWLEDGED, HOWEVER, THAT ADDITIONAL FUNDS MIGHT BE REQUIRED IN FY 85 AND THE THE MISSION WILL BE CONSIDERED FOR END OF FISCAL YEAR FALL-OUT FUNDS, IF AVAILABLE.

5. INTEREST RATES. THE CREDIT DEMAND STUDY, CARRIED OUT DURING THE PP PREPARATION, SHOULD ATTEMPT TO MEASURE THE AMOUNT OF LOAN FUNDS DESIRED AT POSITIVE REAL INTEREST RATES. THIS WOULD BE A MORE ACCURATE MEASURE OF TRUE CREDIT NEEDS ESPECIALLY IF REAL INTEREST RATES BECOME POSITIVE BY THE TIME THE PROJECT'S IMPLEMENTED. THE PROJECT'S INTEREST RATE SCHEME SHOULD BE FLEXIBLE ENOUGH TO ADJUST TO FLUCTUATION IN THE RATE OF INFLATION. THE BUREAU'S MINIMUM POSITION ON INTEREST RATE IS THAT THEY MUST BE AT LEAST POSITIVE IN REAL TERMS.

6. POINTS OF CLARIFICATION. FOLLOWING ARE THE MISSION'S RESPONSES TO POINTS OF CLARIFICATION TO BE ADDRESSED DURING THE PP PREPARATION:

A. THE STRICTURES OF PD 71 WILL BE RESPECTED DURING PROJECT PLANNING AND IMPLEMENTATION.

B. THE GRAY AMENDMENT WILL BE GIVEN FULL CONSIDERATION DURING PP DESIGN.

C. THE PP WILL CONTAIN A COMPLETE EVALUATION PLAN.

7. SUMMARY: A DAEC REVIEW OF THE REFERENCED PROJECT WAS HELD ON THURSDAY, FEBRUARY 14. IT WAS CONCLUDED THAT THE MISSION COULD PROCEED WITH PP DEVELOPMENT, BUT DUE TO QUESTIONS REGARDING: A) THE USE OF FIDE OR THE PRIVATE SECTOR AS A CONDUIT FOR LOAN FUNDS, AND B) A DESCRIPTION OF HOW THE INTEREST RATES WILL BE STRUCTURED SO THAT THEY MAY RESPOND TO CHANGING ECONOMIC CIRCUMSTANCES, THE SIZE OF THE PROJECT AND ITS POSSIBLE APPLICATION IN OTHER COUNTRIES, THE CHAIRMAN OF THE DAEC, SUBSEQUENT TO THE MEETING, DECIDED THAT THE PP SHOULD BE REVIEWED IN AID/W. SHULTZ

Annex B

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: Agribusiness Development: 517-0186

Life of Project : $50.7 million
Total U.S. Funding: $19.8 million
Date Prepared : 7/3/85

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
A.1 Goal To increase employment, incomes and foreign exchange earnings or savings.	A.2 - Jobs created. - Improved distribution of family income. - Foreign exchange earned/saved annually.	A.3 - Regional employment statistics. - National and regional economic data. - Central Bank data and GNP accounts.	A.4 - External and internal market prices for ag. commodities remain favorable. - Firms are able to manage costs to remain competitive in world markets.
B.1 Purpose To initiate new or expand existing agri-business investment projects under the management of private firms devoted to production of raw or processed agricultural commodities for sale in export and domestic markets, and to improve the mechanisms for agribusiness promotion and financing.	B.2 End of Project Status - 80-90 new or expanded agri-business ventures. - additional value of non-traditional agricultural exports. - Policy and procedural changes that favor agribusiness startups and expansions (shortened lead times for obtaining financing, legal reforms, reduced regulations and controls).	B.3 - Bank loan records. - Records of firms qualified under Agro-Industry Law 409. - Loan processing records, revisions of law or regulations.	B.4 - Domestic economic conditions remain sufficiently favorable to attract private investment. - Political climate continues to favor private sector expansion.
C.1 Outputs - Improved services for agribusiness credits. - Strengthened project appraisal capacity in PFIs. - Streamlined mechanism for obtaining financing for agribusiness ventures. - Policy and procedural changes in FIDE's credit mechanism. - Established support services for inspection of fresh produce subject to U.S. regulation.	C.2 Output Indicators - TA unit established within JACC/DR. - Feasibility and market analysis completed, permits and funding obtained, etc. for 80-90 investment projects. - FIDE disbursing funds within 4 weeks of receiving request. - Selected exporters able to have produce pre-inspected at port of shipment in a timely manner.	C.3 - Project records, case analyses, surveys of participant agri-business. - Project analyses. - Central Bank and development bank's records. - Surveys of participating agribusinesses and project records.	C.4 - Banking community maintains its commitment to agribusiness financing available under a new set of loan approval criteria. - Sufficient agribusiness expertise exists among D.R. firms or professionals to manage investment activities. - FIDE adopts revised operating procedures.
D.1 Inputs 1. Loan funds for agribusiness ventures. 2. Technical assistance and Investor services. 3. Feasibility studies. 4. Produce inspection. 5. Evaluation/Audit	D.2 Budget ($000) AID / LOCAL FUNDS 1. 17,300 / 30,000 2. 1,660 / 472 3. 500 / 250 4. 155 / 46 5. 50 / 100		

ANNEX B
Page 1 of 1

5C (1) COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

   No

2. FAA Sec. 620 (c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such a citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

   No

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No

4. FAA Sec. 532 (c), 620 (a), 620 (f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?

No

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.

N/A

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

No

7. FAA Sec. 620 (l). Has the country failed to enter into an agreement with OPIC?

No

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? — N.A.

(b) If so, has any deduction required by Fishermen's Protective Act been made?

9. FAA Sec. 620 (q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? — No

(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? — No

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) — Yes

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No. Diplomatic relations have not been severed.

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taxing into Consideration memo.)

GODR is current on U.N. obligations.

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

No

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under FAA?

No

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements on safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — No

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) — No

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti. — N.A.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — No

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? — No

b. ISDCA of 1981, Sec. 725 (b). If ESF is to be furnished to Argentina, has the President certified that (1) the Government of Argentina has made significant progress in human rights; and (2) such assistance is in the national interests of the U.S.? — N.A.

c. ISDCA of 1981, Sec. 726 (b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Government of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Government of Chile is not aiding international terrorism and has taken steps to bring to justice those indicated in connection with the murder of Orlando Letelier? — N.A.

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to project funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance Loans, and B.3. applies to projects funded from ESP.

CROSS REFERENCES:
IS COUNTRY CHECKLIST UP TO DATE? Yes.
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes.

A. GENERAL CRITERIA FOR PROJECT

1. FY 82 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

   (a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

   (a) The project was included in the FY 84 Congressional Presentation as a new project in FY 84. A Congressional notification has been made, and will expire on July

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   (a) N.A.

   (b) Yes.

3. 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?

   While the Congress has delayed ratification of foreign loans in recent years, it is aware of the soft terms of AID loans, and recently ratified a Canadian development loan for agribusiness.

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4. <u>FAA Sec. 611 (b); FY 1982 Appropriation Act Sec. 501.</u> If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973? (See AID Handbook 3 for new guidelines.)

   N.A.

5. <u>FAA Sec. 611(e).</u> If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

   N.A.

6. <u>FAA Sec. 209.</u> Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

   The Project cannot be executed as part of a regional project.

7. <u>FAA Sec. 601(a).</u> Information and conclusions whether project 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.

   This loan/grant program is directly concerned with fostering agro-industrial subprojects that will encourage (a) through (f).

8. FAA Sec. 601 (b). Information and conclusion on how project 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 will provide increased U.S. investment and trade with the U.S. The technical assistance and equipment for the project will be procured from U.S. private sector sources.

9. FAA Sec. 612(b); Sec. 636(h); FY 1982 Appropriation Act Sec. 508. 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 U.S. are utilized in lieu of dollars.

The project agreement will require that local currencies generated by ESF and PL-480 programs be used in the implementation of project activities.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

There is no excess, U.S. owned local currency available for this program.

.1. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

2. FY 1982 Appropriation Act Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar, or competing commodity?

N.A.

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests.

Yes.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N.A.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); Sec. 111; 113; 281 (a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

The project is directed to increasing the wellbeing of the country's poor. This would be accomplished through the development of an operational mechanism for establishing and expanding agribusiness enterprises. These firms will in turn stimulate and increase agricultural production, promote exports and improve distributional equity among segments of the national population. This project will promote the participation of women in productive employment as laborers, administrators, and managers.

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes.

\c\.

c. FAA Sec. 107. Is appropriate emphasis on use of appropriate technology? (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes.

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement been waived for "relatively least-developed" country)?

The recipient country is providing 40% of the costs of the project.

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least-developed?" (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.

No.

f. FAA Sec. 122(b). 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?

Yes.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

The project supports development and promotes skills of both administrative and technical personeel through seminars and workshops. Furthermore, local institutions and consultants will be utilized in the project.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

The Dominican Government is carefully assessing and restructuring its commercial debt, and has not defaulted on any AID obligations.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

The quantities of exports stimulated by this project will be negligible in comparison to the total U.S. market needs. Thus, competition with U.S. firms will be minimal.

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?	Yes.
b. FAA Sec. 531 (c). Will assistance under this chapter be used for military, or paramilitary activities?	No.
c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives.	N.A.
d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements be made?	N.A.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the 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 imposing limits on certain uses of funds.

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

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — Yes

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? — Yes

3. FAA SEc. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — N.A.

4. FAA Sec. 604(e); ISDCA of 1980 SEc. 705(a). 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? (Exception where commodity financed could not reasonably be procured in U.S.) — N.A.

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? — N.A.

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, 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? — No

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? — Yes
If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — Yes

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

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9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes

B. Construction

1. FAA Sec. 601 (d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used?

Yes, to the extent that they are competitive in cost or possess special technology.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

Yes

3. FAA Sec. 602(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)?

N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N.A.

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communit-bloc countries?

Yes

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

Yes

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

Yes

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

Yes

d. FAA Sec. 662. For CIA activities?

Yes

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes

g. FY 1982 Appropriation Act, Sec. 505. To pay U.N. assessments, arrearages or dues? Yes

h. FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes

i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes

5. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? No

6. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? No

República Dominicana

Secretariado Técnico de la Presidencia

Santo Domingo, D. N.

STP/No.

20 AGO 1985

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Señor
Henry Bassford
Director de la Agencia
Internacional para el Desarrollo
Ciudad

Estimado señor Bassford:

Como es de su conocimiento, el Gobierno Constitucional que preside el Ciudadano Presidente, Dr. Salvador Jorge Blanco tiene la firme decisión de extender y diversificar la producción agrícola no tradicional para la exportación y en este sentido, la sustitución de alimentos importados para la generación o ahorro de divisas, es una de sus más altas prioridades; sobre todo en lo referente a la promoción y financiamiento de inversiones agroindustriales.

Con el objeto de dinamizar estas actividades, representantes del Gobierno Dominicano, del Banco Central y la Agencia Internacional para el Desarrollo diseñaron conjuntamente, un proyecto, a fin de proporcionar recursos financieros para empresas agroindustriales. Dichos recursos serán canalizados a través del Banco Central y los Intermediarios financieros autorizados para tales fines.

Por tal motivo, deseo presentar a nombre del Gobierno Dominicano una solicitud de préstamo por un valor de US$17,300,000.00 bajo las condiciones concesionales que ofrece la AID para operaciones de este tipo y cuya finalidad sería establecer mecanismos institucionales para préstamos que serán hechos por los bancos comerciales y de desarrollo para las necesidades de planta, equipo y capital de trabajo permanente de las empresas agroindustriales.

ACTION: PDO	
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Sr. Henry Bassford
Pág.2

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Deseo llevar a su conocimiento que el Gobierno Dominicano realizaría un aporte de RD$90.0 millones como contrapartida del referido proyecto, de tal forma que permita la complata ejecución del mismo. Dichos fondos se proveerán durante los tres años que dure el proyecto, provenientes de los programas ejecutados en moneda local generada por la PL-480, u otras fuentes del Gobierno.

Con sentimientos de consideración y estima, le saluda,

Muy atentamente,

L. Orlando Haza
Secretario Técnico de la Presidencia

JACC/RD

Comité Conjunto de Consultoría Agrícola, Inc.

RECEIVED JUL 15 '85

001/85

12 de julio de 1985

Sr. Craig G. Buck
Director Interino
Agencia Internacional para el Desarrollo
Ciudad

Estimado Sr. Buck:

Como es de su conocimiento, hemos estado conversando con oficiales de la Misión de la Agencia Internacional para el Desarrollo en República Dominicana, sobre la necesidad de una organización que se dedique a promover, analizar y asesorar la elaboración de proyectos agro-industriales en República Dominicana. El Comité Conjunto de Consultoría Agrícola, (JACC/RD) fué formado para proveer ese apoyo y, creemos que se convertirá en un factor muy importante en el desarrollo agrícola del país, especialmente en el área de los productos no tradicionales.

Estamos muy agradecidos por su apoyo inicial el cual nos permitió emprender la formación de JACC/RD. Nos agrada comunicarle que en sus primeros meses de operación, JACC/RD ha sido instrumento en el apoyo a la gestión de promover acciones que esperamos se traduzcan en la implementación de varios proyectos agro-industriales importantes.

Es significativo resaltar que JACC/RD ha logrado agrupar como Empresas-Miembro y Consejo Directivo a una verdadera representación de las industrias del sector agro-industrial dominicano, los cuales han demostrado su disposición de trabajar unidos para el avance y mayor desarrollo del sector agro-industrial.

Como complemento al préstamo agro-industrial el cual ustedes piensan firmar con el Banco Central, nos permitimos solicitar una donación de $2.5 millones. Esta donación se usaría para asistencia técnica, adiestramiento, estudios de factibilidad y servicios de inspección sanitaria. Este apoyo sería dirigido hacia inversiones agro-industriales privadas. Específicamente estos fondos ayudarían a financiar un contrato de asistencia técnica para asesores estado-unidenses trabajar con JACC/RD; un programa de adiestramiento y asistencia para reforzar la capacidad de los bancos comerciales y de desarrollo en el análisis de los proyectos.

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001/85

12 de julio de 1985

Sr. Craig G. Buck

Un programa de estudios de factibilidad con el Trade Development Program de los Estados Unidos, servicios de inspección de planta para la Secretaría de Agricultura (Sanidad Vegetal) y un asesor agroindustrial para trabajar como el administrador del proyecto de la Agencia Internacional para el Desarrollo, tanto para el componente del préstamo y de la donación de su Programa de Promoción Agro-Industrial.

Esta asistencia fortalecería la capacidad técnica de JACC/RD y habilitaría a sus Empresas-Miembro y a su Consejo de Directores para apoyar el Proyecto Agro-Industrial y trabajar con el Banco Central para asegurar una exitosa ejecución del mismo.

Gracias por su consideración.

Cordialmente,

HORACIO J. ORNES HEDED

HJOH/rm

cc: Consejo Dirección JACC/RD

CERTIFICATION PURSUANT TO
Section 611 (e) of the
FOREIGN ASSISTANCE ACT
As amended

I, Henry H. Bassford, the principal officer of the Agency for International Development in the Dominican Republic, do herewith certify that in my judgment, the Dominican Republic has both the financial capability and human resources to maintain and utilize effectively goods and services procured under the capital assistance project entitled Agribusiness Promotion.

This judgment is based upon the record of implementation of AID financed projects in the Dominican Republic and the results of the consultations undertaken during intensive review of this projects.

Henry H. Bassford
Director
USAID/Dominican Republic

8/22/85
Date

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PROJECT ANALYSES

1. Technical/Financial Analyses

a. Demand for Credit

The demand estimates for this project are based on extensive interviews with private bankers, private agriculture/agribusiness firms, local consulting groups and selected public sector officials.

The analysis shows that there is a bona fide demand for new agribusiness finance to be in place before mid-1986 that, at least, exceeds the equivalent of US$79 million. The corresponding, inclusive figure for finance to be in place by mid-1988 is US$126 million.

This figure is exclusive of an additional US$75-100 million which is estimated to be required for traditional, domestically consumed crops such as rice, corn, beans, etc.

Financial demand reported in the great majority of cases, reflects genuine needs consonant with start-up or expansion projects. Demand figures were obtained for entities which break down into product/service groupings as follows:

Fruit/Vegetables (Fresh, Frozen and Processed)	:	33	Coconut Products	:	7
Farming Inputs	:	5	Beef Related	:	12
Food Additives	:	4	Seafood Related	:	5
Financial Intermediary	:	1	Chocolate Related	:	2
Dairy Related	:	4	Fibre Related	:	4
Cereals/Grains Related	:	8	Tobacco Related	:	1
Floriculture	:	6	Root Crop Related	:	2
Poultry	:	1	Apiculture	:	2
Fats/Oils Related	:	3	Citrus Related	:	3

Export Trading Houses	:	1	Coffee	:	1
Agricultural Machinery/Equipment	:	2	Sugar-cane Related	:	1
TOTAL	:	108			

Of the 108 projects identified, 88 described a financing need to be met over the next 12 months. Many of the firms, and their requirements appear to be entirely bankable, and all else being equal, disbursements to meet such requirements could probably become effective within several months after loan signature. In many instances, such loan requests are already under review by different financial intermediaries. Any delays in approval and/or disbursement have little to do with merits of the request, but rather with current illiquidity problems, legal bottlenecks, perfection of security arrangements, public sector bottlenecks, etc.

Projected financial and economic/social returns on the investments reported so far are summarized as follows:

a. Average projected return on investment: 44%.

b. Output/capital ratio: 3.03; .69.
(3.03 = $\frac{\text{Sales}}{\text{Investment required}}$ .69 = $\frac{\text{Value added}}{\text{Investment required}}$

d. Aggregate full-time and equivalent full-time jobs created: 14,000.

e. Aggregate annual incremental income to workers: US$9,872,600.

f. Average capital/employment ratio: US$5,700 to create one job.

g. Aggregate project net FX impact for year one: US$69,000,000.

Of the 108 entities interviewed, 17 already have joint-venture partners. Most of these partners are from the U.S. and 23 firms indicated some interest in a U.S. partner. Many of these firms are actively seeking a U.S. partner and/or would like to be assisted toward this end. The major reasons given for considering a partner are market access and assistance in obtaining the necessary financing.

GK

b. **Technical Analysis of On-Lending Arrangements**

The following determinations were made with regard to the appropriate rates, tenor and funds applications that would enable the banks to successfully carry out the agribusiness lending program:

Spread for the banks: This will be, seven percentage points. (Current FIDE rate is five percent). This spread is sufficiently attractive to motivate and sustain bank participation in the program, while it is not so high as to provide the banks excessive profitability. Note: The spread includes commissions.

End-user rates: The seven points spread, assuming a minimum 11 point spread for the Central Bank, results in an end-user minimum cost of 20%. (Central Bank cost is 2% plus a spread of 11% equals 13% to the development bank whose 7% spread increases the end-user cost to 20%). In practical terms, many of the export projects covering fresh and processed items can probably pay effective peso rates above 20% p.a. Under these circumstances, provision should be made for rate adjustments during the life of the program, in order to reflect changing levels of inflation/devaluation; legal limitations; and AID's own goal of seeing the system move toward positive real rates.

Tenors: The present proposal of a twelve year tenor for the development banks is adequate. It equals the FIDE maximum for individual subloans, and unlike the FIDE program, the PFIs will be allowed to retain the recuperations for onlending to similar subprojects. Thus, the PFIs have access to long term funds at rates which are competitive. The end result is that the capital base of the PFIs will be strengthened in a manner similar to a direct AID loan.

Note on the Pool System: A number of the banks have had good experience with pool-type financing. The managements explain that benefits include sharing of information and risk, increased overall liquidity for projects, and better credit control. By the same token, pool arrangements can help to ensure good projects and cover large project investments.

c. **Interest Rates**

Currently, effective interest rates, charged to end borrowers range from about 12% to 24%, in the regulated banking system. These rates include the interest itself, plus fee commissions and closing costs. The low end represents loans from FIDE funds to firms located in the Haitian border area. At the upper end are rates charged to borrowers from the PFIs own resources. In the middle, clients are borrowing from FIDE at 17% (FIDE allows a 5% spread to development banks, which when combined with loans at 12%, equals 17%).

In the non-regulated system, rates run from 1 1/2% - 5% per month. However, the majority of these loans are for consumer credits or commercial loans for inventory which have a 60-120 day turnover.

Development banks estimate that their portfolio of loans now provides about a 20% yield. (That is, the average rate is about 20% on older and newer loans when combined with FIDE and non-FIDE funds.) For agricultural loans, they estimate the yield is somewhat lower, i.e. 17%-18%.

We have structured the interest rates in this project to be consistant with agency policy and to be reflective of country conditions, including a variety of factors such as the currently high versus historical low rates of inflation in the DR, the risk of agribusiness projects and their normally low to moderate returns on investment, a business and banking community that inexperienced in non-traditional export projects, the heretofore low cost of FIDE funds, and the competitive disadvantage of development banks -- which are the principal source of term financing. We believe the proposed interest rate structure is both realistic and fair. Thus, we propose a 20 percent end user rate, a 7 percent margin and a cost of funds of 13 percent for the PFIs.

Inflation. A positive real interest rate means that the loan rate has to be higher than the inflation rate. In estimating the inflation rate, we used a long-term permanent inflationary trend rather than sort-term transitory price fluctuations. Historical data on the consumer price index (CPI) indicate that the long-term trend in consumer price movements in the Dominican Republic has been at about 12 percent per year since 1978. The official inflation was 16.76 percent in 1980, and 24.45 percent in 1984, but during the intervening years inflation rates have been less than 10 percent annually. During the first four months of 1985, the CPI has increased by 13.39 percent, of which 10.69 percent occurred during January and February. A close inspection reveals that large price increases in 1984 and first two months of 1985 have been the result of exchange rate adjustments that have been taking place during the time.

In late April 1984, the GODR transferred all imports, except petroleum, to the parallell market from the official exchange market of RD$1.00 = US$1.00, thus making imports more costly. This policy decision immediately reflected on the CPI in May and June, increasing by 4.13 percent 4.70 percent respectively. In September and October of 1984, the CPI jumped again by 4.25 percent and 6.01 percent respectively, due to the petroleum imports transfer to an intermediate exchange rate.

In January 1985, the GODR finally unified all exchange rates to the free market rate. The final adjustment process provoked price increases during January and February of 6.03 percent and 4.66 percent respectively. Excluding January and February 1985, the average price increase for 1985 would be projected at about 15 percent for 1986 at about 10 percent or even less. The main reason for this projection is that the exchange rate adjustment has been completed, and there will be no further large devaluation of Dominican pesos to initiate a revewed inflation. Further, the GODR is committed to an IMF agreement and has met targets by controlling the money supply, thereby further reducing inflation and the rate of devaluation. Therefore, for the purpose of long-term loans in 1985, any rate above 15 percent would be a positive real rate for the Dominican Republic.

Risk/Reward on Agribusiness Loans. On balance, Agribusiness investments in the DR as well as other basin countries have yielded lower returns (ROI of 10-20 percent) than those earned in commerce, light industry and tourism. In the last two-three years the picture may have improved slightly due to opportunities for fresh fruits and vegetables for the export market. These higher yields (ROI of about 30 percent) have attracted a number of foreign investors as well as caught the attention of Dominicans who have never considered export projects. At this time, therefore, the country's businessmen and the banking community are faced with some very attractive opportunities.

The problem, however, is that thise ROIs may not hold up in the future. Two to three years' experience in certain products by just a few firms is simply not sufficient time to comprehend the difficulties in managing and marketing many of the new projects. In the processing areas, moreover, the ROIs may be even more precarious because the capital investments are higher.

Attracting Foreign Investment. The current liquidity squeeze and temporarily high interest rates have hurt smaller borrowers much more severely than larger creditors. This is no surprise. However, it is detrimental to agribusiness investments because the majority of the new, non-traditional projects have been started by small and medium-sized firms. The squeeze, therefore has been placed on the very projects which the country needs to stimulate in order to earn more foreign exchange.

A typical Agribusiness investment contains 35 percent equity and 65 percent debt. Foreign firms establishing a joint venture or a wholly-owned subsidiary are normally prepared to invest U.S. dollars for their equity, but prefer to borrow locally for the debt. This is particularly true now, as most U.S. banks are not prepared to extend dollar loans to clients in countries with low credit ratings such as the DR.

U.S. investors who are starting-up a new project in a new country face many risks and ploitical uncertainties. The majority of these investors in the D.R. are small to medium U.S. businessmen who have not operated overseas and who for the first time are forging partnerships with Dominicans. These businessmen are prepared to pay the local prime rate of 20-22 percent on local funds, but many would prefer to borrow in the U.S. at about 12 percent today because this differential further covers their risk factors. Unfortunately, as stated before, they can't borrow because the U.S. banks won't lend.

Development Banks - Practices and Limitations. We expect about 25 percent of the funds to ge through commercial banks; the remaining 75 percent will go through the development banks. At December 1984 the country's 18 development banks had assests of RD$304 million. This represents only 3.7 percent of the total assets of the regulated financial institutions. These banks were established and legally chartered to provide term loans for agriculture and industry.

Today agricultural and agro-industrial loans represent about 33 percent of the banks' investments; industrial projects represent about 40 percent; the remainder 15 is devoted to tourism and other sectors.

Currently, the banks' derive 49 percent of their funds from advances, discounts and credit allocated by the Central Bank, including FIDE. On these funds, the end user rate probably averages 15 percent at this time; whereas non-FIDE funds, the prime rate is about 20 percent for long-term loans and for marginal borrowers 30 percent is not uncommon for short-term loans. This is because until January 1985, FIDE monies were available to the intermediary banks at a rate averaging about 8 percent (the maximum was 10 percent for loans in Santo Domingo; the minimum was 6 percent for loans near the Haiti boarder). In January 1985 this average rose to about 10 percent (based on a maximum of 12 percent and a minimum of 7 percent). The 5 percent spread allowed on FIDE funds permitted an average end user rate of about 13 percent, with an increase in January to about 15 percent.

Adjustable Rates. Because of the uncertainties related to inflation both in the U.S. and in the D.R., we have agreed that interest rates in this program should be adjusted yearly to reflect upward or downward pressures. This adjustment will be based upon the DR's consumer price index keeping in mind that the end user should pay a positive real interest rate; the financial intermediaries must have sufficient profit incentives to utilize the credit funds; and bank deposit rate should be high enough to reduce the incentives for capital flight and currency speculation and encourage deposits in domestic financial institutions.

Conclusions. On the basis of the above factors, including the policy changes achieved as well as increased cost of FIDE funds to PFIs (3 percent average increase) and end users (5 percent average increase), we believe the proposed level of interest rates is justified.

d. Transaction Costs

A major concern with FIDE procedures has been the high costs of obtaining a loan. These costs are borne, ultimately, by the borrower in the form of higher interest rates, fees or commissions, and excessive collateral requirements. These costs have another effect in that they probably cause banks to avoid high risk projects due to the fact that the 5% spread allowed FIDE funds is insufficient to cover processing costs, normal overhead, profits and higher risks associated with new export projects. These costs are increased by controls over sources and uses of funds, excessive loan review requirements, and disbursement, monitoring, and reporting procedures.

The procedures contemplated in this project should reduce transactions costs. At the same time, the increased spread and assistance provided by JACC/DR and the TA Unit should encourage the banks to finance new projects which they would have considered too risky under previous norms.

e. Feasibility for Enterprises

In the analysis of demand, six project profiles were prepared. The profiles demonstrate the feasibility of agribusiness lending and technical assistance of the type envisioned in this project. More importantly, however, the profiles demonstrate immediate financial requirements, impact on jobs and foreign exchange earnings, joint venture potential, the variety in size, nature and type of business venture in this country, and the ability to borrow at real interest rates.

Exhibit 5 is shown in the following page.

Exhibit 5

AGRIBUSINESS SUB-PROJECT PROFILES

Name of Firm	Product Line	12 Month Financing Need	Projected ROI*	New Employment	Average FX Earnings/Yr.
1. Procesadora de Coco de Higuey	desiccated coconut	US$250,000	46%	165	US$ 1 million
2. Compania Agro-Industrial	tomato paste	US$ 3.5 million	30%	4,000	US$ 2.3 millio
3. Domex	melons and pine-apples	US$ 3.0 million	57%	2,650	US$ 2.25 millio
4. Productos Alimenticios del Caribe	meat products	US$ 250,000	40%	50	US$ 200,000
5. Industria Nacional Agropesquera	shrimp	US$ 4.5 million	45%	200	US$ 6.8 million
6. Flores de Sol	flowers	US$ 300,000	33%	28	US$ 250,000

* The ROI projections are based on feasibility studies or 2-3 years of experience. No long-term (5 - 10 year) history is available.

EXHIBIT 6

AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

MAY 1985

(US$)

Note: See footnotes attached

(Exchange rate where pertinent : One US$ = RDS 3.50)

CODE	ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/ CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ.FULL-TIME JOBS CREATED [5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/ EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
DX 01	PRODUCTOS ALIMENTICIOS DEL CARIBE, C. x A.	VIENNA SAUSAGES F/A; W.C.[9]	250,000	200,000	40%	4/1	630,000	32	30,000	8,333	60,000
C 02	BRUGAL & CO. C. x A.	PESTICIDES BLENDER W.C.; F/A	520,000	no plans yet	37%	1.2/1	380,000	8	20,000	65,000	(140,000)
AX 03	DOMINICANA DE PRODUCTOS ALIMENTICIOS	FRUIT-PULPER/I.Q.F. F/A; W.C.	140,000	390,000	66%	5/1	490,000	60	60,000	2,333	500,000
E 04	INGREDIENTES DEL CARIBE, S.A.	SEASONINGS F/A	150,000	no plans yet	50%	2.5/1	830,000	15	20,000	2,727	150,000
CX 05	FERSAN	FERT.BLENDER W.C.	8,500,000	no plans yet	25%	1.3/1	2,000,000	25	30,000	N/A[10]	(6,500,000)
H 06	CORTES HERMANOS, C. x A.	CHOCOLATE/ W.C.	300,000	no plans yet	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BX 07	PROASA	DES. COCONUT F/A; W.C.	35,000	28,000	85%	4/1	85,000	20	20,000	1,750	250,000
EX 08	PROMOCIONES INDUSTRIALES C. x A.	ANNATTO-ES. OIL W.C.	115,000	no plans yet	40%	2/1	105,000	20	30,000	5,750	180,000

AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

MAY 1985

: See footnotes attached

(US$)

(Exchange rate where pertinent : One US$ = RD$ 3.50)

ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/ CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ. FULLTIME JOBS CREATED [5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/ EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
BARCELO INDUSTRIAL CxA	PIGEON PEAS W.C.	230,000	LAAD is aware of a bigger investment in a 'Dehydrated vegetable-project', however we are unable to contact the people in charge as yet.							
COMERCIAL GANADERA, S.A.	SLAUGHTER/ F/A; W.C.	285,000	1,000,000	42%	4.6/1	376,000	40	30,000	7,125	376,000
BANCO AGRICOLA	AGRO-BUSINESS FINANCING PROGRAM	no plans yet	1,430,000	- no specific plans as yet -						
SOUTHLAND DOMINICANA	VEG. FREEZE W.C.; F/A[9]	2,650,000	560,000	30%	5/1	4,000,000	650	275,000	4,077	6,000,000
FRUDOCA	PINEAPPLE W.C.	1,700,000	2,500,000	35%	4/1	4,000,000	1,000	700,000	4,000	5,000,000
EXPORTADORA ROMANA, C.x A.	PRODUCE-EXPORT/REEFER-VESSEL F/A; W.C.	40,000	no plans yet	45%	9/1	120,000	10	12,000	4,000	30,000
PRODUCTOS DEL TROPICO, C.x A	COCONUT-PRODUCTS	Respondents indicated that they have no present financial requirements.								
PLANTACIONES TROPICALES, S.A.	DRIED FRUIT F/A; W.C.	115,000	1,000,000	30%	5/1	500,000	30	30,000	3,833	500,000

AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

MAY 1985

(US$)

Note: See footnotes attached

(Exchange rate where pertinent : One US$ = RDS 3.5[illegible]

CODE	ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	FINANCIAL REQUIREMENTS NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/ CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ.FULL-TIME JOBS CREATED [5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/ EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
AX 17	C.A.E.I. (COMPAÑIA ANON. DE EXPLOTACIONES INDUSTRIALES	GROW FRESH FRUITS/VEG.	Sponsors indicated interest only in assistance to obtain a U.S. joint-venture partner. They explained that they have the land and their own share of start-up capital ready. Mainly interested in a 50%/50% growing/marketing joint-venture.								
ABX 18	IND. EMPACADORA DOMINICANA, C. x A.	CANNER	Respondents indicated that they have no present financial requirements. LAAD understands that Ind. Empacadora Dominicana, C.x A. is investing in Arbaje Agro-industrial (Cotton-project).								
ABX 19	PRODUCTORA QUISQUEYANA	CANNER	Respondent indicated that because the company is 100% foreign owned, they do not believe they could be eligible for financing in the D.R. and therefore had no cause to provide information.								
AX 20	PRODUCTOS COMERCIALES DE EXPORTACION	FRUIT-PULPER F/A; W.C.[9]	265,000	no plans yet	49%	1.6/1	350,000	125	145,000	2,120	250,000
CX 21	FERTILIZANTES QUIMICOS DO-	FERT. BLENDER W.C.	8,000,000	no plans yet	25%	1.3/1	1,900,000	20	25,000	N/A[10]	(6,100,000)
FX 22	IND.NAC.AGRO-PESQUERA,S.A. (INASA)	AQUACULTURE F/A	4,500,000	2,000,000	45%	1.5/1	8,400,000 (3rd year)	200	200,000	39,650	8,400,000
AX 23	PROCESADORA MEJIA, C.x A.	NECTARS W.C.; F/A	215,000	no plans yet	45%	5/1	250,000	20	25,000	10,750	530,000
BX 24	ALIMENTOS TROPICALES C.x A	DES.COCONUT F/A	1,000,000	no plans yet	65%	4/1	1,000,000	40	45,000	25,000	3,150,000

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AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

MAY 1985

(US$)

te: See footnotes attached

(Exchange rate where pertinent : One US$ = RD$ 3.50)

ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/ CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ. FULL-TIME JOBS CREATED [5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/ EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
PROCESADORA DE COCO HIGUEY	DES. COCONUT[9] F/A.	250,000	no plans yet	46%	4.8/1	360,000	165	160,000	1,515	1,150,000
EL TORITO DOMINICANO C.x A	SLAUGHTER W.C.	230,000	no plans yet	43%	4.7/1	152,000	35	24,000	10,900	850,000
CARNES DOMINICANAS, S.A.	HIDE-FACTORY F/A	860,000	Respondents indicated that the said project is still under development.							
COFERKA	PESTICIDES BLENDER W.C.; F/A	1,975,000	2,500,000	37%	1.6/1	2,100,000	25	38,000	79,000	(1,400,000)
JUAN & ANTONIO FERRUA, B., C. x A.	CHEESE W.C.; F/A	86,000	no plans yet	40%	1.3/1	90,000	8	10,000	10,750	N/A
ILGUIFLOD, S.A.	COCONUT-OIL F/A; W.C.	86,000	571,000	40%	1.3/1	100,000	5	7,000	17,200	71,000
CARNES Y EMB. LA FRANCESA	SLAUGHTER F/A; W.C.	160,000	no plans yet	32%	2.7	100,000	50	31,000	3,200	N/A
CODAL, S.A.	MILK-POWDER F/A	860,000	3,000,000	32%	N/A	N/A	11	30,000	78,200	N/A
LECHE FRESCA, C. x A.	CHEESE W.C.; F/A	571,000	no plans yet - Respondents indicated that projection are not completed.							

AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

MAY 1985

(US$)

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CODE	ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/ CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ. FULL-TIME JOBS CREATED [5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/ EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
D 34	PROCESADORA DE CARNES CHECO, C.x A.	SAUSAGES F/A	165,000	no plans yet	29.2%	4/1	115,000	29	41,500	5,690	600,000
D 35	MATADERO INDUSTRIAL CHECO, C.x A.	SLAUGHTER F/A	160,000	no plans yet	35%	4/1	120,000	20	28,600	8,000	2,750,000
AX 37	DOMEX, S.A.	GROW MELON/ PINEAPPLE F/A	3,000,000	10,000,000	57%	0.5/1	2,460,000	2,850	850,000	1,053	2,460,000
BX 37	AGROEXPORT, C.x A.	DES. COCONUT F/A	100,000	no plans yet	34%	4.8/1	146,000	100	90,000	1,000	480,000
E 38	LEVAPAN DOMINICANA, C.x A.	VEG. PROTEINES/YEAST-EXTRACT F/A	285,000	under study	17%	0.9/1	166,000	4	6,500	71,250	245,000
NX 39	AGROCARIBE, S.A.	GROW ROOT-CROP F/A;W.C.	229,000	no plans yet	18%	0.9/1	111,400	42	51,000	5,452	200,000
AX 40	EXPORTADORA DE PRODUCTOS COMERCIALES, S.A.	GROW FRESH PINEAPPLE W.C.	285,000	no plans yet	35%	2.5/1	221,000	50	75,000	5,700	575,000
DX 41	EMBUTIDOS SAN MARTIN	SAUSAGES	Respondents indicated that they have no present financial requirements.								

AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

MAY 1985

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DE	ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/ CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ. FULL-TIME JOBS CREATED [5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/ EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
	LABORATORIOS GLICA, C.x A.	FOOD-ADDITIVES W.C.[9]	43,000	under study	29%	1.9/1	155,000	18	27,500	2,389	N/A [10]
	PROD. NAC. DE ALGODON, C.x A.	COTTON	Respondents indicated that they have no present financial requirements.								
	CERVECERIA BOHEMIA, C.x A.	BARLEY F/A	300,000	2,850,000	Respondents indicated that project is still in a pilot-stage and that no further information could be provided at this time.						
	E. LEON JIMENEZ, C. x A.	TOBACCO W.C.	1,715,000	no plans yet	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	INDUSTRIAS VI[illegible]ANA, C.x A.	FRUIT-PULPER F/A; W.C.	120,000	no plans yet	69%	5.7/1	165,000	40	43,000	3,000	375,000
	HIGOS Y FRESAS VICANA II, C. x A.	GROW FIGS, STRAWBERRIES F/A; W.C.	143,000	no plans yet	35%	3.5/1	154,000	80	80,000	1,787	143,000
	PROCESADORA AGROINDUSTRIAL	DES. COCONUT W.C.; F/A	25,000	75,000	51%	7.2/1	26,000	10	10,000	2,500	180,000
	GARCIA & CAMARA, C. x A.	FRUIT-PULPER/GROW FRUITS F/A; W.C.	430,000	no plans yet	56%	1.6/1	435,000	81	125,000	5,310	600,000

AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

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K 50	NICOLAS A. VARGAS, C. x A.	FEEDSTUFFS W.C.	100,000	no plans yet	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MX 51	ROSAS DEL CARIBE, C.x A.	FLORICULTURE F/A[9]	200,000	Unable to contact principals in the U.S. for further details.							
H 52	MUNNE & CO. C. x A.	COCOA	Respondents indicated that they have no present financial requirements.								
K 53	CEREALES EN GENERAL, C.x A.	GROW OATS F/A	570,000	under study	Respondents indicated that project is still in a pilot-stage and that no further specific information could be provided.						
D 54	SUPLIDORA DE CARNES, S.A.	SLAUGHTER W.C.	115,000	no plans yet	24%	4/1	53,000	30	125,000	3,833	N/A
MX 55	FLORES DEL SOL S.A.	FLORICULTURE F/A	300,000	no plans yet	33%	0.8/1	231,000	28	25,000	10,714	250,000
NX 56	PROD. TIPICOS DOMINICANOS	CASSAVA-FLOUR/STARCH F/A; W.C.	Respondent indicated that the said project is still under development.								
AX 57	HACIENDA SAN MIGUEL	GROW FRESH PINEAPPLE W.C.	80,000	no plans yet	25%	1.25/1	153,000	11	16,000	7,272	90,000
Q 58	INDOGRASCO	OILS/FATS W.C.	57,000	no plans yet	25%	3.3/1	85,000	15	15,000	3,800	(9,000)

AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

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CITRICOS RICA C. x A.	GROW CITRUS F/A; W.C.[9]	1,000,000	no plans yet	34%**	2/1	639,000	96	76,000	10,417	3,000,000
PROCESADORA CITRICOS, S.A.	FRUIT-SECCIONING F/A W.C.	480,000	285,000	40%	2.5/1	452,000	46	95,000	10,434	900,000
HISPANIOLA PRODUCE, C.x A.	GROW FRESH FRUITS F/A W.C.	Respondent indicated that they are currently preparing a feasibility-study; together with Dole; and that no definite figures were available as yet.								
CARITRADE	EXPORT-FINANCE W.C.	214,000	No plans yet	N/A	N/A	N/A	N/A	N/A	N/A	N/A
IMPLEMENTOS Y MAQUINARIA C. x A.	AGRICULTURAL MACHINERY	Respondents indicated that they have no present financial requirements, however they suggest creating a special fund for small farmers, so that they can make loans for agricultural machinery etc. without having to present a specific project.								
PRODUCTOS DEL VALLE, C. x A.	FRUIT-PULPER W.C. F/A	143,000	430,000	70%	5.8/1	175,000	25	25,000	5,750	830,000
APICULTURA INDUSTRIAL, C. x A.	BEE-HONEY/ WAX W.C.	23,000	no plans yet	156%	10.4/1	55,000	5	5,000	4,600	36,000
PESCADORES DEL CARIBE, S.A.	INTEGRATED FISH INDUSTRY F/A;W.C.	285,000	no plans yet	52%*	5/1	471,000	200	225,000	1,425	1,500,000

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TX 67	IND. BANILEJAS C. x A.	COFFEE CROP FINANCE W.C.[9]	8,500,000	no plans yet	N/A[10]	N/A	N/A	N/A	N/A	N/A	N/A
O 68	GRANJA MORA, C. x A.	POULTRY W.C.	1,400,000	3,400,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
AX 69	HELADOS BON, C. x A.	FRUIT-PULPER F/A; W.C.	115,000	286,000	37%	2.5/1	439,500	185	370,000	621	145,000
AX 70	LANSEA PRODUCTS C. x A.	GROW FRESH FRUITS/VEG.	Respondents indicated interest only in assistance to obtain a U.S. joint venture partner. They explained that the land they own is suitable for cucumbers, squash, bell-peppers etc. and that they are looking for a joint venture on a marketing/finance basis. Cold-storage facilities and fruit-processing equipment available.								
FX 72	IND. PESQUERA MARIEN, C.x A.	AQUACULTURE F/A	230,000	no plans yet	57%	2.2/1	314,000	300	143,000	762	504,000
RX 73	PROD. APICOLAS C. x A.	PROPOLIS/ ROYAL JELLY F/A; W.C.	72,000	no plans yet	59%	4/1	228,750	90	180,000	3,342	285,000
AX 74	COMPAÑIA AGRO-INDUSTRIAL, S.A.	PEELED TOMATOES F/A; W.C.	3,500,000	no plans yet	35%	2.3/1	3,200,000	4,060	2,470,000	862	3,200,000
Q 75	SANCHEZ AGRO-INDUSTRIAL	COCONUT-OIL F/A	720,000	under study	Respondents indicated that they were up-dating feasibility-study.						

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MAY 1985

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E	ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/ CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ.FULL-TIME JOBS CREATED[5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/ EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
: 5	FLORES PURAMA, C.x A.	FLORICULTURE F/A.[9]	86,000	No plans yet	N/A[10]	N/A	N/A	N/A	N/A	N/A	N/A
X 7	MATADEROS DEL ESTE	SLAUGHTER F/A; W.C.	143,000	No plans yet	47%	5/1	138,300	30	39,000	4,771	3,000,000
X 3	INVERSUR,S.A.	GROW FRESH FRUITS/VEG.	1,000,000	1,360,000	Respondents indicated that they were up-dating the feasibility-study and that no definite figures were available.						
9	AGROINDUSTRIA DEL NOROESTE	FEEDSTUFFS F/A	100,000	No plans yet	55%	6.8/1	106,000	8	8,000	12,500	N/A
X 0	FURLANI C.x A	CANNER F/A	230,000	No plans yet	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1	FLORES DE VALLE NUEVO	FLORICULTU-	Respondents indicated that they have no present financial requirements.								
X 2	CONSORCIO AGROINDUSTRIAL DELTA, S.A.	GROW/PROCESS CITRUS F/A	2,000,000	5,250,000	33%	1.5/1	2,500,000	600	452,000	3,334	3,000,000
	INASCA AGROINDUSTRIAL	GROW/PROCESS AFR.PALM OIL	2,600,000	No plans yet	46%	3/1	1,558,000	300	315,000	8,667	2,500,000
4	FLORES ANTILLANOS, S.A.	FLORICULTURE F/A	114,000	No plans yet	63%	2.5/1	187,000	80	80,000	1,425	240,000

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AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

MAY 1985

Note: See footnotes attached (US$) (Exchange rate where pertinent : One US$ = RD$ 3.50)

CODE	ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ.FULL-TIME JOBS CREATED [5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
CX 85	FAJAR/MEYER	ORGANIC FERTILIZER W.C.[9]	65,000	No plans yet	N/A[10]	N/A	N/A	N/A	N/A	N/A	N/A
J 86	IND. DE FIBRAS DOMINICANAS, C. x A.	GROW COTTON F/A; W.C.	575,000	2,860,000	Respondents indicated that they were preparing a feasibility-study and that no definit figures were available.						
MX 87	NIC TRADING	FLORICULTURE F/A	143,000	No plans yet	50%	3.6/1	178,000	123	70,000	2,615	470,000
U 88	FUERZA AGRICOLA, C. x A.	AGRICULTURAL MACHINERY W.C.	1,000,000	No plans yet	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MX 89	JARDINES DEL EDEN, C. x A.	FLORICULTURA F/A; W.C	285,000	No plans yet	81%	2.5/1	312,000	24	60,000	24,898	630,000
VX 90	FEDOCA	ALCOHOL F/A	3,000,000	No plans yet	N/A	N/A	N/A	N/A	N/A	N/A	N/A
AX 91	GARCIA, REYES & ASOCIADOS	GROW/PROCESS ALOE W.C.; F/A	1,029,000	No plans yet	35%	1.4/1	1,607,900	81	81,000	12,704	1,211,350
AX 92	CONSORCIO AGROINDUSTRIAL	GROW MELONS F/A	500,000	1,550,000	55%	0.5/1	2,816,000	69	69,000	7,246	2,938,000
AX 93	MULTIFRUTAS, S.A.	GROW/PROCESS FRUITS F/A	560,000	No plans yet	27%	1/1	233,000	35	45,000	16,000	553,000

AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

MAY 1985

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ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/ CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ. FULL-TIME JOBS CREATED[5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/ EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
QUINIGUA, S.A.	AQUACULTURE F/A	350,000	No plans yet	46%	2/1	376,000	70	65,000	5,000	740,000
CARIMPEX, S.A.	AQUACULTURE F/A	115,000	No plans yet	56%	1.6/1	175,000	70	65,000	1,643	340,000
SUCS. DE FAM. MERA	FLORI/AQUA-CULTURE	Respondents indicated that they own land in Constanza and Vallenuevo and that they are interested in joint ventures in floriculture and aquaculture.								
EXPORTADORA JAPONESA	GROW FRESH FRUITS/VEG. F/A; W.C.	500,000	2,000,000	45%	3/1	1,350,000	100	100,000	5,000	1,470,000
PROMOCIONES AGRICOLAS FRONTERIZAS	GROW SORGHUM F/A	22,000	No plans yet	50%	2.2/1	56,000	25	18,500	880	49,300
FAB. DE EMB. INDUVECA	SLAUGHTER F/A	515,000	No plans yet	34%	1.2/1	208,000	59	53,000	8,730	148,000
PROD. DEL YAQUE, C. x A.	GROW COTTON	1,430,000	under study	Dominican investors still negotiating with U.S. partners.						
INDUVECA AGROINDUSTRIAL	FEEDSTUFFS F/A; W.C.	415,000	No plans yet	49%	3.7/1	1,458,000	300	300,000	1,384	N/A
CONSORCIO DE EXPORTACION CAPETO GOMEZ	GROW CHINESE VEG. F/A	200,000	No plans yet	39%	3.2/1	587,000	200	200,000	1,000	613,000

AGRIBUSINESS PROJECT FINANCE DEMAND/IMPACT SURVEY

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(US$)

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CODE	ENTITY	PROJECT'S 12 MONTHS NEED FOR:	FINANCIAL REQUIREMENTS NEXT 12 MOS.	NEXT 3 YRS.	1ST YEAR PROJECT R.O.I.[2]	OUTPUT/ CAPITAL RATIO[3]	PROJECT'S NAT'L ANN. INCREMENTAL VALUE ADDED[4]	FULLTIME JOBS & EQ. FULL-TIME JOBS CREATED[5]	ANN. INCREMENTAL INCOME TO WORKERS.[6]	CAPITAL/ EMPLOYMENT RATIO[7]	PROJECT NET FX IMPACT 1ST COMMERCIAL YEAR[8]
AX 103	PROVESA	GROW/PROCESS HOT PEPPERS F/A	50,000	No plans yet	67%	3.2/1	200,000	300	210,000	400	450,000
AX 104	CONSTANZA AGROIND., S.A.	PROCESS GARLIC F/A;W.C.	115,000	Under study	13%	1.5/1	50,400	20	28,000	5,750	150,000
D 105	CIA. IND. GANADERA SOSUA	MOVE FACTORY F/A	330,000	No plans yet	26%	N/A	N/A	N/A	N/A	N/A	N/A
AX 106	AGROIND. LA SABANA, S.A.	GROW MANGO F/A; W.C.	85,700	1,000,000	66%	3.3/1	271,290	100	100,000	860	240,000
AX 107	S. MICHELENA TRADING CO.	GROW/PROCESS PINEAPPLE	Respondent indicated that the land they own is suitable for pineapple and that they are looking for a U.S. partner on a finance/marketing basis.								
JX 108	ARBAJE AGRO-INDUSTRIAL	GROW/PROCESS COTTON F/A	2,800,000	No plans yet	13%	1.3/1	1,277,140	274	319,000	10,219	3,500,000
	TOTAL/AVGS.		79,549,700	47,025,000	44%	3.01/1	54,733,680	13,897	9,872,600	5,718	69,028,650

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FOOTNOTES

1) CODE : This denotes a project grouping as follows:

A FRUIT & VEGETABLE: Fresh & processed

B COCONUT PRODUCTS

C FARMING INPUTS

D BEEF RELATED

E FOOD ADDITIVES

F SEAFOOD RELATED

G PUBLIC FINANCIAL INTERMEDIARY

H CHOCOLATE RELATED

I DAIRY PRODUCTS

J FIBRE RELATED

K CEREALS/GRAINS RELATED

L TOBACCO RELATED

M FLORICULTURE

N ROOT CROP RELATED

O POULTRY

P APICULTURE

Q FATS/OILS RELATED

R CITRUS RELATED

S EXPORT TRADING HOUSES

T COFFEE RELATED

U AGRICULTURAL MACHINERY/ EQUIPMENT

V SUGAR CANE RELATED

X denotes at least 20% of output is for export.

2) Reflects the specific project's profitability computed by dividing forecast net after-tax profit by the related project investment and expressing the results as a percentage.

3) Reflects the output of a specific project, measured in terms of dollars of forecast sales for each dollar of project investment. (Also value added/project investment = 54,733,680/79,549,700 = .69).

4) Measures specific project forecast annual value added, defined as wages + profit + depreciation + taxes. Crop purchase values are not included unless the project entails crop-growing activity <u>per se</u>, except in certain cases such as Southland Dominicana, where the company does very little growing for own account, but where little or no commercial cropping of okra would be done were it not for the company's demand.

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5) These numbers represent only the jobs created by the new project, not any existing jobs. Equivalent, full-time jobs reflect translation of indirect employment arising from part-time field-labour and product input or handling requirements attributable to a project. In many instances, such figures have not been satisfactorily computed and can not yet be recorded, thereby understating employment is impact.

6) Represents only the income attributable to recorded worker numbers and therefore subject to understatements as in footnote 5 above.

7) Represents the number of project investment ollars needed to create one job, computed by dividing the project investment amount required for the next 12 months by the number of new jobs created. (This measure is skewed to upper ranges because of the understatements mentioned in footnote 5).

8) This measures a project's net foreign exchange impact by substracting project outflows from inflows. Direct import substitution is counted as an FX inflow.

In the case of farming inputs projects,no FX benefit has been computed as yet to reflect the indirect inflows caused by exports such as melons, or the inflow equivalents arising from import-substitute cropping such as rice, which will result from the inputs project.

9) W.C. = Working-capital
F/A = Fixed assets

10) N/A = Signifies a) that respondents would not or could provide satisfactory data to permit computation; or b) that information was to be provided at a later date; or c) that computation is not meaningful.

* All calculations are made basis the 2nd commercial year.

** All calculations are made basis the 3rd commercial year.

2. Economic Analysis

a. Introduction

The purpose of this analysis is to estimate the macro-economic impact of the proposed project on the Dominican economy, particularly on national income, employment and foreign exchange earnings. Benefits will be realized as a result of investment by private firms in a number of promising agribusiness sub-projects. These sub-projects have been examined from the point of view of financial benefit to individual investors, as well as their contribution to the national economy in the from of additional value added, foreign exchange generation and employment. The basic premise of this project is that promotion of investment by private firms in new and expanded agribusiness ventures will have an extremely beneficial pay-off to investors and the economy as a whole. The economic analysis strongly supports that premise.

b. Macro-economic Context

The Dominican Republic currently is experiencing severe economic problems. Balance of payments deficits reached $353 million in 1983 and $155 million in 1984. The country's external debt is $3 billion, and public sector deficits amount to 6.4 percent of GDP. The peso free market exchange rate increased from an average RD$1.2 to US$1.0 during the 1970's, to over RD$3.0 to US$1.0 during 1984-1985. Real GDP growth has declined to 2 percent, inflation has increased to 35 percent, and unemployemnt is estimated at between 25 to 30 percent.

In an effort to deal with this economic situation the GODR reached a one-year stand-by agreement with the IMF in April, 1985. The IMF agreement requires a series of adjustments with regard to controlling the rate of monetary expansion, reducing public sector deficits, and improving the balance of payments situation through free market-oriented trade policies. (For details concerning the IMF agreement, see the 1985 Mission Action Plan). In May 1985 the GODR concluded an agreement with the Paris Club for a long-term rescheduling of public debt and at the present time the GODR and the commercial banks have nearly completed negotiations on debt rescheduling.

c. Economic Rationale

A major impetus for the agribusiness project is the immense problem of the nation's balance of payments. Although the GODR has taken significant steps to reduce balance of payments deficits, current projections for 1986 and 1987 show a shortfall of US$40 million and US$70 million respectively, even after debt rescheduling.

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The negative trade balance is an important factor contributing to the overall BOP deficits. Export earnings depend heavily on traditional agricultural commodities (sugar, coffee, cocoa and tobacco) and minerals, all of which have poor prospects for earnings growth in the near future. Confronted with this situation, the Dominican Republic is being forced to develop alternative sources of foreign exchange earnings by diversifying the productive base of the economy.

A primary justification for investing in the agribusiness/agro-industrial subsector relates to the nation's large agricultural endowment. There are about 3.2 million acres in cultivation, and about 60 percent of the nation's labor force is employed in agriculture. In addition there is considerable potential for improving the productivity of these factors, as well as the potential for supplying a large export market and an ample internal market for certain products.

d. Approach

The proposed agribusiness project will involve the financing of agribusiness/agro-industrial ventures that meet certain financial criteria and macro-economic objectives. The sources of capital are: AID loan funds (US$17.3 million), GODR loan funds (RD$90 million) and investors' equity contributions (RD$76 million, of which 50% is new equity). This amounts to a total incremental investment of US$60 million at an exchange rate of RD$3.0 to US$1.0, while at RD$3.5 to US$1.0 the total incremental investment is US$53.9 million. The entire loan portion of this investment capital will be channelled through development banks to their private sector clients.

e. Method of Analysis

Assessing the economic impact of the project involved the following steps:

- Preparing a profile of the prospective investment sub-projects showing the expected financial results with regard to certain indicators.

- Estimating the return from the investment in terms of their contribution to national income, employment, and foreign exchange generation.

- Evaluating the economic benefit of the entire project investment of US$60 million.

Two important assumptions were made for this analysis. They are:

- The forty-two investment sub-projects selected from those profiled in the credit demand survey represent an average composite profile of the 80-90 ventures expected to be financed by the agribusiness project,

- the economic impact of investing US$60 million can be measured in terms of the summation of all sub-project benefits accruing to wage earners, earned as profit rents or interest, and paid in taxes; less project costs.

f. **Sub-Project Profile**

The typical sub-project profile is represented by 42 prospective agribusiness ventures that were selected from the 108 profiled in the credit demand survey. Financial indicators will be used as the basis for estimating the overall benefits to the Dominican economy from a US$60 million agribusiness investment program. The selected investment ventures represent the types of sub-projects that would be financed under this project. They also show an impact on employment, income and foreign exchange earnings that reflect the experience of similar ventures now underway, and meet the overall project purposes. The ventures include, to cite a few examples, production and processing of coconut and tomatoes, processing of meat, and production/export of fruits, vegetables and flowers. Investment in these ventures is estimated to yield the following results:

	RD$3.5 to US$1.0	RD$3.0 to US$1.0
Total investment a/	US$570,286.	US$617,810
Incremental employment	183	183
Annual wage income paid	$120,142.	$140,164
Capital/employee	$3,106.	$3,367
National value added	$720,238.	$740,260
Foreign exchange earned	$1,083,738.	$1,083,738
Financial rate of return	44%	44%

g. **Financial Results**

The credit demand survey examined investment proposals for 108 agribusiness ventures. Although complete feasibility analyses were not prepared for these sub-projects, they were reviewed from a banking standpoint and judged to be generally reasonable in their financial projections. The average financial return on investment was 44 percent. This relatively high rate of financial return, even if revised downward in a final analysis, implies very favorable prospects for more ventures than can be financed by this project.

h. **Economic Results**

The overall economic impact of this project was calculated by estimating the incremental income for the Dominican economy from wages, rents, profits, interest payments and taxes to be paid by the investors who receive project financing. If the rate of investment in new ventures (and project disbursement) occurs as postulated, then after a short lag, income, employment and foreign exchange benefits will be generated for the duration of the

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a/ Assuming half of the total investment is in pesos.

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investment. Estimates of income flows are presented in Table 3. The stream of gross benefits represented by the annual value added is produced by the aggregate sub-project investments. This stream is broken down into wages and return to capital and land. Wages are adjusted for a shadow wage, assumed to be 67% of nominal wages. The returns to capital and land are represented by aggregate value added minus the wage component. These returns are adjusted downward by 12.5 percent to account for transportation costs (F.O.B. prices in D.R. ports), and by an additional 12.5 percent to account for anticipated losses due to weather, i.e. crop failures.

At the current cost of capital, investing US$60 million in the agribusiness project yields a net present value of US$13.5 million and US$76 million depending on the assumptions regarding the return of investment, depreciation rates, taxes, etc. The internal rate of return for this project is between 27 percent and 64 percent. This compares very favorably with rates of return that could be expected from alternative investments.

(1) **Sensitivity Analysis**

The foregoing results were obtained from a sensitivity analysis in which the average expected rates of payoff in terms of wages and return to capital and land were reduced by 20 percent and 40 percent over the 10 year project life. The results are summmarized below.

	For $1.00 Invested			For $60 Million Invested			IRR
	Value Added	Capital and Land	Wages	Value Added	Capital and Land	Wages	
				......US$ Millions.......			
Scenario							
Expected pay-off	$1.20	$.97	$.23	72	58	14	64%
Reduced 20%	$ .96	$.78	$.18	57	46	11	50%
Reduced 40%	$ .72	$.58	$.14	43	35	8	27%

These financial returns are converted to economic terms by adjusting for the shadow wage, F.O.B. prices and risk as explained previously, and discounting the annual net project benefits until a net present value of zero is obtained.

The foregoing results were obtained using an exchange rate of RD$3.0 = US$1.0. If the exchange rate is RD$3.5 to US$1.0, then the expected pay-off in terms of annual value added, would be US$68 million (instead of US$72 million), and the IRR would be about 69 percent. This apparent anomaly (IRR of 69 percent versus 64 percent) is explained by the fact that at RD$3.5 to US$1 exchange rate, the value of the total project investment is reduced considerably (to US$53.9) while the flow of income is only slightly reduced in later years. Therefore, the IRR is higher even through the annual earnings in terms of value added are somewhat less.

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TABLE
Economic Analysis
Agribusiness Promotion: Aggregate Project Benefits, Costs and Net Present Value of Project Investment

For Every $1.0 Invested	
FX Earned	1.75
Wage Earned	0.23
Value Added	1.20

Economic Adjustments		Discount Rate	NPV
Depreciation	0.2	15	89.9
Shadow Wage	0.67	17.5	76.1
Other	0.75	20	64.5

YEAR	INVEST.	FINANCIAL EARNINGS FX a/	Wages b/	VAL.Ad. c/	PROJECT COST Invest	Deprec d/	Admin e/	TOTAL	ECONOMIC BENEFITS Wages f/	Other g/	TOTAL	NET BENEFITS
		MILLION U.S. DOLLARS										
1	15	0	0	0	15	0	0.9	15.9	0	0	0	-15.9
2	23	26.3	3.4	18	23	3.0	0.8	26.8	2.3	10.9	13.2	-13.6
3	22	66.5	8.6	45	22	7.6	0.8	30.4	5.8	27.7	33.5	3.1
4	-	105	13.6	72	-	12	0	12	9.1	43.8	52.9	40.9
5	-	105	13.6	72	-	12	0	12	9.1	43.8	52.9	40.9
6	-	105	13.6	72	-	12	0	12	9.1	43.8	52.9	40.9
7	-	105	13.6	72	-	12	0	12	9.1	43.8	52.9	40.9
8	-	105	13.6	72	-	12	0	12	9.1	43.8	52.9	40.9
9	-	105	13.6	72	-	12	0	12	9.1	43.8	52.9	40.9
10	-	105	13.6	72	-	12	0	12	9.1	43.8	52.9	40.9

a/ For the average agribusiness sub-project, each dollar invested yields $1.75 in annual net foreign exchange earnings at full operation of the venture, lagged one year from year of investment; this is not included as a project benefit.
b/ Each dollar invested yields $.227 in annual incremental wage income, lagged one year.
c/ Each dollar invested yields $1.20 in domestic value added, lagged one year.
d/ For purchase of replacement equipment, initial investment is depreciated over 5 years (20% replacement per year).
e/ Includes cost of project start up (technical assistance) and subsidies to project management office.
f/ Total annual nominal wages paid by the venture, adjusted for shadow wage at 67% of nominal wages.
g/ Domestic value added (less nominal wages) adjusted downward to account for natural weather losses (-12.5%) and F.O.B. prices (-12.%) because the agribusiness profiles generally ignored these factors.

Finally, if the peso to dollar exchange rate is 2.5 to 1.0, the expected internal rate of return is still 59 percent, which indicates that this project will generate a solid economic returns over a wide rage of potentially adverse circumstances.

(2) External Benefits

Other tangible but not easily measured benefits of the project include employment, national value added and foreign exchange. By giving priority to projects having a low capital investment per employee ratio (i.e., one permanent job for every US$3,367), the project will stimulate the creation of employment for an additional 17,820 persons; it will annually produce national value added of US$72 million, and generate approximately US$105 million annually in foreign exchange once the agribusiness ventures are fully operating. Hence the economic effect of the project will spread to workers' families, entrepreneurs and foreign currency markets. The multiplier effect from increased employment could be valued at 50 percent of aggregate wages paid by the agribusiness ventures, or US$5 million annually. Also, the foreign exchange earnings, which are projected to reach almost 15% of current aggregate exchange earnings, will have the beneficial effect of stabilizing the peso free market exchange rate. Although they could significantly improve the overall economic environment, and justify undertaking this project, no effort was made to estimate the value of these benefits to the economy.

Although the external benefits are largely unmeasurable, they nonetheless are significant for the wellbeing of the nation as a whole, and for the families that will benefit from the multiplier effect of expanding employment and increased income. On the basis of measurable benefits alone, the payoff from the project is very favorable, and even without considering other tangible benefits, there is ample economic justification for undertaking this agribusiness project.

3. Social Soundness Analysis

a. Socio-economic Context

(1) Labor and Wages

The Dominican Republic's present population is estimated at six million, of which the total available labor comprises 36%. Although the country's annual population growth rate is 2.8%, the labor pool annually grows by 3.3%. This rate of growth means that an additional 72,000 people enter the labor market each year, and because of the high proportion of the population below the age of 19 (52%), this rate of growth will continue into the future.

The majority of the labor force (62%) finds employment in the agricultural sector. Although precise unemployment rates for rural areas are unavailable, under-employment is estimated to be as high as 65%.

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In the agro-industrial/manufactoring sector workers earn an average RD$ 226 per month. A rural, agricultural laborer receives an estimated RD$ 150 to RD$ 200 per month. Countrywide, average main monthly incomes for males and females are RD$ 234 and $RD 150 respectively.

(2) **Farm Size and Productivity**

Farm size varies greatly. The majority of the farmers (82%) have holdings less than 1 hectare in size, and farm less than 12% of the 26,600 km2 of land in agricultural production. At the other end of the scale less than 1% of the farmers control 45% of the country's agricultural land.

b. **Socio-economic and Cultural Feasibility**

Based on our investigation, we believe that in most respects, this project is socio-economically and culturally feasible. There are a number of social factors and impacts that must be tracked as the project evolves. Agribusiness entrepreneurs who will participate in this project will have the benefit of the experience of numerous private ventures that have employed the outgrower system of production. The model is a traditional and socially accepted method of production that has been employed by peanut oil processors for decades, and more recently by other agribusinesses that are processing and/or packing pineapples, okra, cantaloupes, tomatoes, peppers, and cucumbers. In these cases, the product buyers contract with outgrowers for a specified product, and generally offer technical assistance and the inputs necessary to meet the quality and yield requirements.

The operational model for the project is that of an agribusiness processor/exporter contracting with farmers for raw material production. The processor/exporter provides technical supervision, inputs and credit, and guarantees to buy a substantial percentage, if not all, of the outgrower's production. This model stimulates the production of non-traditional, exportable agricultural products by outgrowers and requires that the companies guarantee markets, provide credits and technical assistance.

However, some social constraints limit the viability of this model. These include slow acceptance of new crops and technologies by small farmers, lack of farmer understanding of the export market's requirements, and low productivity levels of many small farmers.

Small farmers tend to be slow to assume risk, given their narrow margins for error. Consequently a number have expressed reluctance to growing unfamiliar crops for agribusinesses. Many times they will wait to see if their neighbors participate, and if they do, how they fare economically after the harvest. However, evidence exists that farmers will participate once a company has proven itself by offering good prices, production credits, and assistance in achieving the desired product.

Export markets demand good quality and uniform products. To produce such products requires that small farmers use techniques that are outside their realm of traditional farming experience. For example, one company asked its contracted growers to harvest melons at night. The company was planning to provide large spotlights so that this could be done, but the concept of working at night was completely alien to the farmer's experience. Eventually the farmers realized the wisdom of this technique in terms of reducing spoilage.

Many small farmers who received land from the Agrarian Reform Institute lack the motivation to learn new farming techniques that could improve their land's productivity, and generate greater incomes for themselves. Part of this attitude may result from a lack of a land ownership heritage, while their attitude may also stem from their having been recipients of previous agribusiness experiments that failed. For example, one company attempted to contract with agrarian reform farmers to produce melons. Due to a variety of factors, governmental ineptitude, as well as the capabilities of the farmers themselves, this firm abandoned its efforts. This left several farmers with fields of melons they could not sell after spending time and money to establish and maintain the crop.

For the reasons mentioned above and others, some companies prefer to contract with small farmers for the right to use their land, and to have company technicians perform all the technical work of tilling, seeding, fertilizing, and spraying, leaving only the weeding and harvesting to the farmer. At harvest they subtract their costs from the farmer's gross revenues. In some cases farmers have found themselves in debt after all the production costs were subtracted because their yields were not enough to cover the production costs. This system has generated friction between farmers and the companies because the farmers do not understand the production requirements, and the companies see little reason for involving the farmers more. Although company representatives say it is not in their interest to see the farmers in debt, they do set the prices for fertilizer, pesticides, and the costs for applying them, thereby enabling them to profit from all phases of the operation. Another aspect of this problem is that there is limited technology being transferred, thereby preventing the farmers from producing independently from the companies.

c. Potential Impact

(1) Beneficiaries

Private sector agribusiness owners and operators will be the immediate beneficiaries of this project by gaining access to credit and the assistance that will enable them to establish or expand their operations. These will be male and female owners and operators of both large and small enterprises who are willing to accept the risks of producing non-traditional products for highly competitive export markets. However, the unemployed and under-employed workers who will be provided jobs in the expanding agribusiness

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sector, and the suppliers who provide the necessary input materials needed by the agribusinesses to operate, will also benefit directly. Other beneficiaries will be the people indirectly supported by those directly involved in agribusiness enterprises. These include worker families and the general merchants from whom employed agribusiness workers purchase their daily food and household needs.

(2) **Impact on Employment:**

There are numerous exporting agribusinesses already in the Dominican Republic. A recent survey of 108 local agribusiness identified 77 that produce export products. These 77 firms combined employ more than 10,000 people and have generated one job for every US$ 5,700 invested. This dollars-invested per job-created figure compares favorably to Free Trade Zone industries that produce one job for every US$ 7,000 invested, and the import substitution industries which produce a job for every US$ 12,000 invested. Examples of labor generation by agribusinesses include:

(1) FRUDOCA when fully operational will farm 2000 hectares, and employ 675 full-time, and 1000 seasonal workers. An equivalent area in traditional pineapple production would result in employment for 160 full-time and 400 seasonal laborers.

(2) ABC Dominicana produces cantaloupes and cucumbers for export to the U.S. They employ 300 full-time and between 350 and 400 seasonal workers farming about 90 hectares. They also have signed production contracts with 140 small farmers.

(3) DOMEX is another company that produces melons for the U.S. fresh fruit market. It directly employs about 300 people as agricultural technicians, fruit graders and packers, and administrative personnel, and contracts with 600 small farmers to produce melons. In total it generates full-time and temporary employment for more than 3000 people.

(4) PROVESA produces several varieties of sweet and hot peppers for sale in the U.S. They directly employ 100 people in their operations, principally as agronomists, packers, and processors. Their production needs are met through outgrowing contracts with about 100 small farmers.

(3) **Impact on Incomes:**

The potential for increasing farmer's disposable income is significant. Although small farmers do concentrate their production in high value crops, they realize less than optimum yields because they lack information on the agronomic requirements of the crops and use few fertilizers and pesticides. Additionally, they must market their products shortly after harvest when market supplies are greatest, and therefore rarely receive an optimal price.

Farmers who contract with agribusinesses are assured a market price if they deliver the specified product. This results in many farmers significantly improving their incomes while others realize little gain, and a few even lose money. For example, farmers outgrowing melons on the average have incomes 50% to 100% greater than their neighbors who do not sign outgrowing contracts.

Incomes for urban agribusiness laborers will be increased by providing employment for many people currently unemployed and underemployed. In addition to this project, USAID is formulating a new endeavor to strengthen farmer and worker associations to enable them to bargain more effectively with agribusiness owners, and share in the benefits derived from their productive labor.

(4) Impact on Women:

Agriculture work by women was traditionally in the informal agricultural sector where they received little or no monetary remuneration for their efforts. These activites included growing subsistence crops in the home garden, and helping their husbands and families during sowing and harvest.

In the past 20 years, the number of women employed as salaried agricultural workers has increased. Mechanization of farming has displaced many women who worked in the fields while the growing agribusiness sector has provided increasing employment for women in the processing and packing operations. Women are the preferred labor by many agribusinesses because they are more reliable, loyal, dexterous, and can be paid lower wages than men. Therefore, increasing the employment opportunities for unskilled and semi-skilled labor in agribusiness can impact significantly on women.

There are very few examples of women successfully establishing and operating agribusinesses. A local organization, Mujeres en Desarollo Dominicana, Inc. (MUDE), funds small scale agribusiness ventures by groups of rural women. Many of these ventures have been successful, although their small scale limits in their impact. A substantial number of women have graduated from local universities in the agricultural sciences, so that as opportunities for technical assistance and funding become available through this project we expect to find more women entering agribusiness ventures as managers or owners.

e. Conclusion and Implications for Project Management

Although we have concluded that increasing agribusiness activity will be socially beneficial, we have found that there are a number of areas of social impact that deserve our attention during project implementation. We will seek to track these factors through their inclusion in selected case studies conducted by ISA/CADER. These include:

- Effects on food availability and nutrition in communities producing export crops rather than subsistence or domestic food crops;

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- Effects on the participation of women in agribusinesses, as laborers, administrators, or managers, and in turn, the effect of this on women's involvement in higher education;

- Effects on school attendance of increasing family incomes in agribusiness communities;

- Open-ended inquiries about how family life or community social structures may be affected by the expansion or startup of agribusinesses in communities.

BUDGET PROJECTIONS
JACC/DR TECHNICAL ASSISTANCE UNIT
(thousands)

	Year 1	Year 2	Year 3	Total USD	Total RD$
Capital Expenses					
Vehicles (1)	47	-	-	47	-
Office Equipment (2)	8	-	2	-	30
Micro-computer system (3)	10	-	5	15	-
Photocopier	4	-	-	-	12
Total Capital Expenses	69	-	7	62	42
Foreign Personnel Expenses					
Senior Agribusiness Advisor (4)	110	115	121		
Marketing Specialist (6)	53	56	58		
Other Short Term Assistance (7)	57	60	63		
Allowances					
Post Differential (8)	6	6	6		
Education Allowance (9)	8	8	9		
Housing (including utilities)	10	12	13		
House Furnishings	30	-	-		
Embassy Support Charge	5	5	5		
Travel and Shipping	8	2	10		
Total Foreign Personnel Expenses	287	264	285	836	-
Local Personnel Expenses					
JACC/DR Director (9)	20	23	26		
Professional Staff (10)	30	34	60		
Office Staff and Drivers (11)	12	17	24		
Local Short Term Consultants (12)	12	14	16		
Total Local Staff Expenses	74	88	126	-	864
Other Direct Costs					
Office Space and Utilities	10	12	13		
Office Operations	4	5	5		
Vehicle Operations and Maintenance	8	9	11		
Core Team Perdiem (13)	12	13	19		
Audit and Legal Fees	4	5	5		
Miscellaneous Expenses	10	12	13		
Total Other Direct Costs	48	56	66	-	510

Contingency (10%)	56	50	48	107	141
Total Program Costs	534	458	532	943	1557
Less Revenue Generated (14)	30	72	144	-	738
Grant Funding Required	504	386	388	943	819

* USD 1.00 = RD$ 3.00

Notes to the Budget Projections

General Note: Cost projections for years 2 and 3 are inflated at the rate of 5 percent per year for dollar costs and 15 percent per year for peso costs.

1. Three four wheel vehicles $15,000 average plus one motorcycle $2000.

2. Desks, chairs, air-conditioners, etc.

3. Central processing unit plus two terminals and associated software. Add one terminal and new software in year 3.

4. Basic salary of $55,000 per year times a multiplier of two to cover related benefits, overhead and fee.

5. Basic salary of $250 per day times multiplier (2) times 96 days plus 2 trips $500 plus local travel in U.S. ($2000) plus perdiem in DR (30 days).

6. Basic salary of $250 per day times multiplier (2) plus 96 days plus 4 trips $500 plus perdiem in DR (120 days).

7. 10 percent of Senior Agribusiness Advisor base salary.

8. 2 children in school $4000 each.

9. Total salary and benefits of $20,000 per year.

10. 2 $15,000 per year total cost plus one added in year 3.

11. Average cost of $3,000 per year.

Year 1	4
Year 2	5
Year 3	6

12. 6 person months per year average $2,000 per person month.

13. 4 days per month per professional staff member $60 per day.

14. Based on a percentage of Local Personnel Expenses plus Other Direct Local Costs.

Year 1	25%
Year 2	50%
Year 3	75%

Revenue Analysis

The operating budget for the technical assistance unit is based on the premise that the unit should be in a position to sustain its operations based on fees received for consulting services provided by the end of the three year grant period. It is assumed that by that time it will be able to operate totally with local personnel.

Revenue targets included in the projected operating budgets are based on covering 25 percent of local costs the first year; 50 percent the second year; and 75 percent the third year. Locals costs are assumed to include the two groups of budget line items headed Local Personnel Expenses and Other Direct Costs.

Overhead rate calculations reflect the relationship between overheal (or not directly billable) expenses and the amount of direct (billable) labor available. Overhead expenses include the total cost of Office Staff and Drivers as well as the total of Other Direct Costs except Core Team Per Diem.

Direct labor available includes the JACC/DR Director, Local Professional Staff and the Senior Agribusiness Advisor calculated at a local cost equivalent rate equal to the JACC/DR Director. Short-term consultants, either local or expatriate, are not included on the assumption that they will not ve called on except as required and paid for by specific consulting activities.

When calculated on this basis, overhead rates for the three years range between 63 and 75 percent. We use the higher of these rates for the sake of conservatism.

To arrive at projected average billing rates we must apply the overhead rate to the average direct labor rates (US$1,460 in Year 1). Thus average monthly billing rates in the first year will be US$1,460 x 1.75 = US$2,555. To arrive at a daily billing rate we must divide by 22, which we take as the average number of working days per month, and we see that US$2,555 - 22 = US$116. If we assume an exchange rate of US$1.00 = RD$3.00, we see an average daily billing rate of RD$348 per day in the first year. This increases with projected inflation rates in the second and third years. These rates are within the normal range for high quality local consultants at the present time.

In order to estimate the billing requirements, in terms of person months, which must be achieved in order to achieve the targetted revenue levels, we must divide the Revenue Targets by the average monthly billing rates. Thus we see that a total of 11.7 person months (24% of direct labor available) must be billed to clients in the first year. This increases to 24.6 person months (51% of the total available) in the second year and 44 person months (73% of the total available) in year three.

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It will, of course, not be expected that all of this time will be billed by full time staff members. In fact, especially in years two and three, every effort should be made to make use of qualified outside consultants. The use of such consultants will not only broaden the technical base of the operation, but will also contribute to maintaining the overhead expenses at a low level and contributing to their coverage.

The more effective the core staff can be in attracting and making good use of outside consultants, the more able it will be to lower its overhead rates and thus the cost of its services to clients.

Revenue Analysis

Revenue Targets

Year 1 25% of Local Personnel Costs plus Other Direct Local Costs
(25% x (74 + 46))
25% x 120 = $30,000

Year 2 50% of Local Personnel Costs plus Other Direct Local Costs
(50% x (88 + 56))
50% x 144 = $72,000

Year 3 75% of Local Personnel Costs plus Other Direct Local Costs
(75% x (126 + 66))
75% x 192 = $144,000

Overhead Rate Calculation

$$\frac{\text{Overhead Expenses}}{\text{Direct Labor Available}} = \text{Overhead rate}$$

Overhead Expenses = Office Staff and Drivers = Other Direct Costs except Core Team Perdiem

Direct Labor Available = Local Professional Staff plus Senior Agbus Advisor at local rate equivalents

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	(P.M.)	Yr.1	(P.M.	Yr. 2)	(P.M.)	Yr. 3
Overhead Expenses						
Staff		12		17		24
ODC		34		43		47
		46		60		71
Direct Labor Available						
Director	(12)	20	(12)	23	(12)	26
Prof. Staff	(24)	30	(24)	34	(36)	60
Sen Agbus Adv.	(12)	20	(12)	23	(12)	26
	(48)	70	(48)	80	(60)	112

Overhead rate $\frac{46}{70}$ = 66% $\frac{60}{80}$ = 75% $\frac{71}{112}$ = 63%

<u>Billing Rate Calculations</u>

	Yr.1	Yr. 2	Yr. 3
Average montly direct labor rates	$\frac{70}{48}$ = \$1,460	\$1,670	\$1,870
person month billing rates at 75% oh.	\$2,555	\$2,922	\$3,273
daily billing rates at 22 days/mo.	\$166	\$133	\$149
at US\$1.00 = RD\$3.00	RD\$348	RD\$399	RD\$447

<u>PERSON MONTH BILLING TARGETS TO ACHIEVE REVENUE TARGETS</u>

$\frac{\text{Rev. Target}}{\text{pm. billing rates}}$ $\frac{30,000}{2,555}$ = 11.7 $\frac{72,000}{2,922}$ = 24.6 p.m. $\frac{144,000}{3,273}$ = 44.00

% of Direct Labor Avail. 24% 51% 73%

PRODUCE INSPECTION SERVICES (SEA/SV)
ESTIMATED BUDGET (000)

	YEAR ONE				YEAR TWO			YEAR THREE			TOTAL				FUTURE		
	PL 480 US$	AID US$	GODR RD$	PS US$	AID US$	GODR RD$	PS US$	AID US$	GODR RD$	PS US$	PL 480 US$	AID US$	GODR RD$	PS US$	AID US$	GODR RD$	PS US$
1. U.S. Inspector	100	–			50	25	25	25	–	75	100	75	25	100	–	–	100
2. Equipment & Supplies		25	2			2				2		25	4	2			5
3. Training		25			20				20			45	20	–		5	
4. Local Staff			50	10		10	30		10	50		–	90	90			60
5. Miscellaneous Operating Expenses			5	5		5	10		5	10			15	25		40	20
	100	50	57	15	70	62	65	25	35	137	100	145	154	217	–	45	185

1/ PL 480 Dollar conversion applied to cover the cost of APHIS inspector to commence work in the DR during August 1985.

2/ Private Sector fees.