

P D-AA2-325  
6175

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add  
 C = Change  
 D = Delete

Amendment Number

DOCUMENT CODE

3

COUNTRY/ENTITY  
Dominican Republic

3. PROJECT NUMBER  
517-0252

4. BUREAU/OFFICE  
Latin American and the Caribbean  0  5

5. PROJECT TITLE (maximum 40 characters)  
 Industrial Linkages

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)  
MM DD YY  
11 23 1994

7. ESTIMATED DATE OF OBLIGATION  
(Under "B" below, enter 1, 2, 3, or 4)  
A. Initial FY  8  9 B. Quarter  1  2 C. Final FY  9  11

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

A. FUNDING SOURCE	FIRST FY 89			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total						
(Grant)	( 2,000 )	( 1,000 )	( 3,000 )	( 3,200 )	( 1,800 )	( 5,000 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S.						
1. Host Country		60	60		1,000	1,000
2. Other Donor(s)		126.6	126.6		667	667
<b>TOTALS</b>	<b>2,000</b>	<b>1,186.6</b>	<b>3,186.6</b>	<b>3,200</b>	<b>3,467</b>	<b>6,667</b>

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	730	840		0		5,000		5,000	
(2)									
(4)				0					
<b>TOTALS</b>						<b>5,000</b>		<b>5,000</b>	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)  
874      720

11. SECONDARY PURPOSE CODE

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

A. Code	BR	BL
B. Amount	50%	50%

13. PROJECT PURPOSE (maximum 430 characters)

The purpose of the Project is to develop production linkages between local manufacturers, Industrial Free Trade Zone manufacturers and off-shore producers by improving the quality of product, productive capacity and timeliness of deliveries and thereby the international competitiveness of local industries.

14. SCHEDULED EVALUATIONS

Interim	MM	YY	MM	YY	Final	MM	YY
<input checked="" type="checkbox"/>	01	92	09	94	<input type="checkbox"/>		

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

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

Approval of Methods of Implementation and Financing

*Richard A. Lawrence*

Richard Lawrence-D/CONT

9/25/89

17. APPROVED BY

Signature: *Thomas W. Stukel*

Title: Thomas W. Stukel  
Mission Director

Date Signed: MM DD YY  
10 19 25 89

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

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INDUSTRIAL LINKAGES PROJECT  
NO. 517-0252

ACRONYMS AND ABBREVIATIONS

ADOZONA	Association of Dominican Free Trade Zones
AI	Association of Industries
A.I.D.	Agency for International Development
C.C.	Consultative Committee
GODR	Government of the Dominican Republic
I.A.	Industrial Advisor
IDB	InterAmerican Development Bank
IFTZ	Industrial Free Trade Zone
I.C.	Institutional Contractor
IPC	Investment Promotion Council of the Dominican Republic
LDC	Lesser Developed Countries
MA	Manufacturers' Association
PRE	AID Bureau for Private Enterprise
TCC	Technical Coordinating Committee
USAID	AID Mission to the Dominican Republic

PROJECT AUTHORIZATION

NAME OF ENTITY : Association of Industries  
NAME OF PROJECT : Industrial Linkages  
NUMBER OF PROJECT : 517-0252

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Industrial Linkages Project for the Dominican Republic involving planned obligations not to exceed Five Million United States Dollars (US\$5,000,000) in grant funds over five (5) years from the 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 five (5) years from the date of initial obligation.

2. The Project consists of technical and operational assistance and commodities to support the Association of Industries (AI) and others in developing trade linkages between Industrial Free Trade Zones as well as off shore markets and local suppliers in the Dominican Republic.

3. The Project Agreement which may be negotiated and executed by the officer to whom such authorization 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. Source and Origin of Commodities, Nationality Services - Grant funded

Commodities and services financed by A.I.D. under 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 suppliers of commodities or services shall have the Dominican Republic or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing.

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

b. Conditions Precedent to Disbursement

1. First Disbursement

Except for technical assistance, prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- a -

a. an opinion of the Legal Advisor to the Grantee acceptable to A.I.D. that this Agreement has been duly authorized and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

b. a statement of the name(s) of the person who will represent the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statement;

c. a certification from an accounting firm acceptable to A.I.D. that the Grantee has the capability necessary to adequately account for and control the funds received under this Grant.

2. Disbursements for Subgrants

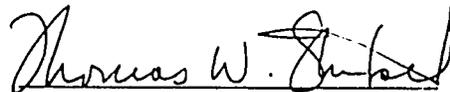
a. Initial Disbursement

Except for subgrants to the Dominican Association of Industrial Free Zones (ADOZONA) for operations and financial system improvement, prior to initial disbursement for subgrants under the Grant, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made, Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., a copy of the "Subgrant Implementation Program", which shall include a description of the administrative mechanisms to be used to provide the subgrants.

b. First Disbursement for Each Subgrant

Except for the subgrants to ADOZONA for operations and financial system improvement, prior to first disbursement for each proposed subgrant, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., documentation indicating the name of the prospective subgrantee, the nature of the activities to be undertaken, the budget, and requirements for periodic work plans.

Thomas W. Stukel  
Director  
USAID/Dominican Republic

  
Date

SEP 25 1989

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I. SUMMARY AND RECOMMENDATIONS

A. Project Summary

Industrial Free Trade Zones (IFTZs) represent the fastest-growing sector of the Dominican Republic's economy. Today, more than 30% of the country's exports emanate from IFTZs. At the same time, the rest of the economy remains sluggish. The IFTZs represent a substantial and largely untapped market for a wide range of domestically-produced products, components, subcontracts and services. The objective of the Industrial Linkages Project is to assist domestic producers to realize this untapped potential. It aims to increase local company sales to IFTZ companies by supporting program activities designed to bring into contact IFTZ operators and firms that are the prospective buyers of locally produced products and services and local industrial firms that are the prospective vendors of goods and services to IFTZs and IFTZ companies. Therefore, the project's goal is to increase income and employment in non-Free Trade zone activities. The purpose is to develop production linkages between local manufacturers, IFTZ manufacturers and off-shore markets by improving the product quality, productive capacity and delivery timeliness of local industries.

The five-year Project will finance: 1) development of a communication and information system; 2) establishment of a mechanism for policy dialogue and; 3) institutionalization of a means to carry out technology transfer.

B. Recommendation

Authorization of a \$5.0 million grant to finance the Industrial Linkages Project is recommended. The grantee will be the Association of Industries (AI). Subgrantees will include the Association of Dominican Free Trade Zones (ADOZONA), and the Manufacturers' Association of Herrera, inter alia.

The GODR will earmark the RD\$ equivalent of US\$1.0 million in counterpart funds to support the programs and promotions which encourage economic integration and other organizations will provide in-kind contributions of US\$667,000 equivalent in local currency.

## II. BACKGROUND AND PROJECT RATIONALE

### A. Project Rationale

#### 1. Relationship to AID Policy

The A.I.D. Policy Paper entitled "Trade Development", in Sections V., VI.B and VI.C.1. encourages A.I.D.'s participation in assisting the development of export oriented domestic industries. The focus of A.I.D.'s strategy is to develop a stronger indigenous economy built upon the efficiency of market based resource allocation, encouragement of entrepreneurship and reliance on private finance.

The Project encourages a stronger local economy by supporting entrepreneurship through the development of supplier/prcducer linkages. A.I.D. policy also emphasizes the encouragement of private sector capacity and capabilities as well as attracting foreign investment. The organizations considered for implementing the Project are currently fulfilling that role and will be further strengthened by the Project.

AID Policy also calls for program and project resources to be directed toward the transfer of technology, skills and information required to overcome the limitations that threaten the comparative advantage of LDC exports or inhibit the emergence of new areas of comparative advantage in production. The project will address the issues of transfer of technology and skills by providing the resources through organizations which assist the development of the industrial sectors. These resources will be utilized to help establish and maintain a comparative advantage for Dominican industries.

In conjunction with the GODR's emphasis on employment generation, A.I.D.'s Policy entitled "Private Enterprise Development, Section V.A., points to the development of programs and projects which support equitable growth through productive work to increase income. The Project will support employment generation through expansion of local industries and IFTZs. If historical trends hold true, approximately 75-80% of the new jobs created by this project will be filled by women.

Finally, A.I.D.'s Policy Determination Number 16, entitled "Program Financing Arrangements with Independent Organizations", Section II, encourages support for financing arrangements with independent organizations to: (a) support or intensify the activities of independent organizations which contribute to the achievement of the Foreign Assistance Act objectives; or (b) to develop the independent capacity, integrity and quality of the recipient as an entity whose function is the economic or social betterment of developing countries. The Project will be implemented through two independent private sector, non-profit associations. Both organizations view their role as assisting in the economic development of the country through an industrialization process.

2. USAID Country Strategy and Objectives

The Mission has adopted a country development strategy which is designed to "... assist in developing sustained and equitably distributed economic growth in the Dominican Republic." Specific objectives of this strategy are to:

a. Promote key sectoral policy reforms which encourage private sector growth;

b. Promote expanded and diversified private sector investment and employment, and;

c. Undertake selected social interventions to address critical needs of the poor;

The Industrial Linkages Project is designed to address both the first and the second objectives; the first, by promoting policy reform and, the second, by expanding investment and encouraging the development of a broader base of non-traditional exports in the industrial sector.

The strategy adopted by USAID has produced projects and programs which directly complement and support the activities to be undertaken in this Project. For example, the Export and Investment Promotion Project (517-0190) is designed to provide export development services and emphasizes new investments in the economy through the Investment Promotion Council (IPC). The Export and Investment Promotion Project will complement Industrial Linkages by providing marketing assistance to domestic industries and by assisting in the conduct of policy studies which hopefully will lead to adoption of governmental policy beneficial to the linkage program. The IPC will provide contacts for Dominican firms and sub-contracting linkages with foreign firms seeking sub-contracting opportunities. Policy reform for addressing contracts that deal with "cross-border" transfer also will be undertaken by the IPC on behalf of domestic manufacturers. ("Cross-border" transfers refer to the process through which local industries provide services or products into the Free Trade Zones which, by legislation, are exempted from domestic taxes and tariffs). Coordination with the IPC will help to assure that the Project's activities are complementary and avoid duplication of effort and resources.

In addition, project activities will be complemented by the "Small Industries Development Project" (517-0150), which is designed to assist small business by increasing access to loan capital for improving and expanding their production or services, and by the "Debt Conversion Project" (517-0237) which is designed to attract new capital into productive economic sectors including IFTZs. The "Industrial Linkages Project" will build a bridge between the IFTZ "islands" and the "mainland" industries and represents an important next step in the industrial development of the country.

### 3. Project Justification

The rapid growth of IFTZs in the Dominican Republic has created a unique opportunity to promote vertical integration while simultaneously developing local industries. The IFTZs in the country currently account for 30% of the value of the country's exported products (including labor). The development of product and service linkages with the domestic economy could substantially increase the level of contribution of the IFTZs to the Dominican economy, including additional foreign exchange, new investment and increased employment opportunities.

### 4. Lautenberg Amendment

The Project has been designed to recognize the limitations to AID-direct assistance to foreign export industries in competition with U.S. producers for input sensitive items as defined by Section 503(c)(1)(A) and (E), of the Trade Act of 1974 [19 U.S.C. 2463 (c)(1)(A) and (E)].

The Lautenberg Amendment restricts the obligation or expenditure of Foreign Assistance Appropriations (excluding CBI program funds under Tariff Schedule 807):

(1) to procure directly feasibility studies or prefeasibility studies for, or project profiles of potential investment in, the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles as defined by section 503(c)(1)(A) and (E) of the ... [Trade Act of 1974] [19 U.S.C. 2463(c)(1)(A) and (E)]; or

(2) to assist directly in the establishment of facilities specifically designed for the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import sensitive articles as defined in section 503(c)(1)(A) and (E) of the ... [Trade Act of 1974] [19 U.S.C. 2463(c)(1)(A) and (E)].

Section 503(c)(1)(A) and (E) of the Trade Act of 1974 refers only to the following "import-sensitive" commodities: textiles, apparel, footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel.

The Project will categorically exclude those items listed in Section 503(c)(1)(A) and (E) from receiving the direct benefit of AID resources. In addition, the Project will not directly procure feasibility studies or prefeasibility studies or Project profiles of potential investment in the manufacture for export to the United States or third countries in direct competition to the United States of import-sensitive articles.

The assistance under the Project will be provided to the Association of Industries which will utilize the resources to contract with a U.S. firm to supply technical assistance and training to itself, to association members and to other associations and organizations. A.I. member firms which are manufacturing import-sensitive commodities will be excluded from the benefits provided by direct assistance.

The restriction imposed by the Lautenberg Amendment will be incorporated into the Grant and all subsequent subgrants and contracts which are generated by the Project.

5. Related Activity

The International Bank for Reconstruction and Development (IBRD) has indicated the necessity for a linkage program as a prerequisite to Free Trade Zone loan financing and is supportive of the activity. The IBRD is negotiating a US\$30 million line of credit for IFTZ infrastructure which is conditioned upon a source of grant funding for the linkages activity, inter alia, before proceeding. These conditions include the availability of grant financing to an organization which agrees to:

- a. promote backward linkage activity;
- b. provide financing to the Free Trade Zone Association for technical assistance sub-grants to develop an automated data system to keep track of the registration of Free Trade Zone companies;
- c. undertake a study of the cost/benefits of government owned and operated Free Trade Zones.

The AID Project entitled "Export and Investment Promotion" with the Investment Promotion Council will provide the financing of items (b) and (c) while the "Industrial Linkages Project" will concentrate on item (a).

In addition, the United Nations has granted funds to the GODR Foreign Ministry to undertake a study on linkages to examine sector specific potential in the country. The first part of this study concentrates on linkages in the service sectors.

## B. Background

### 1. Industrial Free Trade Zones (IFTZs) in the Dominican Republic

IFTZs are at the cutting edge of Dominican employment generation and export expansion. Today, free zones account for 30% of the value of total Dominican exports; the value of zone exports to the United States alone exceeded US\$309 million in 1987, an increase of more than 50 percent since 1985. In 1984, the Dominican free zones employed 20,000 workers. Today, with over 269 firms established in the operational zones, total employment has topped 100,000, and continues to increase. Industries represented in the zones include traditional sectors such as textiles/apparel, furniture, electronics, sporting goods, footwear, and pharmaceuticals, as well as emerging areas such as data entry, computer-aided digitization, telemarketing and other service operations.

The free zone program of the Dominican Republic is one of the world's most successful. Launched in 1969, with the establishment of the La Romana Free Zone by the Gulf & Western Corporation, the program has grown in less than 20 years to encompass thirteen operational zones, nine zones under construction, and eight additional projects under active development. Zone complexes currently utilize nearly four million square feet of industrial and office park space.

### 2. IFTZ Links to the Domestic Economy

The rapid growth of the zones, however, has not been mirrored in the domestic economy. In fact, the Dominican Republic's industrial sector is quickly becoming divided into two parts: one part consists of the fast growing IFTZs, characterized by rapid development (an average of 38% annual rate between 1980-88), attracting firms that are sophisticated, well-financed, and able to compete successfully in world markets. The other part of the sector is made up of domestic producers. That part is characterized as sluggish with expansion occurring very slowly.

Sales to the IFTZs represent a significant untapped market for domestic industry in the Dominican Republic and a potentially significant source of employment generation and foreign exchange earnings. Domestic companies however, are largely ill-equipped to provide locally sourced products to the IFTZs even though, given the size of the local market, that is what is required for expansion. In particular, local production and sale of ancillary and support products and services to IFTZ tenants and operators are a natural niche market for Dominican suppliers.

### 3. Opportunities for Linkage

To date, three studies have been conducted of the market potential for domestic sales to IFTZ companies. In 1987, the Investment Promotion Council (IPC) surveyed 143 IFTZ firms. A year later, the Association of Industries of Herrera studied the attitudes and experiences of 156 companies in the Herrera Industrial Park. In 1989, USAID commissioned the International Science and Technology Institute (ISTI) to estimate sales potential for specific products, components and services which IFTZ companies (or IFTZ operators) might purchase from local suppliers. The results of these studies indicate that an opportunity exists to foster sales to IFTZs.

For example, some of the strongest demands are in the following areas:

#### a. Plastics

i) Plastic hangers. Minimum potential market of 72 million hangers per year. Potential sales value is US\$3.6 million annually.

ii) Plastic bags. Minimum potential market of 200 million bags per year. Potential sales value is US\$6 million annually.

iii) Precision plastic parts. Minimum market of 50 million parts per year. Potential sales is US\$2.5 million annually.

iv) Plastic artist paint brush handles. Minimum market potential of 12 million handles per year. Potential sales value is of US\$250,000 annually.

#### b. Cartons

i) Outer cartons. The minimum potential market is 4 million cartons. Potential sales value is US\$40 million annually.

ii) Inner boxes, stuffers, inserts. The potential IFTZ demand is estimated at 100 million pieces per year. Potential sales value of US\$2 million annually.

iii) Carton skids. The potential annual demand is estimated at 80,000 skids, 85 percent of which could be supplied locally. Potential annual sales value is estimated at US\$250,000.

c. Supply Houses/Parts Distributors

Several industries were identified as potential parts suppliers to IFTZ companies. These include: machine shops/repairs, plating, mould and die making and metal stampings. IFTZ managers are willing in principle to purchase local inputs as the advantages of local sourcing would include shorter supply lines, lower inventories of raw materials and packaging and lower requirements for warehouse space.

In addition, the zone operators themselves represent a market for a wide range of services. These include transport, catering, cleaning, payroll accounting, repairs, construction and allied trades, child-care, and others. Zone operators require some of these services for maintenance of their own properties; other services are required by zone tenants as central services.

Of the 143 IFTZ firms surveyed by the IPC in 1987, most were "very interested" or "somewhat interested" in receiving a catalog of local products and services relevant to their industry. Nearly 40 percent of the firms interviewed felt that periodic meetings between IFTZ companies and local suppliers would be the most productive way to build relationships between the two sectors. Nearly half of the 156 firms surveyed in the Herrera study considered the IFTZs as an attractive market for their line of production.

Despite these positive attitudes, it is clear that current trade between local and IFTZ companies is minimal and sporadic. Few inputs other than labor are purchased locally. (The sample of firms included manufacturers of: apparel; electrical/electronic components; shoes; cigars; leather goods; and miscellaneous items). With the exception of cigar manufacturers, which use significant amounts of locally grown tobacco as filler for cigars, very few local inputs are used directly in the production process by IFTZ firms; those that are purchased locally are often bought on an emergency basis. Three firms purchase labels from local suppliers, one purchases thread and one buys electrical connectors. Most purchases from local firms fall into the category of "support products" -- stationery and office supplies; set-up materials such as cement, sand, wood, work benches and office furniture; packing materials such as cardboard, cartons and packing tape, cleaning fluids and detergents; hardware supplies; fuel and; repair parts. Additionally, IFTZ firms purchase certain services from the local economy. These include banking, insurance, customs broking, communications, transportation and repair.

#### 4. Constraints to Linkages

Realization of the potential for substantial and continuing local sales to IFTZs is being hindered by a range of factors. The most serious constraints can be categorized as communications and information, legal/regulatory, technical, and financial.

##### a. Communications and Information

The focus of IFTZ operations has been almost exclusively on overseas markets, not only as the destination for their products, but also as the source for their manufacturing inputs and raw materials. Domestic Dominican manufacturers, on the other hand, have traditionally focused on serving the local markets and, while aware that IFTZ firms represent a significant potential growth area, do not have adequate means of determining the specific needs of IFTZ firms that they might be able to serve. Conversely, the IFTZ firms are unable to determine if there are local suppliers who can provide them with inputs of sufficient quantity and quality to meet their needs.

This lack of communication between local suppliers and the IFTZ markets severely limits the development of substantial ties between local industry and IFTZ markets. Without additional mechanisms to inform each other of the needs, capabilities and circumstances particular to each sector, development of substantial linkages between local suppliers and IFTZ firms will be impossible.

##### b. Legal/Regulatory

National, international and company level policies and regulations are a constraint to increased trade between the two sectors. For example, the cost of locally made products is increased by the relatively high levels of customs duties paid for imported raw materials. Current policies regarding "cross-border" transfers from local producers to the IFTZs are unclear, inefficient, and frequently administered in an arbitrary fashion. The time required for a shipment to clear customs can be only a few days or many weeks. The amount of customs duty applied can also be arbitrarily set. Imports of materials to be used in exported products are theoretically intended to be duty-free, but there is at present no consistent mechanism for exempting inputs to be used in products being "exported" from domestic producers to IFTZs. The result is often the imposition of duties that can amount to 100% ad valorem - thus making the local product totally price-uncompetitive. Moreover, while the law permits some duty free transfers, there is no consistent application. As a result, this constraint has acted as a disincentive both to IFTZ firms seeking local suppliers and to domestic firms wishing to sell to the IFTZs (and to world markets beyond).

c. Technical

The inconsistent quality of locally produced goods has also discouraged IFTZ firms (and potential customers outside the Dominican Republic) from expanding their sources to include local industries. A complicating factor is that locally produced goods are often not delivered in a timely fashion even though they may be of acceptable quality. As a result, IFTZ firms usually rely on more costly imported components as inputs to their manufacturing processes, and customers from outside the country are often reluctant to consider local Dominican industries.

A factor exacerbating this technical constraint is the inability of local small and medium manufacturers to learn about and keep abreast of the new technologies required to make and keep them competitive in world markets. They lack knowledge of new processes and are unable easily to obtain information regarding more advanced technologies for their manufacturing processes. There is no coherent system through which local industries can receive updated technical information about the type of business in which they are competing. This problem is further compounded by a lack of local, on-site, technical expertise. Once local manufacturers obtain access to information on new technologies, they are likely to require technical expertise in design, installation, maintenance and production techniques.

d. Financial

To effectively exploit new technologies, firms must have access to adequate financing. For many local firms -- particularly those in the small (10-20 employees) and medium (20-50 employees) range -- financing must come from external resources in the form of credit or loan guarantees. AID is addressing this constraint by providing credit through its Small Industry Development and Agribusiness Promotion Projects along with lines of credit provided by local currency generations of PL 480 funds. In the case of large firms, it appears required financing will be available from the established banking sector.

5. GODR Initiatives

The Government of the Dominican Republic (GODR) is aware of the impact of legal/regulatory constraints, and has put in place numerous incentives to encourage industrial development in the country. Law Number 299, the "Industrial Incentives and Protection Law", provides ample tax incentives for manufacturing industries operating locally and in the IFTZs. The GODR has also encouraged the development of exports by legislating an "Export Promotion Law" (No. 69), which provides locally registered industries with a tax incentive for goods produced for export. Additionally, a new IFTZ law is expected to be introduced into the Dominican Congress during 1989 which will ease the current "cross-border" restrictions between local companies and IFTZs.

In addition to the support provided by a legislative framework, the GODR has emphasized its commitment to employment generating activities through private sector development initiatives. For example, the GODR support for IFTZ development is evidenced by the line of credit established for large manufacturers through the Central Bank.

6. Experience in Other Countries

Despite these welcome efforts, there is evidence that a more comprehensive approach is required to maximize linkage potential.

Far East free zones in Taiwan and South Korea -- have proven the most successful in fostering ties with the local economy and surrounding industry, as evidenced by high value added through backward linkages, extensive technology transfer, and highly positive skills diffusion effects.

The following factors are strongly associated with the extent of backward linkages formed:

- a. Reduction of import-substitution barriers protecting domestic producers.
- b. Extension of zone incentives/benefits to non-contiguous sites.
- c. Access to local markets for zone occupants (tied to proportion of local inputs used in production process of zone companies).

Technical assistance plays a pivotal role in creating domestic-IFTZ linkages. Turkey's experience is a case in point. In the late 1970s, a World Bank mission to Turkey observed the workings of a UNIDO-sponsored program to actively promote supplier linkages between small/medium Turkish shops and factories and large, often foreign-owned, heavy industries producing "big-ticket" items for both the domestic and export markets, (e.g., automobiles, agricultural equipment, machine tools, electrical goods, both industrial and consumer items). A corps of experienced engineers and technicians (down to the level of shop-foreman) with diverse skills, primarily in metal-working, electro-mechanical design and production, were engaged in an organized program to search out and identify raw and intermediate materials, components and sub-assemblies being imported by the large-scale factories but which were capable of being supplied by indigenous Turkish producers.

While the development of new sources of inputs requiring a factory to shift from established patterns of procurement is not always easy, the Turkish government's interest in promoting higher levels of local added value helped smooth the way for the T.A. team. Many successful linkages have been developed over time between the two sectors, usually after the T.A. team had designed and implemented systems improvements to enable the supplier to meet the more rigid quality standards and delivery schedules of factories owned (mainly) by multinational firms. The experience gained also served to focus government attention on the need for policy changes that would improve the international competitiveness of the domestic manufacturing sector.

### III. PROJECT DESCRIPTION

#### A. Goal and Purpose

The Project's goal is to increase income and employment in non-Free Trade Zone activities. The purpose of the Project is to develop production linkages between local manufacturers, Industrial Free Trade Zone manufacturers and off-shore markets by improving the quality of product, as well as the productive capacity and timeliness of deliveries of local industries.

Resources required to support this Project are estimated at US\$5.0 in AID Grant funds and almost US\$1.67 in equivalent local currency counterpart resources. The chief executing organization will be the Association of Industries of the Dominican Republic.

#### B. Strategy

The USAID country strategy for the Dominican Republic focuses on achieving private sector led economic growth; sharing the benefits of this growth by improving employment and income; and encouraging the transfer of technologies to improve the competitiveness of Dominican companies in world markets, thus earning or saving foreign exchange. The Industrial Linkages Project will build on this strategy by continuously upgrading the ability of local firms to deliver products and services that meet the international price, quality and delivery standards of the IFTZ concerns. As the project develops, the implementing agencies gain experience and local industries are strengthened, off-shore markets will receive greater focus.

The Project is demand-driven. Its activities are designed to address the most serious constraints. It will increase the sales of locally-produced products and services to the operators and users of IFTZs in the Dominican Republic. It will be based on systematic identification of products and services required by IFTZ operators and users and eventually off-shore markets, matching these needs with the productive capacity of domestic suppliers, and providing (1) market information; (2) policy reform dialogue to create profitable trading relationships between the two sectors, and, (3) technology transfer which will further the process of industrial integration.

#### C. Project Outputs

##### 1. Outputs

A principal output of the Project will be an integrated system of information gathering, processing and dissemination for the use of local industries, the Manufacturers' Association of Herrera, Haina, and Santiago, as well as the Association of Free Trade Zones and their members. These organizations-industries will have received the benefit of technical assistance, equipment and training to upgrade their production and marketing capabilities. An important component of this will be the Market Information System which will be facilitating commercial transactions between local suppliers and IFTZ purchasers by providing the information essential for successful linkages

The Consultative Committee will be addressing and making

recommendations on public policy/legal and regulatory issues that affect the environment for increased trade between IFTZs and local industries. The Resource Center will be making available to local industries the technical information necessary to upgrade their industrial processes. Direct technical assistance will also be provided to selected local industries and firms to help identify and resolve technological or managerial issues which impede their ability to produce for the IFTZ market.

It is expected that, 265 Industrial Free Trade Zone manufacturers will have received the benefit flowing from the increased quality of local production while nearly 1,000 local manufacturers will have had the opportunity to participate in the linkages program of technical assistance, training and transfer of technology activities.

## 2. End-of-Project Status

It is expected that, by its conclusion, the Project will have accomplished the following:

- o Established a fee supported functioning, sustainable, private sector information resource and outreach program providing access to IFTZ markets and eventually off-shore markets.
- o Increased the proportion of value added provided by the local economy from 30% of export value to 40% of export value of the IFTZs.
- o Increased from 22 to 50 percent the number of IFTZ firms purchasing components, inputs, raw materials or finished goods from local industries.
- o Diversified the types of products currently sourced locally (ie: stationery), to other products including boxes, labels and components in such areas as electro-mechanical, and plastics.
- o Produced a US\$108 million nominal increment in net foreign exchange generation.
- o Created 11,000 new jobs.
- o Increased the export-competitiveness of local companies through production efficiencies, improved quality and better on-time delivery of products sold to IFTZ firms.
- o Generated US\$25.6 million in incremental private investment by 1994.
- o Initiated a policy dialog effort that leads to a reduction in the legal and regulatory barriers impeding trade between local industries and the IFTZs.

At this stage in project development/implementation, the Mission believes that while some institutional development among the implementing

agencies, primarily as it relates to information gathering and distribution, is necessary, institutional development is not a major objective of the Project. As in any other free market systems once production linkages are established and are proven profitable, they tend to be self generating. An outside stimulus such as this project is only necessary to start the linkages. Therefore, the information processing activities and other institutional development efforts are intended to continue beyond the PACD only to the extent there is a viable demand for them and they are supported by an adequate fee structure. This premise will be reevaluated by the Mission as project implementation occurs.

#### D. Implementing Agency Structure

The Grantee is the Association of Industries of the Dominican Republic (AI). The Grantee will work closely with the Association of Dominican Free Trade Zones (ADOZONA). Project activities will be coordinated by two committees comprised of members from both AI and ADOZONA. The Consultative Committee (CC) will be comprised of the Presidents from AI and ADOZONA and 3 members from each association. The CC will be assisted and advised by the Technical Coordinating Committee (TCC). The TCC will be comprised of the Project Managers of ADOZONA and AI and the representative of the Institutional Contractor (IC). The specific roles of these implementing agencies are more fully elaborated in the following section.

#### E. Project Components

The Project has three components. These are (1) Communication and Information, (2) Policy Dialogue and, (3) Transfer of Technology.

The first component, "Communications and Information", consists of two basic activities: (a) Establishment of Market Information Systems and, (b) Promotion. The second component, "Policy Dialogue" consists of: (a) Policy and Regulatory Analyses, (b) Coalition Building, and (c) Reform Activities. The third component, "Transfer of Technology" consists of: (a) Resource Center Development, and (b) Company Assistance.

##### 1. Communications and Information

The purpose of this component is to develop a comprehensive system of data collection and analyses and use the information in a promotional effort to assure the flow of timely and relevant information between the IFTZ producers and local suppliers. The activities under this component focus on, (a) Establishment of Market Information Systems and, (b) Promotion.

##### a. Market Information Systems

The Project is designed to facilitate commercial transactions between local suppliers and IFTZ purchasers by addressing a series of constraints which have acted as obstacles to developing the relationship. As a prerequisite to the establishment of a relationship, an exchange of information is required to highlight existing or potential opportunities, provide a structure for initiating transactions and to supply the details of product and service specifications necessary to facilitate an

exchange. The availability of timely, valid and reliable information is essential for creating successful linkages. Consequently, the overall intent of this component is to develop the information required by all parties to facilitate commercial linkages between the IFTZs and local producers. Therefore, the specific purpose of the Market Information System activity is to describe and analyze the market potential of IFTZ firms as a source of demand for local industry by:

- o providing basic IFTZ firm descriptive information, such as activities, products, etc.;
- o identifying the types and quantities of inputs currently imported by each IFTZ firm;
- o identifying the inputs purchased locally by each IFTZ firm;
- o describing the purchasing and sourcing policies of each IFTZ firm in terms of 1) purchase decisions that can be made locally versus those which are made outside the country, for example in the home office of the parent firm, 2) the specific procedures that must be followed to become a supplier at either level of decision authority.

i. Data Base Development

The data base element under this activity will determine the size and characteristics of the IFTZ market, firm by firm and product by product. It will take into account (1) existing and established trading relationships; (2) components and services that must be purchased from outside the Dominican Republic because of legislative regulations (807) or intra-company policies (i.e. transfer pricing); and (3) products and services that cannot be offered by local vendors (high technologies, etc.). It will also describe the present product/service availability, production capacity and management constraints of local suppliers in the sectors identified as having the greatest potential market for IFTZ firm needs. The Data Base will also collect and monitor information about new IFTZ firms, analyze the information, develop baseline data to measure progress and create an information base to assist with policy or legislation reform activities.

The Data Base will be initially developed and maintained in the office of the Institutional Contractor which will be located in AI. The Institutional Contractor with AI's assistance will develop baseline information, analyze its content and maintain it in a centralized location. By the end of the project AI will have completely taken over this activity. This will be done on a gradual basis as AI gains experience and staff.

ii. Publications and Reports

This element will utilize the information gathered and analyzed for the data base to develop publications and other information packages to assist ADOZONA and AI in communicating with their memberships. Specifically these reports and publications will be:

o Buyer-Seller Directories

When substantial buyer and seller information has been accumulated, it will be listed in two directories. One directory would list IFTZ companies, management, and what goods and services they buy (as identified by ongoing research). A second directory will list domestic vendors and their products or services (with a focus on goods and services responsive to the demand identified by the ongoing research). Both will be supported by paid advertising, thus enhancing sustainability of the project. Two editions of each directory will be required to keep them current over the five year life of the project. Tentative publication dates will be the beginning of the third year and the beginning of the fifth year of the project.

o Monthly Bulletin

Published by the Association of Industries on behalf of both local suppliers and the IFTZ market, this publication will be circulated to prospective buyers and sellers as identified by market research. It will include updated information on purchase requirements supplied by IFTZ companies; features on domestic companies successfully selling to IFTZ companies; "how-to" advice from IFTZ companies to prospective domestic vendors; information on new processes and technologies in high-promise industrial and services sectors, etc. Also highlighted will be program information and descriptions of project services and activities.

o Annual Report

An annual report will also be designed and published by AI for private sector companies. Distribution will be to these companies, plus relevant public and private institutions, and the press.

o Print and Broadcast Media

Information gathered for the monthly Bulletin, plus information from other sources, will be widely publicized via newspapers, periodicals, radio, and television. An ongoing program of press releases, feature story suggestions, and interviews will be started and coordinated by the IC with participation by ADOZONA and AI.

o Publications Series

This activity consists of a series of ad hoc, publications designed to reach a broad audience and provide a permanent record for Project activities. Specific titles and formats will be determined as targets of opportunity occur during project implementation, but are expected to include:

- "How to do it" handbooks based on workshops, training programs, and the facilitating information developed.

- Reprints of secondary data, government legislation, or existing reports.

- Business school teaching cases describing the management decision making process surrounding the experiences of local firms in dealing with issues central to the linkage process.

b. Promotion

Promotion activities under this component are designed to (a) increase awareness of sales and local source potential in the IFTZ and domestic sectors; (b) inform companies in both sectors of specific product-related opportunities; and (c) inform the total buyer-seller universe that a new program is in place that offers practical advice and assistance. The objectives are to heighten awareness of the market opportunities presented by IFTZs for local producers, promote the availability of information and of Project services to assist local firms in taking advantage of these opportunities, and create a favorable climate for policy dialogue by emphasizing the national economic benefits of developing backward linkages.

The promotion program will concentrate on conveying the following messages:

o IFTZs represent a substantial and growing market for domestic vendors of goods and services.

o Many Dominican companies are already selling into IFTZs - and market share can be substantially increased.

o There are resources available to assist you to start or increase your export-oriented sales. These are co-sponsored by both local suppliers and the IFTZ markets - and supported by the Government.

o These resources can also help upgrade product quality, price-competitiveness and timeliness of delivery.

These messages will be delivered through: (1) seminars, (2) exhibitions and (3) field-days.

i. Seminars

Seminars will be offered on two levels. The management of organizations and associations with a direct role in the industrial linkage process will participate in local seminars structured to assist them in communicating with their members regarding linkages. Individual firms with potential interests in participating in a linkage activity will participate directly in another set of seminars which address their needs. An average of two events per year for associations and two for firms are expected.

(1) Association Seminars

Seminars will be conducted for associations and organizations (such as the Manufacturers' Associations), interested in linkage activities. These seminars will cover; 1) development of member services for linkages, 2) database maintenance, and 3) communicating with members. Other seminar topics will be considered as needs are expressed by the associations.

(2) Company Seminars

A series of seminars designed to promote the concept, nature and available resources for developing economic integration will be conducted for firms with an interest and potential for participating in a linkage activity. IFTZ firms and local firms will participate to learn about the opportunities available for linkages, the constraints to linkages and how to overcome them. An illustrative example of seminars for firms include: 1) opportunities for providing support services to IFTZs, 2) constraints to local purchasing and how to overcome them, (3) how to access credit, 4) how to work with customs, (5) understanding Law 69 and other topics of interest.

ii. Exhibitions

Exhibitions of products available for purchase will held as a means of informing prospective IFTZ purchasers of the availability of local products. These exhibitions will be industry specific and targeted to attract the appropriate IFTZ firms. In addition, a series of sector-specific exhibitions of products produced in IFTZs (electronics, plastics, etc.) will be undertaken to show local firms potential areas for component and support service supply. Each exhibition would remain on display at AI headquarters for a period of time, and then travel to other locations such as regional industrial associations and various sector-specific organizations. A series of special events will be planned to attract attendance from non-IFTZ manufacturers in corresponding sectors, especially suppliers of inputs to that sector.

Exhibits will feature those industries demonstrated to offer the greatest linkage potentials. Factory tours will also be undertaken by local suppliers and IFTZ operators to assist in establishing a relationship between them. A total of three separate exhibits appearing in four different locations is anticipated over the life of the project.

iii. IFTZ Field Days

IFTZ operators will be encouraged to host a series of field days at different locations as a way to establish a relationship between prospective buyers and sellers. The format of the field-days will be designed to promote an exchange of information and dialogue between suppliers and producers.

c. Component Implementation

i. Role of the Association of Industries

The role of AI under the "Communications and Information" component is to gather and assess, with the assistance of the IC, information regarding local industries. AI will be charged with providing access to its member associations and firms, organizing and disseminating the information through participation with ADOZONA and the IC in the development of the "buyer-seller" directories, publishing a monthly bulletin and an annual report, engaging the media to discuss supply-side linkages and developing "How to..." publication series for its members. AI will also administer a subgrant program designed to encourage its member organizations to undertake

many of the activities themselves using a geographic and sectoral focus. The subgrants will be used for (1) database development for associations (i.e., Herrera, Santiago) or sector-specific trade associations (i.e., La Vega Metal Workers, or plastic manufacturers associations) and for (2) sponsoring media events and publication series.

ii. Role of ADOZONA

The role of ADOZONA under the "Communication and Information" component is to gather and assess, with the assistance of the IC, information regarding IFTZ industries. ADOZONA will be charged with providing access to the firms located within the IFTZ's and for organizing and disseminating the information through participation with AI and the IC in the development of "buyer-seller" directories, contributing information to the publication of a monthly bulletin and to an annual report on the linkage activity. ADOZONA will also engage in media events to discuss IFTZ market needs and opportunities and will contribute information in the development of a "How to..." series of publications. ADOZONA also will help administer a small subgrant program to its member associations to assist in the information gathering and dissemination process. The subgrants will be provided to manufacturing associations within the IFTZ's for the purpose of establishing databases, providing informational pamphlets and other specialized informational publications as well as sponsoring various field-day activities and meetings.

d. Component Inputs

The Project will provide technical assistance, commodities and operational costs for this component. An estimated 124 person-months of technical assistance for this component is required (valued at US\$1,364,000). Commodities for this component include the purchase of vehicles for ADOZONA and AI, and the purchase of computers, and software for AI, ADOZONA and their subgrantees (valued at US\$209,000). Operational costs for AI and ADOZONA and their subgrantees will also be provided (valued at US\$471,000).

The technical assistance will assist ADOZONA and AI to 1) establish and develop a database, 2) design and develop the activities for communication and information dissemination and, 3) establish and implement a subgrant program. The procurement of three vehicles, three motorcycles, audio-visual equipment, computer hardware and software will assist in the gathering, processing, analysis, and dissemination of the information obtained under this component. Operational costs include remuneration of ADOZONA and AI staff and the costs of providing subgrants to associations which will undertake activities under the communications and information component.

The role of the IC is to provide the technical expertise to develop and implement a database system within the office of the IC, assist AI and ADOZONA in the gathering of information and to conduct analyses, develop the schedules and workplans, create a publication series, produce the monthly bulletin, the annual report and to assist in planning and organizing the media events. The IC will also assist ADOZONA and AI in establishing a subgrant review and approval/system and will participate in their review and approval processes.

## 2. Policy Dialogue

This component is structured to provide the resources to undertake activities which encourage policy dialogue with an aim towards policy and regulatory reform.

The policy and regulatory environment has been a major constraint to increasing trade between the IFTZs and local suppliers of goods and services. The constraints are:

- o Lack of an established, expeditious mechanism for local sales/subcontracting to IFTZs; and
- o Policies affecting the competitiveness of local companies to supply the IFTZs, i.e., high customs duties, customs delays, etc.

At the present time there is no clear, expeditious and consistently applied mechanism for local company sales or subcontracting to the IFTZs. As a result of this unclear situation, local manufacturers are not familiar with the procedures for selling to the IFTZs. A second group of policies and regulations affect the price competitiveness of local industries and their ability to make timely deliveries. The two major issues are: import/export duties and delays in clearing import shipments. The activities of the "Policy Dialogue" component, designed to address these issues are; (a) Policy and Regulatory Analyses, (b) Coalition Building and (c) Reform Activities.

### a. Policy and Regulatory Analysis

This activity will develop the information base required to assess the impact of policies on industrial development for export and provide the foundation for promoting reforms. Policies and regulations that will be assessed in the context of export-oriented industrial development will include, Law 69, "The Export Promotion Law"; Law 299, "Industrial Incentives and Protection"; and Law 221, "Incentives for Small Industry and Artisans". Regulations which will be examined for an impact on industrial development for export include customs regulations for importation of industrial inputs and regulations governing access to IFTZ markets, inter alia. The analyses undertaken in this activity will include; (1) "review of existing laws and regulations pertinent to the Project's objectives, (2) an assessment of their impact on export development and local industry, and (3) development of recommendations for revision.

### b. Coalition Building

Industrial development for export involves a diverse combination of industrial and service groups whose interests in policy and regulatory reform overlap. The purpose of this activity is to utilize the information derived from policy and regulatory analyses to establish common ground between and among local industries, service firms and IFTZ operators and manufacturers. Coalition building activities will involve; 1) presentation of the analyses to industrial and service subsectors and IFTZ representatives, 2) generation of recommendations from all parties,

3) discussion and debate of those suggestions in the Consultative Committees and other joint forums, and 4) incorporation of appropriate recommendations into coherent draft policies and regulations.

c. Reform Activities

The purpose of this activity is to utilize the analytical data and consensus developed within the industrial sub-sectors to promulgate reform or revision of regulation, law or policy. Reform activities include: (1) the initiation of dialogue with the GODR through the Investment Promotion Council; (2) assistance to the IPC in accessing, lobbying or otherwise engaging the GODR for advocating change; and (3) identifying and supporting other mediums that provide opportunity for direct dialogue with the GODR.

d. Component Implementation

i) Role of the Association of Industries

AI, under the "Policy Dialogue" component will be charged with mobilizing the local industrial and service groups to discuss and debate the ramifications of industrial development regulations, laws and policies, on their specific sub-sectors with the objective of garnering a consensus. AI will also be charged with co-chairing the Consultative Committee, where the exchange between the local suppliers and IFTZ firms will take place. As co-chair of the CC, AI will share responsibility for advising the IPC of discussions and decisions made by the CC and providing assistance to the IPC in obtaining additional information or access to its members. The AI, representing the local industrial and services groups, will also assist the IPC in undertaking lobbying efforts for reform with the GODR.

ii) Role of the ADOZONA

ADOZONA will undertake a similar role to AI but for the IFTZ manufacturers. ADOZONA will galvanize IFTZ perspectives, develop consensus and provide recommendations on regulations, laws and policies which impact IFTZ's ability to utilize goods and services from the local economy. As co-chair of the CC, ADOZONA will share responsibility for facilitating an exchange between local suppliers and IFTZ firms and will be charged with assisting the IPC with access to its members and assistance in gathering additional information. ADOZONA will also provide assistance to the IPC to encourage the GODR to adopt reforms which affect the sector.

e. Component Inputs

The Project will provide funds for technical assistance and operational costs for undertaking this component. An estimated 34 person months of technical assistance is required for "Policy Dialogue" (valued at US\$372,000). Operational costs for AI and ADOZONA in support of "Policy Dialogue" are estimated at US\$129,000.

The technical assistance provided under this component will; (1) analyze legislative, policy and regulatory issues affecting export development, (2) draft new legislation, (3) assist in coordination of lobbying efforts and (4) assist in coalition building activities. The operational

costs provided to AI and ADOZONA will provide support for the collection of data and the salaries and overhead expenses for AI and ADOZONA associated with implementing this component.

The role of the IC under the "Policy Dialogue" component is to provide the coordination and technical expertise in undertaking the activities described. The IC will provide assistance to both AI and ADOZONA to: (1) gather relevant data for policy, law, or regulation reviews, (2) analyze laws, policy or regulations, (3) develop a consensus, (4) develop and draft recommendations for reform or revisions, (5) assist in coalition building and strategy planning and, (6) oversee the coordination of the "Policy Dialogue" activities with AI, ADOZONA and the IPC.

The IPC is charged with a lead role in policy dialogue for investment promotion and export development. While they will continue this role, AI and ADOZONA will, through the CC, bring to the IPC substantive sector-specific issues, suggestions, and strategies. The IPC will help develop positions, clarify issues and act as a technical resource for the process of legislative reform and dialogue. The activities financed under the Policy Dialogue component will support legislative and regulatory reform efforts by providing assistance to develop reports, identify constraints and seek solutions. The IPC will be an integral part of the planning process and will act as the primary public voice for reform in discussions with the Government.

The relationship between IPC, and AI and ADOZONA will be complementary and synergistic. The responsibility for assuring a close coordination of activities to avoid duplication will fall to the IC. They will seek to involve the IPC in the activity planning process and establish an on-going relationship to ensure integration and complementarity of the component's activities with the IPC's.

While the IPC has been identified as the lead organization in the Reform Activities subcomponent, as the project is implemented, other organizations may be identified which could serve as a medium for direct dialogue with the GODR. This includes AI and ADOZONA themselves. Support to such organizations to carry out Reform Activities may be provided if it is found to be advantageous to achievement of project objectives.

### 3. Technology Transfer

This component is designed to provide direct assistance to companies to (1) encourage the timeliness of deliveries, (2) enhance production qualities and, (3) transfer technical knowledge for export development of local industries. The activities under the component are: (a) the development of a Resource Center, and (b) Company Assistance.

#### a. Resource Center

The elements which comprise the Resource Center include:  
1) the establishment of a Library, and (2) Technology Information Transfer.

i) Library

This element consists of the accumulation and maintenance of technological information resources for use by local industries. The library will be located at AI and will be utilized by AI member firms in their search for current information.

ii) Technology Information Transfer

The Resource Center will contain written reports, books, magazines and other current reference materials pertaining to the local industrial sector which will be maintained in the library. These materials will be used by local industries as one of the vehicles to transfer technology. The Resource Center will also contain a computerized system for direct access to U.S. databases to retrieve specialized technological reports or information regarding industrial processes. In addition, the Resource Center will develop and maintain a list of references for accessing specialized technical assistance. It will maintain current information in its database regarding the capacity of local industries and opportunities in IFTZ's and will be periodically updated. Sectorial reports will also be furnished for use by investors, firms or other interested parties.

The Resource Center will sponsor five (5) conferences to develop interest in market opportunities and to transfer knowledge of technological advances to local industries. The conferences will be designed to address, (1) broad issues which deal with a variety of products or services and, (2) specific industries such as plastics or electronics.

b. Company Assistance

The "Company Assistance" activity is structured to provide direct technical assistance to local industries and firms which are seeking to access the export market. It is comprised of two elements, (i) technical assistance and, (ii) workshops.

i. Technical Assistance

Resources will be utilized to provide individual companies with technical expertise to help identify and resolve technological or managerial issues which impede the efficiency of the firms in producing for the IFTZ market. The problems which the consultancies will address include production, maintenance, quality control, packaging, and use of new technology as well as managerial issues such as marketing, inventory and financial management. The direct assistance will be provided to firms in all sectors, except to those prohibited from receiving assistance by the Lautenberg Amendment.

ii. Workshops

A series of workshops will be held to optimize the use of technical assistance provided under this component. Selective problems of firms will be aggregated and workshops held for firms which face similar problems. Illustrative examples of workshops include; (1) plastic injection

molding, (2) machinery operations and maintenance or, (3) quality control for electronic or environmentally sensitive products. At least eight workshops will be held during the Project.

c. Component Implementation

i. The Role of the Association of Industries

The role of AI under the "Technology Transfer" component is to provide the location, staff and equipment for maintaining the Resource Center. AI will also utilize its facilities to, (1) conduct the workshops, (2) provide support to the short-term technical assistance contractors and (3) coordinate and screen requests for technical assistance. AI will also be responsible for informing their membership of the services provided and in facilitating the work of the IC.

ii. The Role of ADOZONA

The role of ADOZONA in the "Technology Transfer" component will be to provide access to IFTZ firms and information and assist in workshop presentation as required. ADOZONA will also provide reports or lists they develop to the Resource Center for inclusion into the library and will alert the Resource Center to potential opportunities for product or service linkages as they arise. For example, ADOZONA will alert the Resource Center when new companies are established in any of the IFTZs and will provide a specific description of their product.

d. Component Inputs

This component will provide the resources including technical assistance (valued at US\$1,364,000) and operating expenses (valued at US\$471,000) for establishing and maintaining a Resource Center and for conducting workshops. An estimated 124 person months of technical assistance is required of which 100 will be used for short-term assistance to firms and to conduct the workshops. The remaining 24 person months will be used for the design management, coordination, and planning of the component's implementation.

The IC under the "Technology Transfer" component will plan and coordinate activities and assist in implementation arrangements. These include: (1) developing the systems for information flow to the Resources Center, (2) establishing the nature and scope of information to be maintained, (3) assisting in the management of the Center, (4) coordinating and screening information flows, (5) responding to technical assistance requests, (6) assisting AI in developing mechanisms to access specialized technical assistance, (7) organizing, promoting and conducting the workshops and, (8) providing the short-term individual and sector consultancies as required.

Operating expenses associated with this component will also be provided to ADOZONA and AI. ADOZONA will receive US\$191,000 over the Project's life and AI will be provided with US\$280,000 to pay for the costs of salaries, overhead and materials associated with this component.

#### IV. PROJECT IMPLEMENTATION

##### A. Institutional Roles and Responsibilities

There are three principal organizations involved in the implementation of the Project. The main implementing institution is the Association of Industries, the Project's Grantee. In addition, the Association of Dominican Free Trade Zones (ADOZONA) will receive subgrants to implement the linkages program. Finally, an Institutional Contractor will be contracted to assist in the implementation of the Project's activities and to provide the overall design and coordination role in fostering demand and supply linkages.

An important role will be played by the Consultative Committee (CC). That committee will be co-chaired by AI and ADOZONA and consist of three members from the IFTZ firms and three members from local suppliers. A secondary committee, the Technical Coordinating Committee, will also play a role in Project implementation. Finally, USAID will be involved in the monitoring and oversight of the Project.

##### 1. Association of Industries

The Association of Industries will be the Project's Grantee and primarily responsible for coordinating project activities with its members in local industry. AI will work with AID to contract the IC and Industrial Advisor. AI will be responsible for assigning staff to assist with Project implementation responsibilities and coordination with the other organizations involved in the Project, specifically ADOZONA, the Institutional Contractor and USAID. AI will also provide an Administrative Assistant/Accountant and a secretary along with staff to implement their role in the Project. It will represent the interests of the local supply firms in policy dialogue before the CC and in Project related issues. It will participate in activities designed to familiarize the IFTZ's with the capabilities of local industries. Finally, it will act as a conduit and coordinator of information to its constituency and it will provide the location and management of the Resource Center.

AI will participate in market research and will assist in the selection of the targeted sectors. In cooperation with ADOZONA and the IC, it will organize and sponsor product exhibitions, workshops, seminars and provide mailings and other publications relating to the linkages activity.

In addition, AI will organize exhibits of IFTZ products to help acquaint their members with potential demand. It will participate as a co-chair in the work of the Consultative Committee. It will develop and/or consider the merits of proposed sub-grants and make the appropriate recommendations to the Consultative Committee and USAID. It will also administer the sub-grant program in accordance with USAID requirements.

The Association of Industries has experience in contracting with outside assistance and has the stability required to implement this Project. It currently has a full-time staff of nine, and is located in a two-story building owned by the Association.

## 2. Association of Dominican Free Trade Zones

The Association of Dominican Free Trade Zones will receive assistance to strengthen its financial control systems and an operational subgrant through the project to act as the lead organization in coordinating the project's activities with IFTZ associations. ADOZONA is a self-sufficient association which currently publishes a monthly magazine. ADOZONA's responsibility under the Project will be to represent the interests of the IFTZ manufacturers and developers in policy dialogue and with the Consultative Committee. They will also cooperate in the development and implementation of activities designed to increase local supplier awareness of needs of IFTZ companies. ADOZONA will: (1) be instrumental in participating in on-going market research and in providing access to IFTZ firms and information; (2) develop or consider the merits of proposals for other subgrants under the Subgrant Program and make the appropriate recommendation to the CC and USAID. (3) help administer approved sub-grants for IFTZ market organizations in accordance with AID regulations; (4) co-chair the CC and actively participate on its Task Forces; (5) be receptive to proposals from local vendors and willing to assist them in obtaining access and guidance regarding IFTZ product requirements; and (6) participate in the training of staff and management of prospective vendors from local industry and implement an IFTZ market program of linkages.

## 3. The Institutional Contractor

The Institutional Contractor (IC) will be the Chief coordinating body between the local suppliers and IFTZ market participants and assist in the implementation of all activities. While the Consultative Committee will act as the forum for coordination of activities and a discussion of views, the IC will be charged with the daily responsibility of overall Project implementation to assure conformity and consistency in program objectives and subgrant activities. It will prepare detailed workplans, timetables and budgets for the entire Project, provide staff to implement the activities, maintain a continuous liaison with all Project participants, make periodic reports to USAID, provide staff support for the work of the CC, assist in identifying subgrant activities and recipients, assist with development of the subgrant program, supervise the research activities and provide the short-term and long-term assistance to assure Project implementation. The IC will be responsible for chairing the Technical Coordinating Committee and will provide all of its own support services.

## 4. The Consultative Committee

The Consultative Committee (CC) will review and make recommendations concerning the objectives, priorities, activities and workplans of the Project. It will provide feedback to the IC on the results and presentation of supply and demand research and database program. It will identify and recommend to USAID the allocations of resources for sub-grants. It will also address and make recommendations on a range of public policy/legal and regulatory issues and coordinate its lobbying role with the Investment Promotion Council (IPC). Although, the CC will be an informal consultative body with no official authority it will provide a forum for developing consensus.

5. The Technical Coordinating Committee

The CC will be supported by a Technical Coordinating Committee (TCC). The TCC will serve as the CC's secretariat and provide staff resources and agendas based on input from all Project participants, convene meetings, and provide logistical and follow-up support. The TCC will consist of a representative of the Institutional Contractor, and the Project Managers of ADOZONA and AI.

6. The Agency for International Development (AID)

The Mission's role is to monitor Project implementation, advise on procurement procedures, authorize subgrants and contract periodic non-federal audits and evaluations to determine the success of the Project in meeting its objectives. An Industrial Advisor will be hired who will be responsible to the Mission for monitoring the Project and for providing advice on Project management issues.

B. Coordination with Other Organizations

During the implementation of the Project's activities there will be close coordination with other organizations, institutions and associations involved in the development of the industrial sector to avoid duplication of effort and to assure a prudent use of scarce resources. The primary focus of coordination efforts with other organizations will be between the representatives of the Technical Coordinating Committee and the Consultative Committee with the Investment Promotion Council of the Dominican Republic (IPC).

Coordination with the IPC will be important in marketing and technical assistance provision. The IPC will continue to provide the leadership in generating leads for direct investment and sub-contracting opportunities as well as for policy reform dialogue. AI and ADOZONA will assume the role of "match-making" - the process of presenting samples and assisting industries with specific technical issues. While the IPC's efforts will be predominately action oriented - seeking investment and export opportunities - the resources under this Project will be used to react to the opportunities by providing technical assistance to upgrade and develop industries or by seeking changes to legislative barriers to take advantage of opportunities generated, in part, by the activities of the IPC.

Associations which are members of ADOZONA and AI will benefit from the information and assistance provided to them under the Project and, in turn, their members will receive the benefit of seminars, technical assistance and opportunities for new markets. The coordination of the efforts of these associations, which include local industry Manufacturers' Associations of Haina, Herrera and Santiago among others, will be managed through the subgrant program overseen by the AI.

Associations in the IFTZ's such as the Manufacturers' Association of La Romana, La Vega and Santiago will also receive the benefits of subgrants which ADOZONA will assist in overseeing.

Coordination with other groups involved in fostering economic linkages will include the American Chamber of Commerce, the National Council of Businessmen (CNHE), as well as multilateral donors such as the IBRD and the IDB, which have expressed interest in participating in the effort.

### C. Summary Plans

The following implementation plans explain the procedures and mechanisms to be used to implement the Project and contain a schedule for carrying out specific Project activities.

#### 1. Procurement Plan

Primarily, the procurement under the Project will involve the solicitation, evaluation, and selection of an Institutional Contractor. The Institutional Contractor will be charged with providing all the technical assistance to each component under the Project, planning and coordinating all the activities, seminars and workshop programs, and procuring the Project's commodities. The current plan is for AID with AI and ADOZONA coordination, to issue a Request for Proposals (RFP) by February 28, 1990. The anticipated award date would be May 30, 1990 with expected arrival of the Institutional Contractor representative on July 30, 1990. The contract is expected to be awarded to a U.S. firm, or a group of firms which will provide specialized long- and short-term assistance as outlined in Section III.E. The RFP will also allow for a wide variety of assistance to be provided during the Project's life as the need or special circumstances warrant.

#### a. Subgrants

As discussed in the "Component Implementation" sections under each component, subgrants will be structured under the Project to assist in carrying out implementation activities.

The subgrants to be issued under the Project are to support activities undertaken by associations and organizations in pursuit of establishing linkages between the IFTZ and the domestic economy. It is expected that the subgrants provided will assist those organizations in a variety of ways including institutional strengthening through purchase of equipment and the provision of resources for staff and technical assistance, conducting research and studies for sector specific concerns, updating and maintaining databases relevant to the linkage process, and activities designed to disseminate useful information, including meetings, conferences, seminars

and workshops. The activities sponsored under subgrants will be complementary activities in support of the Project objectives. Subgrants, with the exception of ADOZONA's, will range between US\$30,000 and \$200,000.

1. ADOZONA

(1) Financial System Assistance

Upon obligation of the Grant, ADOZONA will receive short-term technical assistance to undertake an assessment of its financial control capabilities and to implement the recommendations provided by that assessment. The short-term technical assistance will be contracted by AID on ADOZONA's behalf. The assistance is estimated to cost US\$30,000. After the financial control assistance is completed but before an "Operation Subgrant" is provided to ADOZONA a pre-award audit will be conducted to certify ADOZONA's ability to manage grant funds in accordance with AID standards.

(2) Operations Subgrant

Once certification of a financial system acceptable to AID is completed, ADOZONA will receive a subgrant from AI to provide the resources to support a staff of three professionals, and to provide for travel, communications, reproduction, meetings, promotion and publications support. The subgrant will be for US\$435,000 over five years. Additionally, ADOZONA will receive computer equipment, software and vehicles purchased through the Institutional Contractor.

ii. Subgrants to Manufacturing Associations and Others

AI and ADOZONA, with the assistance of the IC, will identify areas of activity in which implementation could most efficiently be carried out by other organizations, associations, companies or individuals through the subgrant system. The Consultative Committee will act as the "filter" for such proposals. Once the CC has approved a prospective subgrant idea and candidate, AI and ADOZONA respectively will work with the Institutional Contractor to prepare a formal proposal to USAID for review and approval.

Participants in the subgrant program include: key geographic area based associations, such as the Association of Industrial Firms from Herrera, the Association of Industries from Haina and the Industrial Association of the Northern Region (Santiago). Participants also include product sector associations relevant to targeted product sectors such as plastics, associations intended to assist small and medium size firms such as the Small and Medium Industry Association and the Development Association of Microenterprises, Inc. (ADEMI), and Associations of manufacturers from the IFTZs, such as La Romana, San Pedro and Santiago, as well as groups such as the Santiago Manufacturers Association which includes both firms inside and outside of the IFTZs.

iii. Qualification of Subgrantee Participants

The subgrant system will be developed by the Institutional Contractor. Participants in the Subgrant Program will be

required to maintain a system of accounting acceptable to AID, and follow acceptable methods of procurement. The Association of Industries, along with the the IC, will administer the program with assistance from ADOZONA on IFTZ related subgrants. The model subgrant agreement will incorporate standard clauses used in AID grant agreements. The Association of Industries will maintain the documents related to the administration of the subgrant program. The program will be modeled on the Investment Promotion Council's Subgrant Program already in operation under the Export and Investment Promotion Project (517-0190). AID will review and approve all subgrant applications.

b. Industrial Advisor

The position of a full-time industrial advisor will be funded under the Grant to assist in project coordination. The Advisor, procured through an AID-direct contracting mechanism, will assist the IC in Project implementation tasks and will report to USAID on implementation concerns.

c. Commodities

The procurement of commodities will be undertaken by the Institutional Contractor. The following provides an illustrative list of the hardware, software, vehicles and office accessories, that will be purchased under the contract.

	<u>Recipient</u>	
	<u>A.I.</u>	<u>ADOZONA</u>
8 IBM Personal Computers	6	2
4 Printers (one laser)	3	1
3 Reproduction Machines	2	1
3 Tele Fax Machines	2	1
3 Uninterrupted Power Supply Units	2	1
<u>Software and Accessories</u>		
4 Word-processing programs	3	1
4 Lotus Spreadsheet programs	3	1
3 Sets of Miscellaneous support programs	2	1
3 Custom designed programs for MIS/control	2	1
3 Custom designed programs for evaluation	2	1
<u>Audio Visual Equipment</u>		
1 Slide projector	1	-
1 Overhead projector	1	-
1 VCR and monitor	1	-
2 Screens	2	-
1 Vinyl blackboard	1	-
1 Accessories	1	-
1 Camcorder	1	-

Vehicles

3 Sedans	2	1
3 Motorcycles	2	1

The procurement process will be completed during the second year of the Project. Title to all equipment used by the IC during Project implementation will revert to the grantee and subgrantees upon Project completion.

d. Gray Amendment

In authorizing this project, the Mission Director hereby certifies (as required by 85 State 348103) that the procurement plan was developed with full consideration of maximally involving minority or Gray Amendment individuals or organizations in the provision of goods and services. The Mission concluded that the procurement of the IC was not appropriate for an 8(a) set-aside. Instead, the institutional contract will be fully competed by the Grantee. However, some subcontracting is required by the prime contractor. The RFP for the main contract will strongly encourage firms to make use of socially and economically disadvantaged firms in any subcontracting plans.

2. Evaluation, Monitoring and Audit Plans

Evaluations and audits will be scheduled and structured in accordance with A.I.D. policy, and will serve as an integral part of project implementation. A mid-term evaluation, conducted by an outside contractor, will be held during the third year of project implementation. This evaluation will ascertain: (a) the success of the project in meeting project objectives; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; (d) assessment of ADOZONA's and AI's management effectiveness; and (e) assessment of the technical assistance contractor's role and contribution in meeting project objectives. Corrective actions, as necessary, will be recommended by the evaluators.

In connection with the mid-project evaluation, there are a number of threshold questions and issues which the evaluators will address. They are:

a. Has the Market Information System compilation been completed?

b. Does the system contain a reasonably-sized universe of both IFTZ firms and local supply side companies, and have these companies provided an acceptable amount of hard data?

c. Is there evidence that the MIS is actually being used (a) by IFTZ firms to identify potential suppliers, and (b) by local suppliers to identify prospective customers?

d. What proportion of domestic companies listed in the local suppliers database has actually initiated face to face contact with IFTZ companies? Is that percentage considered acceptable?

e. What proportion of domestic companies that have received in-plant technical assistance have made contact with IFTZ prospective customers? Is that percentage considered acceptable?

f. How many sales have been concluded between local companies and IFTZ customers?

g. What activities have been carried out under the Policy Dialogue Component? How successful have they been in achieving policy reform?

In evaluating the program based on sales alone, USAID will be provided with information regarding the nature and quality of these sales, i.e. have they grown out of the Project; are they one-time or continuing sales; do they involve products not sold by a particular vendor before, or are they expansions of an existing trading relationship; have they involved capital investment; have they created new jobs?

The evaluation will also seek to discover constraints to making sales. Can lack of performance be attributed to policy constraints, to vendors' lack of initiative, to lack of finance, to regulatory difficulties with, say, customs delays?

A second and final evaluation will be held during the fifth year of project implementation by an outside evaluator. This evaluation will recommend long-term alterations in the implementing organization's procedures, if required, and offer analyses on the ability of ADOZONA and AI to sustain their roles in meeting project goals.

The USAID Project Manager in the Private Enterprise Division (PED) will have the responsibility for managing project activities and evaluations. The Controller's Office will be charged with the monitoring of all quarterly disbursements to AI, ADOZONA and the Institutional Contractor, and the financial audits undertaken in the Project.

3. Initial Implementation Schedule

MAJOR ACTIVITIES/TASKS	Y E A R I					Y E A R I I				III	IV	V	
	OCT-DEC89	JANUARY - DECEMBER 1990					JANUARY - SEPTEMBER 1991				10/1/91	10/1/92	10/1/93
	(1) O N D	(2) J F M	(3) A M J	(4) J A S	(5) O N D	(6) J F M	(7) A M J	(8) J A S	TO	TO	TO		
								9/30/92	9/30/93	9/30/94			
<b>A. INITIAL IMPLEMENTATION/START-UP</b>													
1. Complete Project Agreement	(X)												
2. Personal Services Contractor:													
a. Recruit/Screen/Select		-----	(X)										
b. Negotiate Contractor			-----	(X)									
c. On Site/Start Work				(X)	-----								
3. Institutional Contractor:													
a. Recruit/Screen/Select		-----	-----	(X)									
b. Negotiate Contract				-----	(X)								
c. On Site/Start Work					(X)	---							
4. Association of Industries:													
a. Recruit/Select Project Staff			-----	--(X)									
b. Establish New Oper./Start Work				(X)									
c. Initiate Preliminary Data Col.					(X)								
5. ADOZONA:													
a. Recruit/Select Project Staff			-----	--(X)									
b. Establish New Oper./Start Work				(X)	---								
c. Initiate Preliminary Data Col.					(X)	---							
6. Technical Coordinating Committee:													
-First Organizational Meeting					(X)								
7. Consultative Committee:													
a. Designate Mmbrs to Satisfy AID CP				-----	(X)								
b. First Organizational Meeting					(X)								
<b>B. INITIATE RESEARCH/DATA COLLECTION</b>													
1. Demand Side:													
a. Design/Plan Research Activities					==								
b. Develop Demand Data Base					==								
c. Analyze Information Collected					==								
d. Design/Plan Ongoing Research Act						==							
e. Implem Ongoing Research Activity							-----						
2. Supply Side:													
a. Design/Plan Research Activities						==							
b. Develop Supply Data Base						==							
c. Analize Information Collected						==							
d. Design/Plan Ongoing Research						==							
e. Implem Ongoing Research Activity							-----						

ACTION PLAN AND IMPLEMENTATION SCHEDULE  
FOR INDUSTRIAL LINKAGE PROJECT  
YEARS II - V

MAJOR ACTIVITIES/TASKS	Y E A R I I					Y E A R I I I			IV	V
	OCT-DEC90	JANUARY - DECEMBER 1990				JANUARY - SEPTEMBER 1991			10/1/92	10/1/93
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	TO	TO
	O N D	J F M	A M J	J A S	O N D	J F M	A M J	J A S	9/30/93	9/30/94
<b>C. INFORMATION DISSEMINATION</b>										
1. Announce Proj.- Press Release, Press Conference	--									
2. Publish Demand Side Research/Circulate	--									
3. Press Release: Demand Side Research	--									
4. Workshop		--		--		--		---	- -	- -
5. Publish Demand Side Directory/Circulate		--								
6. Press Release: Demand Side Director		--								
7. Monthly Bulletin		--	--	--	--	--	--	--	--	--
8. Rotating Exhibits of IFTZ Products			--	--	--	--				
9. Publish Supply Side Research		--								
10. Press Release: Supply Side Research		--								
11. Publish Supply Side Directory			--							
<b>D. TECHNOLOGY TRANSFER</b>										
1. Initial Diagnostic/Needs Assessment/Prescription for Prospective Suppliers.										
2. Anlysis of Diagnostic Results to Identify High Promise Companies, Match with Project Resources, and Develop Integrated T.A. Plan.										
3. Implement T.A. Plan.										
4. Repeat T.A. Cycle. Based on Results of Ongoing Demand/Supply Research										

V. FINANCIAL PLAN AND ANALYSIS

A. Summary of Cost Estimates

The Project will provide US\$5.0 million in grant funds through a Handbook 13 grant to the Association of Industries under which subgrants shall be made to ADOZONA and other organizations. The equivalent of up to US\$1.0 million in local currency for policy reform and subgrant program activities will be contributed by the GODR. In addition, ADOZONA and AI will contribute the equivalent of US\$667,000 in local currency and/or in-kind support to project activities.

The Summary Budget, Table 1 below, presents sources and uses of funds by inputs.

o Technical Assistance: Approximately US\$3.1 million will be used to procure an Institutional Contractor to assist ADOZONA and AI to develop, implement, monitor and manage the industrial linkage process. (See Annex H-5 for a detailed breakdown of this input).

o Commodities: The IC will procure approximately US\$209,000 worth of equipment and vehicles to support project implementation. (See Annex H-1 for a detailed breakdown of this input).

o Operating Expenses: Operational costs for AI and ADOZONA including subgrants will be provided. AI will receive US\$636,000 while ADOZONA will receive US\$435,000. (See Annex H-8).

o Industrial Advisor: An AID-direct contract with an individual will be executed for the provision of a technical advisor with expertise in industrial development. The cost of this procurement will be US\$500,000 over the life of the Project. The person will serve as Project Coordinator for this Project and as USAID's liaison with the various participants in the Project. (See Annex H-7).

o Evaluation and Audit: The cost of the two planned evaluations and audits for the Project will be US\$90,000 and US\$30,000 respectively and will be implemented through AID-direct contracts.

Table 1 also presents uses of funds by components:

- o Communication and Information, US\$2,044,000.
- o Policy Dialogue, US\$501,000.
- o Technology Transfer, US\$1,835,000.
- o Industrial Adviser, US\$500,000.
- o Evaluation and Audit, US\$120,000.

SUMMARY  
BUDGET

TABLE I

BY INPUTS:	AID	AI	ADOZONA	GODR	TOTALS
-----					:
1. TECHNICAL ASSISTANCE	\$3,100				: \$3,100
2. COMMODITIES	\$209	\$116			: \$325
3. OPERATING EXPENSES	\$1,071	\$329	\$222	\$1,000	: \$2,622
4. INDUSTRIAL ADVISOR	\$500				: \$500
5. EVALUATION & AUDITS	\$120				: \$120
					:
PROJECT TOTAL:	\$5,000	\$445	\$222	\$1,000	: \$6,667
					-----
					-----
BY COMPONENTS:					:
-----					:
1. COMMUN & INFO:	TA \$1,364				: \$1,364
	COMMODITIES \$209	\$35			: \$244
	OP EXPENSES \$471	\$111	\$125	\$250	: \$957
					:
	SUBTOTAL: \$2,044	\$146	\$125	\$250	: \$2,565
					-----
					:
2. POLICY DIALOGUE:	TA \$372				: \$372
	COMMODITIES	\$26			: \$26
	OP EXPENSES \$129	\$41	\$53	\$500	: \$723
					:
	SUBTOTAL: \$501	\$67	\$53	\$500	: \$1,121
					-----
					:
3. TECHNOLOGY TRANSFER:	TA \$1,364				: \$1,364
	COMMODITIES	\$55			: \$55
	OP EXPENSES \$471	\$177	\$44	\$250	: \$942
					:
	SUBTOTAL: \$1,835	\$232	\$44	\$250	: \$2,361
					-----
					:
4. INDUSTRIAL ADVISOR:	\$500				: \$500
					-----
					:
5. EVALUATION & AUDITS:	\$120				: \$120
					-----
					:
PROJECT TOTAL:	\$5,000	\$445	\$222	\$1,000	: \$6,667
					-----
					-----

C. Methods of Implementation and Finance

<u>Project Elements</u>	<u>Methods of Implementation</u>	<u>Financing</u>	<u>Amount</u> <u>US\$000</u>
1. Tech. Assistance & Commodities	Grantee (Comp. Neg. RFP)	Direct Letter of Commitment	3,309
2. Institutional Support (OE)	Grantee Procurement	Direct Pay (Periodic Advance)	1,071
3. Industrial Advisor	AID Direct Contract (PSC)	Direct Pay	500
4. Evaluations and Audits	AID Direct Contract	Direct Pay	120
			<hr/> 5,000

All of the methods listed above are preferred methods under the payment Verification Policy Guidance. AID will perform all contracting with the exception of Institutional Support (OE) to the Grantee/Subgrantees which will be carried out via the Grantee's own methods of procurement in conformance with HB13 Standard Provisions for Contractors

D. Analysis

The financial analyses for the Project concluded that the costs for the procurement of technical assistance and commodities was reasonable based upon the Project's requirements. A Mission assessment of the methods of implementation and finance indicated that the methods selected represent the most effective combination of procedures for accomplishing the Project's objectives. The implementation and financing plan conforms to the "Payment Verification Policy Implementation Guidance" which requires that provisions for audit be included as part of the Project planning process.

The Associations involved in the Project will be periodically audited by outside, independent auditors. Under the Project, audits will be initiated by the Mission according to the "USAID Monitoring and Audit Plan" and will be undertaken by independent auditors acceptable to the Mission.

E. Sources of Funds

1. A.I.D.

The AID Environment contribution to this Project will be fully funded from the Private Sector Environment and Energy Account (Section 106). This decision is based upon the institutional strengthening nature of the Project, the policy changes which we expect will be encouraged and the type of program which the Project will sponsor to stimulate investments and exports.

2. GODR

The GODR will contribute the local currency equivalent of US\$1,000,000 during the five (5) year life of the Project. The GODR funds will be provided to ADOZONA and AI and utilized as contributions to operating expenses to undertake the activities described under each component.

3. Association of Industries

AI will provide an in-kind contribution of US\$445,000 for the Project's implementation. AI's contribution will be in-kind for equipment and operational expenses and it is additional due to the expansion of activities created by the Project.

4. ADOZONA

ADOZONA will make an in-kind contribution of US\$222,000 for the Project's implementation. ADOZONA's contribution will be for overhead and expenses of implementing the activities under each component.

## VI. SUMMARY OF ANALYSES

### A. Institutional and Administrative Analyses

The primary implementing organizations of the Project are the Grantee, the Association of Industries and, under a subgrant, the Association of Dominican Free Trade Zones (ADOZONA).

#### 1. Association of Industries

The Association of Industries is the most well represented organization of its kind in the country. Founded in 1962, it has drawn solid support from its more than 467 nationwide industry members. The Association, after 27 years of service to indigenous industries, continues to fill a unique role in support of the industrial development of the country. It is charged by its members with the responsibility of acting as spokesmen for the sector on various issues that include legislative actions, business environment, and other matters of mutual interest to the members of the industrial sector.

The organization is self-sustaining through membership dues. Its annual budget is RD\$475,000, and it is governed by a Board of Directors consisting principally of leading Dominican industrialists.

AI will play an instrumental role in reaching a large number of domestic manufacturing companies located throughout the country which have little or no experience supplying IFTZ firms and have limited experience in the export processes. The role of AI is to take the lead in establishing outreach programs for its "local supplier" membership.

Activities will include participation in conducting "local supplier" research and establishing the supplier database, coordination of technical assistance to local supplier firms, helping to create a publications program, analyzing needs for subgrants, and sponsoring seminars and workshops using industrial technical experts to enable its member industries to develop the ability to supply quality products to free trade zone firms or for obtaining sub-contracts from foreign-based operations.

AI will also play a lead role in policy development affecting the sector. Working within the Consultative Committee, disincentives including customs procedures, regulations affecting the tax basis for production for export, and other barriers, will be examined and recommendations made on behalf of the sector. This aspect of AI's activities will be closely coordinated with both ADOZONA and IPC, which are also involved in policy and legislative changes on a multi-sectoral level.

While AI is financially self-sustaining it will receive technical assistance and training, equipment database development, and assistance in conducting workshops, seminars and exhibitions. In order to effectively utilize the resources under the grant, AI will utilize its current structure of nine individuals and augment its staff by a Project Manager, an Administrative/Accountant and two support staff (See Annex D).

AI will coordinate with AID and ADOZONA in the selection of an institutional contractor to provide the assistance required under the Project. The Association of Industries has the capability to oversee the contract and will be assisted by USAID to establish and administer the contract.

The institutional strengthening assistance received by AI under the Project will assure their ability to channel resources to their member associations and firms and will establish the support base required to provide on-going information services in support of linkage activities. The additional staff provided under the Project will be trained through on-the-job assistance provided by the contractor in developing and maintaining databases, membership service regarding linkage activities, program and promotion, seminar and workshop administration and exhibition management.

Short-term technical assistance will be broad in scope and be used as required through the Institutional Contractor to provide assistance to AI. The long-term technical assistance will coordinate the level of effort and workplans to be applied to each activity.

## 2. Association of Dominican Free Trade Zones

Founded in 1988, the members of this organization have been working together informally since 1986. Today the organization consists of the operators of the 11 largest private IFTZs and the leadership of the manufacturers associations that exist in four of the Zones, including Government owned zones.

ADOZONA is governed by a Board of Directors, with each member being elected for a term of two years. The Board consists of four representatives of Zone developers/operators and three representatives of Zone manufacturers' associations.

ADOZONA's role vis-a-vis its membership is that of administrator and coordinator of the demand side of the linkages program. As a leader in free trade zone development, the Association views the linkages program as a necessary next step in further development of the industrial sector and as an important potential source of products for IFTZ manufacturers. The ADOZONA's charter describes their objectives as (1) promoting the development of IFTZ's, (2) generating a favorable investment environment for IFTZ's, and (3) providing a forum for innovative solutions for industrial sector development of the country.

ADOZONA's role in the Project will be to (1) access and obtain the cooperation of the IFTZ operators and manufacturing firms located within the zones, (2) assist in establishing relationships with local suppliers and (3) develop consensus for policy reform alternatives from the IFTZ manufacturer's which deal with export restrictions, exonerations and any other cross-border transaction affecting IFTZ transport or purchase of goods or services from the local economy.

In order to execute its role in the Project, ADOZONA will receive a subgrant from AI, technical assistance from the Institutional Contractor and assistance in establishing its accounting and financial control systems through short-term technical consultants contracted by AID. The "Operational Subgrant" to ADOZONA will provide the resources to support a staff to manage the implementation of the demand-side linkages activities. The current staff of ADOZONA consists of a secretary and an Executive Director designate.

B. Technical Analysis

This analysis summarizes the findings related to the technical issues involved with Project implementation.

This section will describe: (1) the relationship of technical assistance and training programs to the institutional structure of the project; (2) long- and short-term technical assistance and training activities; (3) the relationship of the Communications, Information and Technology Transfer components to the technical assistance and training activities; (4) the role of the subgrant program; (5) timing of the activities; and (6) the resources needed.

1. Relationship to the Institutional Structure

The primary responsibility for management of technical assistance and training will be assigned to the Institutional Contractor. However, the IC, ADOZONA, AI, and other subgrantees will each be held responsible for specific tasks and/or activities prescribed in their respective contracts/agreements. The staff and resources of the IC will be used to support and backstop the activities of ADOZONA, AI and other subgrantees and will provide direct assistance to relevant constituencies and individual participants and beneficiaries.

The staffs of the IC, ADOZONA and AI will coordinate their efforts with the IC's Chief of Party who will play a central facilitation role.

## 2. Technical Assistance

### a. Long Term

Both long- and short-term technical assistance will be provided under the Project. The IC's Chief of Party (C.O.P.) will be the only long-term U.S. staff. In addition to the C.O.P. long-term technical assistance will be provided through three locally hired specialists in Industrial Production, Information Systems and Communications.

The primary responsibility and focus of the Industrial Specialist will be local supply related activities such as initial diagnostic visits and coordination and follow-up of short-term outside technical assistance from industry specific experts.

The Information Specialist will work closely with ADOZONA and will coordinate with AI. The principal responsibility and focus of this function will be the coordination of "demand" related activities such as the initial and ongoing market research and analysis of demand in the IFTZs, and the development of the information database .

The Promotions Specialist will work equally with organizations on the demand and supply side. This function will develop the overall design, coordination and implementation of the promotions strategy, including media activities and publication of the monthly bulletin and directories.

### b. Short-Term

Short-term technical assistance will be used for carrying out the information activities, and for upgrading management, production and marketing capabilities among the targeted sectors.

The specific short-term technical assistance needs and activities for local suppliers will be based to a large extent on the results of the IFTZ demand analysis conducted under the Market Information System subcomponent. Once the product and company specific demand data from the IFTZ survey is collected and analyzed, priority sectors and products will be selected.

Based on these industry audits and an assessment of company interest, outside industry specialists will conduct 1 - 2 day in-plant diagnostics of each firm. These specialists will look at both technical and administrative capabilities of each firm, and will develop a proposal or workplan identifying the steps which need to be taken to upgrade the operation to a point where they could sell to the IFTZs.

## 3. Training

Most of the training activities in this Project will be carried out in the context of the on-the-job and on-site support and technical assistance provided to ADOZONA, AI, subgrantees and the individual participants and beneficiaries. Aside from the in-plant evaluations and assistance to be provided to individual factories described above, ADOZONA, AI and subgrantees will be trained in how to carry out the ongoing information

collection and dissemination activities, in the organization of workshops, seminars and exhibitions, and in planning and implementing other project activities.

4. Relationship of the Communications and Information Component

The Communications and Information activities will serve to integrate the collection and distribution of information to accomplish technology transfer. First, the Project will be "demand driven" and based on the market information collection and analysis. The surveys, audits and diagnosis of local suppliers will serve to screen and prescribe assistance needed by individual firms as well as sectors. Some publications and general public relations activities will benefit all industries, not only target sectors. Other activities, such as product exhibits will be targeted to specific sectors and buyer groups.

5. Integration of Subgrant Program/Process

The specific purpose and scope of the various subgrants will be based on the results of the IFTZ market and local supplier surveys, as well as the evolving needs and priorities of the program. It is anticipated, however, that the following basic types of activities will be included:

a. Research

Subgrants will be used to update and maintain the information collected on both the demand and supply sides.

b. Information Dissemination

- o To host, support and facilitate information dissemination, especially by product sector and/or regional "supply" associations.
- o To inform and encourage IFTZ "tenants" to buy local inputs.

c. Technology Transfer

Technology transfer activities will be focused on prospective suppliers within targeted product sectors, and provided through product or geographic sector associations. Subgrants will assist associations to facilitate and coordinate surveys, audits and diagnostic visits by consultants and Project staff, on-site technical assistance, and training workshops.

The Institutional Contractor will also designate a substantial proportion of its resources to identify subgrantees, help them apply for subgrants and support their implementation activities. ADOZONA and AI are also expected to designate a substantial proportion of their respective project and staff resources to help identify, screen, prepare subgrants, monitor and support implementation, and conduct evaluations.

### C. Policy Dialogue Component

The purpose of the Policy Reform component is to identify and address policy and regulatory constraints to increasing sales of locally produced products and services to the IFTZs.

A proposed revision to Law 299 and a proposed new Free Zone Law would facilitate trade between the IFTZs and local industries. This project will support passage of those two pieces of legislation by providing the technical assistance and resources to help develop a coordinated effort to change the existing legislation. In addition, there will be an ongoing need to identify and address other policy and regulatory constraints to increasing sales of locally produced goods and services to the IFTZs. The Project strategy for accomplishing this will be the following:

- o Identification of policy and regulatory constraints
- o Analysis of constraints and possible solutions
- o Policy Advocacy

### D. Credit

#### 1. Demand for Credit

Lack of access to credit will have an impact on the Project's activities. It was determined that credit has a role in industrial linkages, although sufficient available sources of credit currently exist to meet the Project's requirements. (An explanation of the availability of credit resources and financial support mechanisms is provided in Annex C.)

### E. Economic and Financial Analyses

The economic and financial analyses for the Project calculated positive returns on the investment in both economic and financial terms. It is expected that the Project will generate over 11,000 jobs by the PACD and over 18,000 by 1998. In addition, local value added by the Project will increase to \$250 million by 1998 from current earnings. The Project's internal rate of return (IRR) was calculated to be between 23-50% with a 10-year forecasted net present value (NPV) of US\$39.8 million.

The Project's impact on income from incremental local value added can be seen from Table 2, below. And the estimated direct benefits from income generation and foreign exchange generation from the Project are indicated in Tables 3 and 4.

TABLE 2

PROJECT OUTCOMES  
INCOME GENERATION FROM INCREMENTAL LOCAL VALUE ADDED

In Millions of US Dollars

	<u>FTZ Gross Exports</u>	<u>Local Value Added for Services Induced by Project</u>	<u>Local Value Added for Components Induced by Proj.</u>	<u>Total Project Induced LVA</u>
1986	246.2	-	-	-
1987	323.1	-	-	-
1988	450.0	-	-	-
1989	550.0	0	0	0
1990	700.0	0	0	0
1991	900.0	9.0	0	9.0
1992	1041.0	31.2	10.4	41.6
1993	1204.0	60.2	24.0	84.2
1994	1393.0	97.5	42.0	139.5
1995	1612.0	113.0	48.2	161.0
1996	1866.0	131.0	56.0	187.0
1997	2159.0	151.0	65.0	216.0
1998	2498.0	175.0	75.0	250.0

The estimated direct benefits from income generation are presented in Table 2.

TABLE 3

ESTIMATED DIRECT BENEFITS  
INCOME GENERATION

Millions of US Dollars

	<u>N O M I N A L</u>			<u>PRESENT VALUE</u>		
	<u>Local Value Added Subs/ Services</u>	<u>LVA Components</u>	<u>Total</u>	<u>LVA Subs/ Services</u>	<u>LVA Com- ponents</u>	<u>Total</u>
1989	0	0	0	0	0	0
1990	0	0	0	0	0	0
1991	9	0	9	5.9	0	5.9
1992	31.2	10.4	41.6	16.8	5.6	22.4
1993	60.2	24.0	84.2	26.3	10.5	36.8
1994	97.5	42.0	139.5	34.6	14.9	49.5
1995	113.0	48.0	161.0	32.6	13.9	46.5
1996	131.0	56.0	187.0	30.8	13.1	43.9
1997	151.0	65.0	216.0	28.8	12.4	41.2
1998	175.0	75.0	250.0	27.2	11.6	38.8

Net foreign exchange levels are also substantively increased as indicated in Table 3, below.

TABLE 4

FOREIGN EXCHANGE GENERATION  
In Millions of US Dollars

	<u>GROSS FOREIGN EXCHANGE GENERATION</u>		<u>NET FOREIGN EXCHANGE GENERATION</u>	
	<u>Nominal</u>	<u>Present Value</u>	<u>Nominal</u>	<u>Present Value 3</u>
1989	0	0	0	0
1990	0	0	0	0
1991	9.0	5.9	7.7	5.1
1992	41.6	22.4	32.8	17.6
1993	84.2	36.8	65.6	28.7
1994	139.5	49.6	108.0	38.4
1995	161.0	46.5	124.8	36.0
1996	187.0	43.9	145.0	34.0
1997	216.0	41.2	167.4	31.9
1998	<u>250.0</u>	<u>38.2</u>	<u>193.8</u>	<u>30.1</u>
Total	1,088.3	285.0	845.1	221.8

Finally, the Project's impact on direct employment as a result of the linkages activity is shown in Table 5:

TABLE 5  
PROJECT IMPACT, DIRECT EMPLOYMENT  
EMPLOYMENT RESULTING FROM LINKAGES, BY SECTOR  
Jobs

Linkage Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998
A. Subcontracts	0	0	1,270	2,944	5,949	6,901	8,000	9,222	10,688
Services	<u>0</u>	<u>417</u>	<u>963</u>	<u>1,672</u>	<u>2,260</u>	<u>2,617</u>	<u>3,034</u>	<u>3,498</u>	<u>4,052</u>
Total	0	417	2,233	4,616	8,209	9,518	11,034	12,720	14,740
B. Manufactured Inputs raw materials, components	0	0	518	1,196	2,093	2,392	2,791	3,240	3,737
Total (A+B)	<u>0</u>	<u>417</u>	<u>2,751</u>	<u>5,812</u>	<u>10,302</u>	<u>11,910</u>	<u>13,825</u>	<u>15,960</u>	<u>18,477</u>

The Benefit/Cost ratio of the Project was calculated to be 5.6:1.  
Other important conclusions of the analyses are:

A) The project can be expected to attract and coalesce incremental private sector investment totaling US\$105.4 million dollars in nominal terms, or US\$35.2 million in present value over the life of the project.

B) Total incremental employment is estimated to be a conservative minimum of 3,737 new jobs, but may be as high as 18,477, depending on whether subcontracting and service purchases by IFTZ firms replace IFTZ employment or represent activities that would not otherwise take place.

C) Net foreign exchange generation is, in essence, coincidence with net income generation. This means that foreign exchange generation is exceptionally favorable and highly leveraged for this project. In present value terms over a ten year period each dollar of total project costs generates about 5.6 dollars of net foreign exchange. Since direct Project costs are highly leveraged by local private investments each dollar of AID, GODR, AI and ADOZONA contribution generates about 48 dollars of foreign exchange.

D) The absolute level of project benefits is sensitive to overall growth in IFTZ activity. Since total project costs are largely determined by private investment (which is, in turn, dependent on the level of linkage activity with the local economy), benefit/cost ratios are not significantly altered.

The analysis ascertained that this is an economically and financially worthwhile Project if even an approximation of these results are obtained (See Annex E).

#### F. Environmental Analysis

A determination was made at the time of the PID approval that a Categorical Exclusion was applicable to this Project under Section 216.2(c)(i) of 22CFR (See Annex J).

#### G. Social Soundness Analysis

##### 1. Socio-Economic Context

The Dominican Republic's present population is estimated at seven million, of which the total available labor pool comprises 41%. Although the country's annual population growth rate is 2.3%, the labor pool annually grows by 3.3%. This rate of growth means that an additional 90,000 people enter the labor market each year and, because of the high proportion of the population below the age of 15 (40%), this rate of growth will continue into the future.

The majority of the labor force (67.7%) finds employment in the non-agricultural sectors. Although precise unemployment rates for rural areas are unavailable, current estimates of total unemployment in the country range as high as 28%. The country's growth need for jobs in non-agricultural sectors, and the recently announced GODR estimates of 0.5% GDP for 1988 and a substantial (-5.5%) negative manufacturing sector growth, point to the need for action to stimulate investment and create jobs in the industrial sector.

##### 2. Impact and Benefits

This Project's strategy is directed at stimulating investment and technology transfer, and earning foreign exchange by developing export-oriented production and generating jobs. These direct jobs will produce benefits in the form of wages paid to the employees of domestic industrial enterprises, which are the target under this project.

The wages paid, in turn, will have secondary effects and produce jobs indirectly in the industries which service the new investments or through the firms located in communities where the new wage earners are living.

The new investments generated by this Project will be demand driven and will affect a wide range of geographical regions and industrial sectors. Therefore, what the Project introduces in a social context to the Dominican beneficiary is an opportunity to increase the standard of living through the creation of employment and an increase in personal income.

This Project's initial intervention is largely at the industrial plant level and its impact will directly benefit the poor. Consequently, the social soundness analysis which follows examines three areas concerned with the social soundness of the Project, to the extent applicable. Basically, it addresses the socio-cultural feasibility of the anticipated technology transfer, the social impact or distribution of benefits among different groups and the Projects impact on women.

a. Sociocultural Feasibility and the Diffusion of Innovation

The sociocultural level of society upon which the Project will have an immediate impact is at the industrial plant level in the various communities where the innovations introduced by the Project will be received. The "social landscape" of the increasingly export-oriented Dominican industrial sector is such that innovation is readily and easily accepted and adaptations to new technologies can be absorbed quickly.

The ultimate beneficiaries of the Project, the Dominican unemployed poor, will deal with innovations and new technologies brought into the specific industrial plants by investors transferring new processes which the new worker must learn. The extent to which the Dominican worker adapts to these new technologies introduced by new production projects can be estimated to be good given the history of industrial and agricultural growth in the country during the past decade.

Therefore, the sociocultural factors which deal with values, social structure and organization will not be affected by the Project in a negative way. The innovation introduced by the investments generated by this Project will bring new technologies which recent history and current trends indicate are easily introduced and accepted into a Dominican social environment.

b. Distribution of Benefits

A more appropriate analysis concerns the distribution of benefits among the Dominican unemployed who will be affected by the Project. The Project establishes a strategy, which by design, will attract demand-driven investment into selected industrial subsectors.

In terms of employment, by the end of 1998 this project is expected to help create about 18,000 new jobs in domestic industry. These jobs will be geographically dispersed, servicing existing and/or new firms located in IFTZs throughout the country. This increase will bring a substantial benefit to both men and women employees, as jobs for unskilled laborers in the export-oriented industrial sector are among the most beneficial in the country; employment tends to be fairly constant throughout the year; and minimum wage rates of RD\$500 per month plus benefits (30% of wages) are among the best available to this unskilled work force. Additionally, recent analyses of secondary benefits of free trade zone employment calculated that for every ten new full-time, direct jobs created there are eight indirect jobs generated predominantly in the transportation and food service sectors. Construction jobs and jobs in agriculture will also be produced providing additional income to previously disenfranchised Dominican poor. Since the majority of jobs created in the local economy by linkages would be similar to those within the zones, comparable indirect job creation could be anticipated.

c. Impact on Women

As indicated above, it is hoped and expected that this project will result in the creation of a substantial number of new jobs - the great majority of which will be in (factory-based) manufacturing. A report on employment patterns in the manufacturing association show that, at present, some 58% of all factory jobs are held by women. (Note-this is consistent with the situation in much of the third world). It is anticipated that the situation will hold true for new jobs created as a result of this project i.e.- at least 58% will be encumbered by women. Studies in the D.R. of the uses of disposable income generated by women indicate that the predominant share of those funds are spent on purchases of better food, education for children and housing, thereby effecting a substantial and substantive improvement in quality of life indicators.

The conclusion regarding the social soundness of the Project is that, as a result of the Project, a wider and more equitable distribution of resources will occur across the country which will encourage the participation of women in many of the benefits of growth. The introduction of the new technologies will not negatively impact social or cultural norms but rather provide opportunities for growth within the existent sociocultural framework.

VII. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

A. Conditions Precedent to Disbursement

1. First Disbursement

Except for technical assistance, the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

a. an opinion of the Legal Advisor to the Grantee acceptable to A.I.D. that this Agreement has been duly authorized and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

b. a statement of the name of the person who will represent the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statement;

c. a certification from an accounting firm acceptable to AID that the Grantee has the capability necessary to adequately account for and control the funds received under this grant.

2. Disbursements for Subgrants

Except for the subgrant to the Association of Dominican Free Trade Zones (ADOZONA), prior to disbursement for subgrants under the Grant, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., a copy of the "Subgrant Implementation Program", which shall contain the names of each prospective subgrantee, the nature of the activities to be undertaken, the budget, and requirements for periodic workplans. The "Subgrant Implementation Program" will also include a description of the administrative mechanisms to be used to provide the subgrants and will be subject to A.I.D. approval.

B. Covenants

1. The Grantee covenants to establish the Consultative Committee and appoint as a co-chairperson the President of the Association of Industries and the President of the Association of Private Sector Free Trade Zones (ADOZONA) along with six member representatives of which three are selected by ADOZONA and three by the Grantee.

C. Negotiating Status

The Grantee submitted a letter of application on March 20, 1989. Negotiations have been ongoing to reach an agreement regarding the design and implementation of the Project's activities. The Grantee is aware of the terms and conditions of the Grant and is prepared to accept and to abide by them.

D. Project Committee

Kenneth A. Lanza, Private Sector Officer  
Michael Kaiser, Private Sector Officer  
Robert Mathia, Project Development Officer  
Peter Amato, Project Development Officer  
Kenneth Beasley, Program Economist  
Richard Lawrence, Deputy Controller  
Joseph Thomas, InterAmericas Group, Ltd.  
George Arzeno Brugal, President, Association of Industries  
Manuel Tavares, President, Association of Free Trade Zones  
José Cerón Peña, Association of Free Trade Zones

**ANNEXES**

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Total Project \$6.67 Million  
Total U.S. Funding \$5.0 Million  
Total Other Funding US\$1.67 Million equivalent  
Date Prepared \_\_\_\_\_

Project Title & Number: Industrial Linkages Project (517-0252)

Narrative Summary	Objectively Variable Indicators	Means of Verification	Important Assumptions																																			
<b>A.1 Goal</b>	<b>A.2</b>	<b>A.3</b>	<b>A.4</b>																																			
To increase income and employment in non-Free Trade Zone activities.	<ul style="list-style-type: none"> <li>- Value added of non-traditional export from free trade zones increased.</li> <li>- Value added of the non-traditional exports excluding mining, sugar, cocoa and tobacco increased.</li> <li>- Number of Dominicans employed in non-traditional export industries increased.</li> </ul>	<ul style="list-style-type: none"> <li>- Data from the Central Bank for FTZ.</li> <li>- CODOPEX data.</li> <li>- Indicative surveys as necessary by USAID.</li> </ul>	<ul style="list-style-type: none"> <li>- New Free Zone legislation approved by Congress.</li> <li>- Changes to Law 299 will not worsen the competitiveness of export activities vis-a-vis strictly domestic activities.</li> </ul>																																			
<b>B.1 Purpose</b>	<b>B.2 End of Project Status</b>	<b>B.3</b>	<b>B.4</b>																																			
To develop production linkages between local manufacturers, the Industrial Free Trade Zones and off-shore markets by improving the quality of product, productive capacity and timeliness of deliveries.	<ul style="list-style-type: none"> <li>- Increase from 22% to 50% of the number of free trade zone companies purchasing inputs from local industries.</li> <li>- Diversification of the type of products currently sourced locally.</li> <li>- Increase in value added by local economy from 30% to 40% of export value.</li> <li>- Creation of 11,000 new jobs.</li> <li>- US\$108 million increase in net foreign exchange generation.</li> </ul>	<ul style="list-style-type: none"> <li>GODR, ADOZONA and Association of Industries Statistics.</li> </ul>	<ul style="list-style-type: none"> <li>- Current investment climate is maintained or improved.</li> <li>- Political stability in GODR continues.</li> <li>- Concerned project organizations are effective in advancing policy reform.</li> <li>- Adequate sources of credit are available.</li> </ul>																																			
<b>C.1 Outputs</b>	<b>C.2</b>	<b>C.3</b>	<b>C.4</b>																																			
<ul style="list-style-type: none"> <li>- Integrated system of information gathering, processing and dissemination for use of local industries.</li> <li>- Market Information System established and providing information necessary for linkages.</li> <li>- Consultative Committee addressing public policy and regulatory issues.</li> <li>- Technical assistance provided to local industries.</li> </ul>	<ul style="list-style-type: none"> <li>- Resource Center established.</li> <li>- MIS system installed, maintained and functioning.</li> <li>- Consultative Committee formed and meeting periodically.</li> <li>- Institutional Contractor providing advisors.</li> </ul>	<ul style="list-style-type: none"> <li>- Project evaluations.</li> <li>- Project records.</li> <li>- ADOZONA and Association of Industries records.</li> <li>- Consultant reports.</li> <li>- Project managers reports.</li> </ul>	<ul style="list-style-type: none"> <li>- Program is maintained.</li> <li>- Organization continues to be self supporting.</li> <li>- Level of demand for services remains as constant or increases.</li> <li>- Law 69 revised and updated.</li> </ul>																																			
<b>D.1 Inputs</b>	<b>D.2 (U.S.\$000)</b>	<b>D.3</b>	<b>D.4</b>																																			
<b>Institutional</b>	<table border="1"> <thead> <tr> <th></th> <th>AID</th> <th>AI</th> <th>ADOZONA</th> <th>GODR</th> </tr> </thead> <tbody> <tr> <td>A. Technical Assistance</td> <td>3,100</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>B. Commodities</td> <td>209</td> <td>166</td> <td>-</td> <td>-</td> </tr> <tr> <td>C. Operating Expenses</td> <td>1,071</td> <td>329</td> <td>222</td> <td>1,000</td> </tr> <tr> <td>D. Industrial Advisor</td> <td>500</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>E. Evaluation of Audit</td> <td>120</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td><b>Total</b></td> <td><b>\$5,000</b></td> <td><b>\$445</b></td> <td><b>\$222</b></td> <td><b>\$1,000</b></td> </tr> </tbody> </table>		AID	AI	ADOZONA	GODR	A. Technical Assistance	3,100	-	-	-	B. Commodities	209	166	-	-	C. Operating Expenses	1,071	329	222	1,000	D. Industrial Advisor	500	-	-	-	E. Evaluation of Audit	120	-	-	-	<b>Total</b>	<b>\$5,000</b>	<b>\$445</b>	<b>\$222</b>	<b>\$1,000</b>	<ul style="list-style-type: none"> <li>- Industrial Advisor on board in ADOZONA and working.</li> <li>- AID advisor hired and assuming responsibilities.</li> <li>- Subgrant provided to Association of Industries for staff development and training.</li> <li>- Subgrant provided to manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>- CP's are met in a timely manner.</li> <li>- Contracts and subgrants are awarded in a timely fashion.</li> <li>- Resources are available through AID generated local currency.</li> </ul>
	AID	AI	ADOZONA	GODR																																		
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UNCLASSIFIED

STATE 089397/01

(10) ACTION: AID-8  
INFO: AMB DCM AC CHRON

ANNEX B-1

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DE RUEBC #9397/01 0822226  
ZNR UUUUU ZZH  
P 222211Z MAR 88  
FM SECSTATE WASHDC  
TC AMEMBASSY SANTO DOMINGO PRIORITY 1367  
BT  
UNCLAS SECTION 01 OF 07 STATE 089397

LOC: 275 124  
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CN: 04997  
CHRG: AID  
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TAGS:

SUBJECT: REVIEW OF USAID/DOMINICAN REPUBLIC'S FY  
-- 1989/1990 ACTION PLAN

1. THE REVIEW OF USAID/DOMINICAN REPUBLIC'S FY 1989/90 ACTION PLAN WAS CHAIRED BY THE ASSISTANT ADMINISTRATOR, LAC, ON MARCH 1 AND 2. THE CHAIRMAN COMMENDED THE MISSION ON THE QUALITY OF THE ACTION PLAN AND THE SIGNIFICANT ACCOMPLISHMENTS IN FY 1987 IN THE AREAS OF POLICY DIALOGUE, INCREASES IN AGRICULTURAL PRODUCTION, EMPLOYMENT GENERATION IN THE INDUSTRIAL SECTOR, AND LOANS IN THE SMALL INDUSTRY AND MICRO-ENTERPRISE AREA. RESULTS OF THE REVIEW, AND ACTIONS AGREED TO ARE SUMMARIZED BELOW:

2: THE MISSION WILL BE GUIDED IN PREPARING THE FY90 ABS BY THE FOLLOWING PLANNING LEVELS (DOLS 000) FOR FY 89 AND FY 90.

	FY 89	FY90
ARDN	6,850	7,200
POP	700	700
HEALTH	4,855	4,150
CHILD SURVIVAL	1,452	500
AIDS	500	
EHRD	1,990	3,900
SDA	3,971	3,900
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- TOTAL CA	20,318	20,350
ESF	25,000	25,000
TITLE I	25,000	30,000
TITLE II	3,268	3,000

FY 89 LEVELS ARE THE SAME AS THOSE IN THE FY 89 CONGRESSIONAL PRESENTATION. FY 90 FIGURES ARE LAC PLANNING LEVELS SUBJECT TO AVAILABILITY OF FUNDS, AND DO NOT HAVE FVA, PPC, OR INTERAGENCY AGREEMENT.

3. SUMMARY OF PROJECT DECISIONS:

ACTION: PRG	
DATE DUE	
DIR	---
DD	---
CON	---
MGT	---
MCC	---
ADP	---
CRD	---
PRG	---
ARF	---
PED	---
HPD	---
HRD	---
CHRON	---
RF	---

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ANNEX B-2

517-0246 - RURAL YOUTH LEADERSHIP (LOP-DOLS 680,000 GRANT) THE MISSION AGREES TO RECONSIDER INTEGRATING THIS ACTIVITY WITH PVO COFINANCING PROJECT ACTIVITIES. IF THIS IS NOT POSSIBLE, THE BUREAU CONCURS WITH MISSION DELEGATION OF AUTHORITY FOR AUTHORIZATION OF THE PROJECT.

5170256 - AIDS SUPPORT PROJECT (LOP-DOLS 800,000 GRANT). THE MISSION WILL SUBMIT AN NPD TO AID/W FOR REVIEW.

517-0245 PRIVATE SECTOR HEALTH CARE (LOP-DOLS 8 MILLION). THE MISSION WILL SUBMIT A REVISED NPD AS A BASIS FOR A DELEGATION DECISION.

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517-0186 - AGRIBUSINESS PROMOTION AMENDMENT (LOP DOLS 4.0 MILLION GRANT). DRAFT AMENDMENT TO BE PASSED TO AID/W FOR CONSULTATION PRIOR TO MISSION AUTHORIZATION.

517-0243 - AGRIBUSINESS TRAINING (LOP-DOLS 12 MILLION GRANT). BUREAU CONCURS IN DELEGATION OF AUTHORITY TO MISSION DIRECTOR TO APPROVE PID/PP SUBJECT TO GUIDANCE IN THIS CABLE.

517-0247 - PVO CO-FINANCING (LOP-DOLS 3.0 MILLION GRANT). PID TO BE REVIEWED IN AID/W.

517-0248 - EMPLOYMENTRELATED TRAINING (LOP-DOLS 4.5 MILLION GRANT). BUREAU CONCURS IN DELEGATION OF AUTHORITY TO MISSION DIRECTOR TO APPROVE PID/PP.

5170190 - EXPORT AND INVESTMENT PROMOTION AMENDMENT (LOP-DOLS 6.0 MILLION GRANT). BUREAU CONCURS IN DELEGATION OF AUTHORITY TO THE MISSION DIRECTOR TO APPROVE THE AMENDMENT SUBJECT TO GUIDANCE IN THIS CABLE.

517-0252 - INDUSTRIAL LINKAGES/FTZ DEVELOPMENT (LOP-DOLS 5.0 MILLION GRANT). BUREAU CONCURS IN DELEGATION OF AUTHORITY TO MISSION DIRECTOR TO APPROVE PID/PP.

FY 1989 ESF - A CONCEPT PAPER WILL BE REVIEWED IN AID/W.

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 517-0249 - AGRICULTURAL DATA SYSTEMS (LOP-DOLS. 5.0 MILLION LOAN). APPROVED TO BE INCLUDED IN FY 1990 ABS. MISSION AGREES TO REVIEW THE FUNDING LEVEL REQUIREMENTS, PARTICULARLY IN RELATION TO LIMITED RESOURCES AND OTHER NEEDS.

517-0251 - PRIVATE PRIMARY EDUCATION (LOP-DOLS. 4.0 MILLION GRANT AND DOLS 6.0 MILLION LOAN). APPROVED TO BE INCLUDED IN THE FY 1990 ABS. THE NPD TO BE INCLUDED IN THE FY 1990/91 AP SHOULD SPECIFICALLY ADDRESS THE EQUITY ISSUE.

517-0254 - MICRO AND SMALL ENTERPRISE DEVELOPMENT (LOP- DOLS 1.5 MILLION GRANT). APPROVED TO BE INCLUDED IN THE FY 1990 ABS.

#### 4. CROSS-CUTTING ISSUES

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##### A. ISSUE

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IS THE MISSION'S PROGRAM STRATEGY STILL VIABLE IN VIEW OF RECENT CHANGES IN THE LEVELS OF RESOURCES?

DISCUSSION: THE MISSION FACES THE LOSS OF ALL ESF RESOURCES IN FY 1988, LESS THAN IDEAL LEVELS OF ESF EXPECTED IN FY 1989, AND A TITLE I ARREARS PROBLEM WHICH COULD HAVE MAJOR CONSEQUENCES FOR AVAILABILITY OF PL-480 TITLE I RESOURCES. WITH THESE POTENTIAL RESOURCE GAPS, THE PROPOSED POLICY DIALOGUE AND PROGRAM OBJECTIVES WILL BE DIFFICULT TO ACHIEVE.

##### DECISION:

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THE MISSION SHOULD FOLLOW ITS CURRENT STRATEGY IN FY 1988, BUT IT SHOULD BE MOVING TOWARD GREATER SECTORAL EMPHASES AS QUICKLY AS IS PRUDENT. THIS SHOULD NOT BE ABRUPT AND SHOULD BE UNDERTAKEN IN LIGHT OF PREVAILING CONDITIONS, EFFORTS OF MULTILATERAL INSTITUTIONS (E.G., THE IMF AND THE IBRD) AND OTHER DONORS, AS WELL AS AVAILABILITY OF ESF RESOURCES. IN ADDITION, THE MISSION SHOULD EXPLORE THE EXTENT TO WHICH PL 480 TITLE I RESOURCES AND DA-FINANCED ANALYSIS AND TECHNICAL ASSISTANCE COULD BE USED TO SUPPORT MACROECONOMIC POLICY DIALOGUE.

##### B. ISSUE:

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WHAT SHOULD BE THE USG POSITION ON SETTLEMENT OF ALL PL-480 ARREARAGES AS A CONDITION FOR PROCEEDING WITH AUTHORIZATION OF A TITLE I AGREEMENT?

DISCUSSION: GODR DEBT ARREARS ON PL-480 TOTALED DOLS 23.5 MILLION AS OF DEC. 31, 1987. BECAUSE THE GODR

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FAILED TO COMPLY WITH A RESCHEDULING PLAN DEVELOPED IN FY 1987, THE INTERAGENCY DCC HAS TAKEN A FIRM POSITION THAT THE GODR MUST BE CURRENT ON ALL ARREARS BEFORE A PL-480 TITLE I AGREEMENT FOR FY 1988 CAN BE SIGNED. THE ELIMINATION OF TITLE I WOULD IMPACT NOT ONLY ON THE GODR FOREIGN EXCHANGE SITUATION, BUT ALSO THE AVAILABILITY OF LOCAL CURRENCY WHICH SUPPORTS AID AND OTHER DONOR PROJECTS.

DECISION:

THE MISSION AND FVA WILL TRY TO GAIN GODR COMMITMENT TO, AND DCC APPROVAL FOR, A COMPROMISE SOLUTION TO THE ARREARAGES PROBLEM. IT WOULD CONSIST OF A DOLS 5.4 MILLION PAYMENT BY 31 MARCH 1988 ON LAST YEAR'S RESCHEDULING, DOLS 3.8 MILLION AGAINST NEW ARREARAGES ACCUMULATED THROUGH DECEMBER 31, 1987, AND PAYMENT OF THE FIRST INSTALLMENT DUE ON THE CURRENT YEAR'S PAYMENTS (APPROXIMATELY DOLS 162,000) FOR A TOTAL

PAYMENT OF APPROXIMATELY DOLS 9.4 MILLION. THE GODR MUST KEEP CURRENT THEREAFTER.

5. ISSUES BY OBJECTIVE:

A. OBJECTIVE 1: INCREASE AGRICULTURAL PRODUCTION

DECISIONS

THE AGRICULTURAL DATA SYSTEMS PROJECT IS APPROVED TO BE INCLUDED IN THE FY 1990 ABS. HOWEVER, GIVEN THE SCARCITY OF ARDN RESOURCES, THE DOLS 5.0 MILLION LCP WAS QUESTIONED. THE MISSION SHOULD SEEK TO SCALE DOWN THE ACTIVITY SUBSTANTIALLY.

" GIVEN AID/W UNDERSTANDING OF THE MISSION'S INTENT AND STRUCTURE OF THE PVO CO-FINANCING PROJECT, A NCRMAL PID/PP/AUTHORIZATION PROCESS SHOULD BE FOLLOWED. LACK OF DEFINITION OF KEY ELEMENTS OF THE PROJECT IN THE NPD INDICATE AN AID/W PID REVIEW.

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ANNEX B-5

B. OBJECTIVE 3: STABILIZE FINANCIAL STRUCTURES

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DECISION:  
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GIVEN THE RESOURCE AND POLICY DIALOGUE ISSUES, THE FY 1989 ESF CONCEPT PAPER WILL BE REVIEWED IN AID/W. THE MISSION SHOULD PROVIDE AID/W WITH A COPY OF THE FINALIZED MISSION OPERATIONS MANUAL ORDER REGARDING ICCAL CURRENCY MANAGEMENT. A THOROUGH DISCUSSION OF MISSION INTENTIONS IN THIS AREA MUST BE INCLUDED IN THE CONCEPTS PAPER.

C. OBJECTIVE 5: PROMOTE EXPORTS

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ISSUE:  
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SHOULD THE PROPOSED INDUSTRIAL LINKAGES/FREE ZONE DEVELOPMENT PROJECT BE COMBINED WITH THE AMENDMENT TO THE EXPORT AND INVESTMENT PROMOTION PROJECT?

DISCUSSION: THE MISSION ARGUED THAT THESE PROJECTS HAVE TWO DISTINCT OBJECTIVES, BENEFICIARY TARGET GROUPS, AND IMPLEMENTING AGENCIES.

DECISIONS:  
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- THE BUREAU CONCURS WITH THE DELEGATION OF

AUTHOORITY TO THE MISSION DIRECTOR TO APPROVE THE PID FOR INDUSTRIAL LINKAGES/FTZ DEVELOPMENT AND THE AMENDMENT FOR EXPORT AND INVESTMENT PROMOTION. THE MISSION MUST ADDRESS THE ISSUE OF FINANCIAL SUSTAINABILITY IN THE PID FOR THE NEW PROJECT AND PP AMENDMENT, AS WELL AS TAKE INTO ACCOUNT THE IMPACT OF LIKELY LOW LEVELS OF SDA FUNDING.

- SINCE THE NPD IS LACKING IN ADDITIONAL INFORMATION TO CLARIFY THE EXPECTED OUTPUTS OF THE AMENDMENT AND THIS HAS BEEN A PROBLEM PROJECT IN THE PAST, THE AMENDMENT TO THE AGRIBUSINESS PROMOTION PROJECT WILL BE SUBMITTED TO AID/W FOR CONSULTATION PRIOR TO MISSION APPROVAL.

D. OBJECTIVE 6: MANAGE AND PRESERVE NATURAL RESOURCES  
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ISSUE:  
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THE ACTION PLAN DOES NOT RESPOND TO AGENCY GUIDANCE ON NATURAL RESOURCES MANAGEMENT.

DISCUSSION: THE STRATEGY ADDRESSES THE PRODUCTIVITY AND FOOD AVAILABILITY CONCERNS, BUT FAILS TO RESPOND TO ENHANCEMENT OF THE NATURAL RESOURCES BASE PROVISION OF THE AGENCY'S FOCUS STATEMENT ON ARDN

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PROGRAMS AS ADVISED IN STATE 131187. THE ACTION PLAN ALSO DOES NOT INCLUDE THE REQUIRED SECTIONS ON BIODIVERSITY AND TROPICAL FORESTRY.

ANNEX B-6

DECISION:  
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THE MISSION WILL SUBMIT THE REQUIRED SECTION 118 AND 119 ANALYSES TO AID/W TO BE INCLUDED AS REVISIONS TO THE ACTION PLAN BY JULY 31, 1988. THE MISSION SHOULD ALSO REPORT ON HOW IT WILL LEVERAGE RESOURCES, INCREASE PUBLIC AWARENESS, AND SENSITIZE LEADERS TO THE ISSUES WITHIN EXISTING AND PROJECTED PROGRAMS. AID/W WILL SUPPLY GUIDANCE ON PREPARATION OF REQUIRED BIODIVERSITY/TROPICAL FORESTRY ANALYSES AND WILL ASSIST IN IDENTIFYING APPROPRIATE TECHNICAL ASSISTANCE RESOURCES FOR PREPARATION OF THE ANALYSES, BUT MISSION WILL FUND NECESSARY COSTS.

E. OBJECTIVE 7: EXPAND AND IMPROVE INFRASTRUCTURE  
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## ISSUE:

DCES PERFORMANCE TO DATE DEMONSTRATE ADEQUATE PROGRESS TOWARD ACHIEVING THIS OBJECTIVE?

DISCUSSION: SINCE ONLY 150 KM. OF ROADS WERE RECONSTRUCTED IN THE LAST TWO YEARS COMPARED TO 600 KMS. PROJECTED IN THE ACTION PLAN, TARGETS FOR 1988 AND 1989 MAY HAVE TO BE REVISED. THE QUESTION ALSO ARISES WHETHER A MAINTENANCE PROGRAM MAY BE MORE ECONOMICAL THAN AN IMPROVEMENT PROGRAM.

DECISION:  
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THE MISSION WILL INCLUDE A BRIEF STATUS REPORT ON PROGRESS IN ACHIEVING BENCHMARKS ESTABLISHED FOR THIS OBJECTIVE IN THE NEXT SEMI-ANNUAL REVIEW.

F. OBJECTIVE 9: IMPROVE HEALTH AND HEALTH SERVICES  
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## DECISIONS:

ANNEX B-7

--- BECAUSE THE PROPOSED PRIVATE SECTOR HEALTH CARE PROJECT NOW DIFFERS SUBSTANTIVELY FROM THE NPD FOR SELF-FINANCING HEALTH CARE APPROVED IN LAST YEAR'S ACTION PLAN, THE MISSION WILL SUBMIT A REVISED NPD TO AID/W FOR REVIEW AND A DELEGATION DECISION.

--- SINCE FUNDS WERE ALLOCATED FOR THE AIDS PROJECT AFTER THE ACTION PLAN WAS COMPLETED, THE MISSION WILL SUBMIT AN NPD FOR THE AIDS SUPPORT PROJECT TO WASHINGTON AS THE BASIS FOR A DELEGATION DECISION:

## G. OBJECTIVE 12: IMPROVE EDUCATIONAL OPPORTUNITIES

## DECISION:

THE BUREAU CONCURS WITH THE MISSION DIRECTOR'S DELEGATION OF AUTHORITY TO APPROVE THE PID FOR THE AGRIBUSINESS TRAINING PROJECT, SUBJECT TO THE FOLLOWING:

IN BOTH SEMIANNUAL PORTFOLIO REVIEWS OF FY 1987, LAC EXPRESSED CONCERN TO USAID/DR THAT PRIVATE SECTOR SUPPORT OF THE ENDOWMENT FUND OF THE RURAL DEVELOPMENT MANAGEMENT PROJECT HAS BEEN WEAK DURING THE LIFE OF THE PROJECT. SINCE THE AGRIBUSINESS TRAINING PROJECT (517-0243) IS PROPOSED AS A FOLLOW-ON TO THE RURAL DEVELOPMENT MANAGEMENT PROJECT (5170125), THE BUREAU STRONGLY SUGGESTS THAT THE MISSION CAREFULLY ANALYZE THE ISSUE OF BOTH SUSTAINABILITY OF THE ISA/CADER INSTITUTION, AND WHETHER CONTRIBUTIONS OF THE DOMINICAN PRIVATE SECTOR TO THE ENDOWMENT FUND WILL BE SUFFICIENT TO ACHIEVE SALARY LEVELS HIGH ENOUGH TO DRAW AND MAINTAIN HIGH CALIBER STAFF. THE MISSION SHOULD EXAMINE WHETHER THERE ARE OTHER ARRANGEMENTS NEEDED BESIDES THE ENDOWMENT FUND TO ENSURE LONG TERM VIABILITY OF THE INSTITUTION BENEFITTING FROM THE PROJECT

## ISSUE:

SHOULD THE MISSION BEGIN A NEW PROJECT, RURAL YOUTH LEADERSHIP TRAINING, DURING THIS ACTION PLAN PERIOD?

DISCUSSION: THE NPD LEAVES A GAP BETWEEN THE STRATEGY AND HOW THIS PROPOSED PROJECT RELATES TO IT. THE MISSION HAS AN AMBITIOUS LIST OF NEW PROJECTS AND THIS WILL CREATE ANOTHER MANAGEMENT UNIT LEADING TO THE QUESTION WHETHER THIS ACTIVITY COULD BE FOLDED INTO SOME OTHER PROJECT.

## DECISION:

THE MISSION WILL INTEGRATE THIS ACTIVITY, IF IT CAN, INTO THE NEW PVO CO-FINANCING PROJECT; PUT THE FINAL

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DECISION ON THIS IS LEFT UP TO THE MISSION. THE BUREAU CONCURS WITH MISSION DELEGATION OF AUTHORITY FOR AUTHORIZATION OF THE RURAL YOUTH LEADERSHIP PROJECT.

H. OBJECTIVE 13: INCREASE PARTICIPANT TRAINING  
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ISSUE:  
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GIVEN BUDGET CONSTRAINTS IN THE EHRD ACCOUNT, IS IT POSSIBLE TO ACCOMMODATE THE TWO NEW START-UPS PROPOSED FOR FY89 AND FY90?

DISCUSSION: THE TWO PROJECTS PROPOSED ARE FY89 EMPLOYMENT-RELATED TRAINING PROJECT (OBJ. 13) AND FY90 PRIVATE PRIMARY EDUCATION (OBJ. 12). THE ACTION PLAN ASSUMED THAT THE EHRD BUDGET WOULD INCREASE, BUT CURRENT PROJECTIONS INDICATE A DECLINE IN FY 1989.

DECISION:  
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THE MISSION WILL LOOK AT THE POTENTIAL FOR JUSTIFYING SPLIT FUNDING OF THE EMPLOYMENT-RELATED TRAINING

PROJECT IN ORDER TO REDUCE THE LEVEL OF EHRD FUNDING REQUIRED FOR THIS PROJECT. THIS COULD PROVIDE GREATER ASSURANCE THAT SUFFICIENT EHRD FUNDS WILL BE AVAILABLE FOR THE PRIVATE PRIMARY EDUCATION PROJECT. THE MISSION WILL NOTIFY OF ITS INTENTIONS IN THIS REGARD IN THE NFD TO BE INCLUDED IN THE FY 1990/91 ACTION PLAN.

I. OBJECTIVE 14: STRENGTHEN DEMOCRATIC INSTITUTIONS  
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ISSUE:  
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SHOULD THE MISSION MOVE AHEAD WITH AOJ ACTIVITIES SINCE STRENGTHENING OF DEMOCRATIC INSTITUTIONS IS NOT A PRIORITY IN ITS STRATEGY?

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ANNEX B-9

DECISION:  
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AOJ ACTIVITIES WILL BE KEPT UNDER REGIONAL PROJECTS UNTIL THE DOMINICAN REPUBLIC SHOWS A STRONG INTEREST IN BROADER DEMOCRATIC INITIATIVES. THE MISSION WILL ATTEMPT TO INCLUDE DISCRETE DEMOCRATIC INITIATIVES ACTIVITIES IN THE PROPOSED PVO COFINANCING PROJECT, IF POSSIBLE. HOWEVER, LAC/DI WILL NOT NOW PLAN ON INITIATING A BILATERAL PROJECT IN THE DR IN FY 1989.

6. RESOURCES AND MANAGEMENT ISSUES:  
-----A. ISSUE:  
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WHAT CAN THE MISSION DO TO IMPROVE LOCAL CURRENCY MANAGEMENT, AND WILL THE ACTIONS TAKEN SATISFY IG AUDIT RECOMMENDATIONS?

DISCUSSION: THE MISSION STATED THAT THE FUNDAMENTAL ISSUE WITH THE IG AUDIT ON HOST COUNTRY OWNED LOCAL CURRENCY MANAGEMENT IS THE DEFINITION OF ACCOUNTABILITY. THE AUDIT IS BASED ON A VIEW THAT HOST COUNTRY OWNED LOCAL CURRENCY SHOULD BE TREATED AS APPROPRIATED FUNDS. THE MISSION'S VIEW IS THAT LC IS A GODR RESOURCE, AND WHILE THE USG MAINTAINS THE RIGHT TO JOINT PROGRAMMING, THE MISSION'S RESPONSIBILITY IS LIMITED TO THAT REQUIRED BY THE AGENCY'S REVISED LOCAL CURRENCY MANAGEMENT GUIDANCE ISSUED IN STATE 327494. THE LACK OF THE GODR CAPABILITY IN THE FINANCIAL MANAGEMENT AREA IS PART OF THE LARGER PROBLEM RESULTING FROM THE LACK OF A CAREER CIVIL SERVICE IN THE GODR. THIS PROBLEM IS ONE WHICH THE MISSION WILL CONTINUE TO REGARD AS A

PRIORITY AREA OF NEED; AT THE SAME TIME, IT IS AN AREA REQUIRING SENSITIZATION OF THE GODR TO ITS IMPORTANCE.

THE MISSION IS COMMENDED FOR UNDERTAKING SEVERAL INITIATIVES TO ADDRESS THE PROBLEMS IDENTIFIED ABOVE. OF SPECIAL NOTE ARE THE FOLLOWING:

- (I) THE MISSION HAS FUNDED TECHNICAL ASSISTANCE TO -- IMPROVE THE GODR LOCAL CURRENCY MANAGEMENT CAPABILITY;
- (II) THE MISSION HAS ALLOCATED UP TO 5 PERCENT OF -- LOCAL CURRENCY FOR AUDIT PURPOSES; AND
- (III) THE MISSION HAS PROPOSED A COMPONENT TO BE -- INCLUDED IN THE LAC REGIONAL FINANCIAL -- MANAGEMENT PROJECT (598-0658) TO PROVIDE ASSISTANCE IN THIS AREA.

DECISIONS:  
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AT THE HIGHEST LEVELS OF THE GODR, THE MISSION SHOULD CONTINUE TO STRESS THE IMPORTANCE OF FINANCIAL MANAGEMENT CAPABILITY AND APPROPRIATE AUDIT SYSTEMS IN THE UTILIZATION OF BOTH DOLLAR AND LOCAL CURRENCY ECONOMIC ASSISTANCE RESOURCES. ALSO, THE MISSION SHOULD INDICATE ITS WILLINGNESS TO PROVIDE RESOURCES, TO THE EXTENT THEY ARE AVAILABLE, TO ASSIST THE GODR IN THE DEVELOPMENT OF AN EFFICIENT AND COMPETENT CIVIL SERVICE, AT LEAST IN CERTAIN AREAS.

THE MISSION SHOULD FINALIZE ITS MISSION OPERATIONS MANUAL ORDER ON LOCAL CURRENCY USES AND MANAGEMENT AS SOON AS POSSIBLE AND SUBMIT A DRAFT TO-AID/W FOR COMMENT NO LATER THAN MAY 31, 1988.

THE MISSION SHOULD SUBMIT A COPY OF ITS RESPONSE TO THE IG AUDIT REPORT TO THE LAC BUREAU FOR REVIEW, IDENTIFYING PARTICULAR AREAS WHERE THE BUREAU COULD PROVIDE SUPPORT, GUIDANCE, OR ASSISTANCE IN CLARIFYING LOCAL CURRENCY MANAGEMENT AND USES POLICY.

#### F. CLARIFICATION

GIVEN THE ABSENCE OF ESF GENERATED TRUST FUNDS, HOW WILL THE MISSION MANAGE WITHIN THEIR APPROVED OE

LEVEL?

DISCUSSION: IF THE DOLS 13.835 MILLION ESF OBLIGATION DEFERRED FROM FY87 IS MADE, THE TRUST FUND WILL GAIN RD 3 MILLION. THE MISSION ALSO HAS INTEREST INCOME FROM THE BUILDING FUND WHICH NOW STANDS AT APPROXIMATELY RD 19 MILLION AND EARNS 22 PERCENT P.A. HIGH FAAS COSTS ARE A CONCERN TO LAC BUREAU MANAGEMENT, WHICH NOTES THAT THE DOMINICAN REPUBLIC FAAS COSTS ARE ONE OF THE HIGHEST IN THE BUREAU.

DECISIONS:

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 -- THE MISSION WILL CONTINUE TO LOOK FOR OPPORTUNITIES TO SWITCH MORE COSTS TO LOCAL CURRENCY. THE MISSION WILL ADVISE LAC/CONT BY CABLE OF PROGRESS IN THIS AREA AS OF JUNE 30, 1988.

"- WITH RESPECT TO THE MISSION'S DIFFICULTY IN OBTAINING TREASURY AUTHORIZATION FOR THE USDO TO TRANSFER APPROXIMATELY RD 6.3 MILLION IN LOCAL CURRENCY TO AN INTEREST BEARING ACCOUNT IN THE DOMINICAN REPUBLIC, AID/FM HAS ADVISED THAT TREASURY HAS PREPARED THE JOURNAL VOUCHER, WHICH WILL BE INCLUDED IN THE END OF MONTH REPORT TO THE USDO IN MEXICO CITY. THE USDO SHOULD RECEIVE THIS REPORT BEFORE THE END OF MARCH. THE MISSION CONTROLLER SHOULD FOLLOW UP WITH THE USDO TO ENSURE THE FUNDS ARE DEPOSITED IN THE APPROPRIATE ACCOUNT IN THE DOMINICAN REPUBLIC.

- LAC/CONT WILL PREPARE A MEMORANDUM FOR AA/LAC TO SEND TO AA/M CONCERNING THE MISSION DEPUTY CONTROLLER POSITION, ADDRESSING THE ISSUE OF THE ONE-YEAR DELAY IN FILLING THIS POSITION AND THE DIFFICULTIES OF RESPONDING TO IG RECOMMENDATIONS WITH RESPECT TO LOCAL CURRENCY MANAGEMENT WITH LESS THAN MINIMUM STAFFING LEVELS. THE MEMORANDUM WILL BE PREPARED BEFORE MARCH 15, 1988.

### C. ISSUE

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 HOW DOES THE MISSION JUSTIFY AN INCREASE IN USPSCS AND SHOULD THE MISSION REDUCE ONE USDH POSITION?

DISCUSSION: THERE IS AN APPARENT INCREASE IN OE FUNDED USPSCS IN FY 1988 BY NEARLY TWO PERSON YEARS

AND AN ADDITIONAL TWO IN FY 1989. THE MISSION EXPLAINED THAT THE NUMBERS ARE NOT INCREASING, BUT RATHER, REFLECT A SWITCH FROM PD& S FUNDING TO OE:

### DECISION

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 THE MISSION IS INSTRUCTED TO CAREFULLY REVIEW HOW IT IS DOING BUSINESS, AND IN LIGHT OF DECLINING OE AND PROGRAM RESOURCES TO DEVELOP ALTERNATIVE IMPLEMENTING MECHANISMS WHICH WOULD CONSERVE SCARCE OPERATING RESOURCES. THE MISSION SHOULD ADVISE THE BUREAU BY JULY 15, 1988, OF WHAT ACTIONS IT HAS TAKEN AND INTENDS TO TAKE IN THIS REGARD. THE MISSION SHOULD SPECIFY AREAS IN WHICH AID/W CAN BE OF ASSISTANCE.

### 7. OTHER ISSUES

#### A. COUNTRY TRAINING PLAN

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ANNEX 12 (FY89 CTP UPDATE) IS APPROVED. MINOR INCONSISTENCIES IN DATA REPORTED IN OBJECTIVE 13 AND ANNEX 12 WILL BE DISCUSSED IN A POUCHED MEMORANDUM.

ANNEX B-12

B. WOMEN IN DEVELOPMENT

PPC/WID HAS NO ISSUES OR CONCERNS CONCERNING THE ACTION PLAN. FOR THE RECORD, PPC/WID NOTES THAT THE FY 1989/90 ACTION PLAN REFLECTS WELL THE INTEREST AND ACTIONS OF THE USAID/DR STAFF, PARTICULARLY THE EFFORTS OF PDO MCFARLAND, WHO IS COMMENDED. IT IS FURTHER NOTED THAT THE MISSION'S DECISION TO IMPROVE BASELINE INFORMATION THROUGH THE USE OF GENDER DISAGGREGATED DATA AND THE FOLLOW-UP WORK BEING DONE ON GENDER ISSUES IN THE INDUSTRIAL FREE TRADE ZONE. THE MISSION IS ADVISED THAT A SUBSTANTIAL NUMBER OF AID DOCUMENTS THAT DEAL WITH WOMEN IN DEVELOPMENT ISSUES HAVE BEEN RECENTLY CATALOGUED BY PPC/WID INTO THE CDIE INFORMATION SYSTEM. FOR EXAMPLE, MORE THAN TWENTY-FIVE DOCUMENTS DEALING SPECIFICALLY WITH WID ISSUES IN THE DOMINICAN REPUBLIC HAVE BEEN CATALOGUED. DESIGN OFFICERS AND TECHNICAL OFFICERS CAN ACCESS THE AVAILABLE INFORMATION DIRECTLY FROM CDIE OR WITH THE WID OFFICE.

C. TRACKING OF ACTION PLAN FOLLOW-UP ACTIONS AND PERFORMANCE

LAC/DP WILL PREPARE A MATRIX OF THE MISSION AND WASHINGTON FOLLOW-UP ACTIONS SET FORTH ABOVE TO FACILITATE TRACKING OF COMPLETION: THE MATRIX WILL BE PROVIDED TO THE MISSION AND WILL BE REVIEWED AT THE SEMIANNUAL REVIEWS AND THE NEXT ACTION PLAN REVIEW.

PERFORMANCE INDICATORS WILL BE INCLUDED IN THE BUREAU MANAGEMENT INFORMATION SYSTEM FOR SYSTEMATIC UPDATING AND MONITORING. SHULTZ

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## TECHNICAL ANALYSIS

### A. Technical Assistance and Training

The focus of the Industrial Linkages/Integration Project is deal making. Therefore, the technical assistance and training to be provided will be directed toward removing the constraints to increasing the number and magnitude of trade deals between the IFTZ operators/users and local suppliers of products and services. This section will describe: 1) the relationship of technical assistance and training programs to the institutional structure of the project, 2) long term and short term technical assistance and training activities, 3) the relationship of the Market Information and Information Dissemination Components to the technical assistance and training activities, 4) the role of the sub-grant program, 5) timing of the activities, and 6) the resources needed.

#### 1. Relationship to the Institutional Structure

The primary responsibility for management of technical assistance and training will be assigned to the Institutional Contractor (IC) through a direct USAID contract. However, the IC, ADOZONA, AI, and sub-grantees will each be held responsible for specific tasks and/or projects prescribed in their respective agreements/contracts.

The staffs of the IC, ADOZONA and AI will function as a team - a "matrix" organization, versus a "hierarchal" one - with the IC's Chief of Party as the coordinator. For example, in an activity for local suppliers the IC's Chief of Party and Industrial Specialist would work closely with AI and any short term foreign technical assistance in the design and implementation of the activity. Two more formal examples of this "matrix management" process are the Consultative Committee and the Technical Coordinating Committee.

The staff and resources of the IC will be used to support and backstop the activities of ADOZONA, AI and sub-grantees, as well as to provide direct assistance to relevant constituencies and individual participants and beneficiaries. To the extent that ADOZONA, AI and sub-grantees are able to carry out their specific activities with limited assistance from the IC, more of the IC's resources can be used to support the overall priority activities of the Project.

## 2. Technical Assistance

### a) Long Term

Both long and short term technical assistance will be provided under the Project. The IC's Chief of Party (C.O.P.), will be the only long term U.S. staff. This person will be responsible for the overall management and coordination of the Project, will be expected to play an important role in local industry evaluations and diagnostics because of his/her industrial engineering background and production experience, and will be the liaison between USAID and the private sector regarding policy reform issues.

In addition to the C.O.P., long term technical assistance will be provided through three locally hired specialists in Industrial Production, Information Systems and Communications. The primary responsibility and focus of the Industrial Specialist will be "supply side" related activities such as initial diagnostic visits and coordination and follow-up of short term outside technical assistance from industry specific experts. The Industrial Specialist will work more with AI than ADOZONA, although some assistance in clearly identifying technical specification of goods and services required by the IFTZs may be needed on the "demand-side".

On the other hand, the Information Specialist will work more closely with ADOZONA than AI. The principal responsibility and focus of this person will be the coordination of "demand" related activities such as the initial and ongoing market research and analysis of demand in the IFTZs, and the development of the database of information. This database will be developed and updated by the IC, although ADOZONA, AI and possibly sub-grantees would have access to the information through an on-line computer network or via diskettes which would be updated on a periodic basis.

The Promotions Specialist will work equally with organizations on the demand and supply side. This person will be responsible for the overall design, coordination and implementation of the promotions strategy, including media activities and publication of the monthly bulletin and directories. Both the audio visual and desktop publishing equipment would be located in the IC office and used, as needed, by ADOZONA, AI and the sub-grantees.

### b. Short Term

Short term technical assistance would be used for carrying out the information activities, and for upgrading management, production and marketing capabilities among the targeted sectors. Regarding information activities, it is estimated that 2.5 person-months (PM) of outside technical assistance will be used in the initial development and testing of the demand and supply side survey and design of the database. An additional 6.0 PM of local interviewer time is needed for implementation of the initial surveys. This activity would be overseen and coordinated by the Information Specialist, and ongoing updating of the database would be carried out by sub-grantees.

The other type of short term technical assistance would be sector specific consultants in management, production and/or marketing. It is recommended that the majority of this type of assistance be targeted to three priority sectors which will be identified through the IFTZ demand survey. Assuming an average of 4.0 PM per target sector, 12.0 PM of assistance would be needed to initiate the process during the 2nd half of Year II. Assuming an average of 6.0 PM/year per target sector after the initial survey and diagnostic, 18.0 PM will be required for each of the Years III, IV and V.

The specific short term technical assistance needs and activities for local suppliers will be based to a large extent on the results of the IFTZ demand analysis conducted under the Market Information System Component. Once the product and company specific demand data from the IFTZ survey is collected and analyzed, priority sectors and products will be selected. The first level of gathering, verifying and updating possible supplier lists would be carried out by the C.O.P., the Industrial Specialist and the AI Project Director. This effort would indicate the universe of prospective suppliers and candidates for technical assistance.

The second step would be initial "audits" of each prospective supplier which could be carried out through short (30 minutes - 1 hour) in-plant visits by the C.O.P., Industrial Specialist and the AI Project Director. Information on types of equipment, products, production levels, etc. would be gathered to develop profiles of each company. This would also provide an opportunity to describe the Project and assess each firm's interest in it. It might also be possible to hold sector-specific seminars at this stage to disseminate the IFTZ demand survey data relevant to the sector. Some of the firms may be "cut" during this process, due to obvious lack of technical and managerial capability, or lack of interest.

Based on these industry audits and an assessment of company interest, the third stage would be to bring in outside industry specialists to conduct 1 - 2 day in-plant diagnostics of each firm. These specialists would look at both technical and administrative capabilities of each firm, and would develop a proposal or workplan identifying the steps which need to be taken to upgrade the operation to a point where they could sell to the IFTZs. This workplan would classify the level of assistance needed by each firm (to be discussed below) and identify specific information, technical assistance and training needs for each prospective supplier.

The Industrial Specialist, and short term sector specialists, would then work closely with the local suppliers to implement the workplans within the framework of the overall project workplan and resources.

The three levels of assistance can be described as follows:

Level I: Dissemination of Market Information

There may be a small number of companies which, with the access only to the product and company-specific market information collected

and disseminated through this Project, will put new trade deals into motion through their own initiative and with no additional intervention or resources from the Project. This market information, which will not be limited only to the target or priority sectors, will be disseminated primarily through the activities described in the Information Dissemination Component, including: monthly bulletin, buyer/seller directories, product exhibits, and sector specific workshops, seminars and conferences.

#### Level II: Deal-Specific Assistance to Local Suppliers

Needs at both Levels II and III would be identified through the in-plant diagnostics described earlier. Examples of specific assistance at this level would include: initial product appraisals, development of a marketing strategy, assistance in making contacts with IFTZ companies, assessment of product quality and competitiveness, and preparation of a loan request package. This assistance would mainly be given on an individual basis and could be provided by the institutional contractor, IFTZ firms (in the case of product appraisals), or short term technical assistance.

#### Level III: Longer Term, Intensive, In-Plant Technical Assistance

This type of technical assistance could be provided only to companies in target or priority sectors. The purpose of Level III technical assistance would be to upgrade product quality, price competitiveness or ability to meet delivery schedules. Individualized assistance would be available on a relatively long-term basis through both the long and short term industrial advisors, once a workplan was developed and mutually agreed upon. Training a vendor's management and/or employees would be an important component of Level III assistance.

Based on the experience of the IPC shoe program and intensive technical assistance programs in other countries, going this "final mile" in providing technical assistance to local companies is probably critical to overall program success, but is a long, tedious, iterative and costly process. This is the justification for restricting Level III assistance to a few selected priority sectors, based on actual and projected IFTZ demand.

### 3. Training

Most of the training activities in this project will be carried out in the context of the on-the-job and on-site support and technical assistance provided to ADOZONA, AI, sub-grantees and the individual participants and beneficiaries. Aside from the in-plant evaluations and assistance to be provided to individual factories described above, ADOZONA, AI and sub-grantees will be trained in how to carry out the ongoing information collection and dissemination activities, in the organization of workshops, seminars and exhibitions, and in planning and implementing other project activities.

Most of the "travel and per diem" funds for ADOZONA, AI and sub-grantees will support activities that are considered part of training (attendance at conferences, industry tours in the U.S.). In addition, the IC budget will allocate funds for a series of workshops and seminars to be offered in the Dominican Republic. The purpose of these activities will be to provide training to local companies in more general or generic topics such as Cost Accounting and Controls, Pricing Methodology, and Improvement of Procurement Policies, or to explain new laws or regulatory procedures relating to IFTZ/local industry trade such as the proposed Free Trade Zone Law.

Specific participants, content and timing of each workshop will be determined by the results of the demand and supply research, especially the in-plant diagnostics and prescribed workplans for sector specific short term technical assistance in priority sectors. AI will assume the major responsibility for the coordination and implementation of these workshops and seminars, although some of the activities supported by subgrants may also include workshops and training of other types.

It is estimated that the average cost per workshop will be US\$12,000. This includes pre-workshop time with the consultants in modifying and "custom designing" the program to meet the specific needs of the audience in the Dominican Republic. The workplan includes two workshops in the second half of Year II and three workshops in each of Years III, IV and V.

#### 4. Relationship of the Information Dissemination Component

The Information Dissemination activities will serve an important function in integrating the technical assistance and training to accomplish technology transfer. First, the Project will be "demand driven" and based on the market information collection and analysis. The surveys, audits and diagnosis of local suppliers will serve to screen and prescribe needed assistance by individual firms as well as sectors.

Firms will be classified by Level I, II or III. Various publications and general public relations activities will benefit all industries, not only target sectors. Other activities, such as product exhibits and IFTZ "get acquainted" luncheons, will be targeted to specific sectors and buyer groups. These will be focused on Level II companies. Special brunches, meetings, and direct mail campaigns would support efforts to promote individual suppliers and trade deals (Level III).

It is estimated that approximately 2.0 PM of short term T.A. will be needed during Year II of the project to assist in designing and implementing the Information Dissemination Program (public media campaign, bulletin, directories). The communications plan/campaign will support all aspects of program. On the other hand, all the long term staff and short-term specialists will have input and support implementation of the communications plan/campaign.

## 5. Integration of Subgrant Program/Process

The specific purpose and scope of the various subgrant programs will be based on the results of the demand and supply side surveys, as well as the evolving needs and priorities of the program. It is anticipated, however, that the following basic types of activities will be included:

### a) Research

After the initial market information collection is done and the database is developed, subgrants may be used to update and maintain the information collection on both the demand and supply sides

### b) Information Dissemination

o To host, support and facilitate information dissemination, especially by product sector and/or regional "supply side" associations. This could be done through using their respective publications to share project information, and sponsoring meetings and activities to encourage and inform members to participate in the Project.

o To inform and encourage IFTZ "tenants" to buy local inputs.

### c) Technology Transfer

Technology transfer activities will be focused on prospective suppliers within targeted product sectors, and provided primarily through product or geographic sector associations. Subgrantees would support the activities of the special short term consultants and the IC and AI staffs working with target sector and individual firms. For example, subgrants would finance part of a staff member at a product association to facilitate and coordinate surveys, audits and diagnostic visits by consultants and Project staff, on-site technical assistance, training workshops, etc.

Likely participants in the subgrant program include:

o Key geographic based associations, such as the Asociacion de Empresas Industriales de Herrera, the Asociacion de Industrias de Haina and the Industrial Association of the Northern Region (Santiago).

o Product sector associations relevant to targeted product sectors, such as, the Small and Medium Industry Association, and ADEMI Associations of Microenterprises, Textiles, Shoes, and Plastics.

o. Associations of manufacturers from the IFTZs, such as La Romana, San Pedro and Santiago (who are members of ADOZONA), as well as groups such as the Santiago Textile Manufacturers Association, which includes firms both within and outside the IFTZ.

Subgrants probably will not be developed until the first cycle of research on demand and supply is complete. The earliest anticipated date for initiation of subgrants is the 7th quarter of the Project (Nov/Dec 1990). At that point, intensive subgrant development is anticipated during the following six months to support information dissemination and outreach to targeted local industry sectors and to initiate technology transfer T.A. to prospective suppliers. Subgrantees would also begin the ongoing process of updating research information on both supply and demand, for the balance of the Project.

During the last three years of the Project, subgrantees would continue to support information dissemination and technology transfer on the supply side and respond to needs and priorities identified by various private sector associations as the Project evolves.

Resource requirements for the subgrants will depend on many variables, so it is difficult to base estimates on any precise formula or activity. But one objective of the implementation strategy is to have the broadest possible impact by working not only with ADOZONA and AI, but with a wide range of other private sector institutions. This strategy, assumes that the best results will come from working as closely as possible with targeted product sector groups, and that cost/benefits will be enhanced by support from relevant geographic groups, especially for activities outside Santo Domingo.

Therefore, in addition to the US\$238,000 allocated for the program and promotion activities of ADOZONA and AI for Year II (first year of full operations) and similar levels for Years III, IV and V, approximately US\$100,000 is allocated for each of years II, III, IV and IV for programs and promotion activities by other groups, as needed, depending on results of research, diagnostics, etc. The Institutional Contractor will also designate a substantial proportion of its resources to identify sub-grantees, help them apply for sub-grants and support their implementation activities. ADOZONA and AI are also expected to designate a substantial proportion of their respective project and staff resources to help identify, screen, prepare sub-grantees, monitor and support implementation, and conduct evaluations.

## B. Policy Refcrm Component

The purpose of the Policy Reform component is to identify and address policy and regulatory constraints to increasing sales of locally produced products and services to the IFTZs.

### 1. Analysis of Policy and Legal Constraints

Both IFTZ and local managers indicate that the local policy and regulatory environment has been a major constraint to increasing trade between the IFTZs and local suppliers of goods and services. The problems fall into two major categories:

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- o Lack of an established, expeditious mechanism for local sales/subcontracting to IFTZs; and
- o Policies affecting the competitiveness of local companies to supply the IFTZs, i.e. high Custom duties, Customs delays.

At present, there is no clear, expeditious and consistently applied mechanism for local company sales or subcontracting to the IFTZs. For example, if a local box manufacturer wishes to sell cartons to the IFTZs, the company could import the necessary raw materials and inputs duty free by posting a bond (Law 69), which is cancelled upon export of the cartons. However, sales to IFTZs are not automatically recognized under Dominican law as exports. Therefore, the box manufacturer must obtain a certification from Customs each time a sale is made, stating that the sale to the IFTZ is an export and thus permitting the bond to be cancelled. This is time consuming for the local firm.

In part as a result of this unclear situation, local managers are not familiar with the procedures for selling to the IFTZs. In the recent Herrera Industrial Park survey, nearly 80 percent of the firms surveyed were not familiar with administrative procedures for selling to the IFTZs. One board member of a local exporter association was not aware that local sales to IFTZs were even permitted.

The proposed new Free Zone Law addresses this issue in two ways. First, it recognizes and permits movement of goods between IFTZ and local firms, including those operating under Law 69. Such sales are subject to approval by the National Council of Free Zones. Secondly, the proposed law exempts local firms from paying duties on imported raw materials and inputs needed to produce goods and services for sale to the IFTZs. This will require previous authorization by the National Council of Free Zones and the Industrial Directorate.

A second group of policies and regulations affect the price competitiveness of local industries, and the firms' ability to make timely deliveries. The two major issues are : a) import and export duties, and b) delays in clearing import shipments.

At present, export duties are applicable for some local goods sold to the IFTZs. The proposed Free Zone Law addresses this issue by exempting local sales to IFTZ firms from export duties.

High duties on imported raw materials and components are also an issue for local suppliers. Firms surveyed in the Herrera and ISTI studies reported duties as high as 80 to 100 percent ad valorem on imported raw materials and inputs. This raises the cost of local production, as material costs can represent as much as 60 percent of the final cost of the product.

This problem can be addressed by importing materials under Law 69 duty free. As mentioned above, this process would be streamlined under the proposed Free Zone Law.

Local companies also report delays in clearing import shipments through Customs. Thirteen percent of the Herrera firms surveyed reported that it takes more than 45 days to clear imports through Customs, on the average. However, slightly over half reported an average time of 15 - 45 days for clearance. If sufficient advance planning does not take this delay into account, disruption in the production line, and therefore delays in meeting delivery deadlines can be expected. In addition, ensuring a constant flow of materials by maintaining higher inventories of raw materials and inputs is costly for the local company, and mitigates one of the key incentives to local sourcing.

Both the revisions in the Industrial Incentive Law and the proposed Free Zone Law address these two problems in different ways. Some of the delay in Customs can be attributed to the process of calculation of duties needed to post bonds required under Law 69. The revised Industrial Incentives Law proposes a unified, precalculated tax rate for imported goods which would simplify and facilitate this process. Once the raw material or good was classified and verified, the Customs official could look the item up in the tax table and assess the duty. According to individuals involved in drafting the legislation, the basic tax rates would be the same although there would be substantial time savings.

On the other hand, the proposed Free Zone Law would eliminate the duty calculation entirely by exempting from import duties raw materials and inputs imported by a local firm for processing and eventual sale to an IFTZ firm. Not only would there be a cost savings from the duty exemption, but movement of the goods would be expedited as there would be no need for calculation and collection of duties, and/or posting of bonds (as in the case of Law 69 operations).

## 2. Recommendations

As demonstrated above, both the proposed revisions in Law 299 and the proposed new Free Zone Law would facilitate trade between the IFTZs and local industries, and it is recommended that this project support passage of those two pieces of legislation. In addition, there will be an ongoing need to identify and address other policy and regulatory constraints to increasing sales of locally produced goods and services to the IFTZs. The strategy for accomplishing this will be the following:

- o Identification of policy and regulatory constraints
- o Analysis of constraints and possible solutions
- o Policy Advocacy

a) Identification of Policy and Regulatory Constraints

This project will focus on deal making, in the presence or absence of changes in the policy and legal framework governing IFTZ/local industry trade. This focus on deal making is certain to lead to the identification of specific and practical policy and legal issues that need to be resolved. It is envisioned that AI, ADOZONA, the Consultative Committee and the institutional contractor will identify policy and regulatory constraints as a result of the day-to-day contact with the IFTZs and local suppliers through the Project's information/communications and technology transfer activities.

b) Analysis of Constraints and Possible Solutions

Analysis of constraints and recommendations for policy/regulatory changes will primarily be the function of the Consultative Committee, through a permanent Policy Reform Task Force. Assistance in analysis will be provided by the Project Staff, AI and ADOZONA, and short term technical assistance when necessary. The issues will be raised by AI, ADOZONA, Project Staff or members of the Consultative Committee.

The Consultative Committee will provide a forum for discussion of critical issues by both the IFTZs (demand side) and the actual or potential local suppliers (supply side). When possible, the forum will attempt to achieve consensus on an issue so as to approach the GODR as a united front to suggest constructive policy and regulatory changes.

c) Policy Advocacy

It may not always be possible, however, for the Consultative Committee to achieve consensus on critical policy and regulatory issues. In this case, policy advocacy will be carried out individually by AI and ADOZONA, representing the specific interests of their constituencies but hopefully "enlightened" by the interactive discussion of the Consultative Committee. The AI has already been active in the drafting and lobbying for changes in Law 299, while one of ADOZONA's principal activities to date has been a similar effort with respect to the new Free Zone Law.

C. Credit Component

1. Demand for Credit

Credit has generally been a problem for all USAID supported export development projects in the private sector portfolio, both in terms of the cost of credit and access to credit.

Lack of access to credit will doubtless have some negative impact on the project's success, but it is not clear that it is the "make or break"

constraint. In both the 1989 ISTI study and the 1988 survey of industrial firms in the Herrera Industrial Park survey, credit was mentioned as one of several factors which limit fuller utilization of industrial capacity (lack of market being the overwhelming #1 reason) and/or constrain local industry sales to the IFTZs.

Although no study of credit demand among firms expected to benefit from the Industrial Linkages Project has been conducted, a recent survey conducted among selected industrial exporters in Santo Domingo points to a need for medium and long term credit. The survey was conducted by the IPC (Manion) at the request of the InterAmerican Development Bank in 1988, with the objective of determining the demand for industrial export credit.

The 32 firms surveyed (22 located in Herrera Industrial Park and 10 located outside the park) expressed a need for RD\$114 million in credit, including demand from at least three sectors of interest to this project:

- o 13 textile and apparel firms needed of RD\$18.6 million, or an average of RD\$1.43 million for plant expansion, purchase of machinery and equipment and working capital;
- o 2 shoes manufacturers needed RD\$6.0 million for plant expansion and purchase of machinery and equipment; and
- o 3 manufacturers of plastic products required RD\$6.5 million for plant expansion, purchase of machinery and equipment and working capital

It is possible that credit will also be a problem for the Industrial Linkages Project, but it is difficult to measure the extent to which it will affect project success, especially since the targeted sectors, and therefore potential local suppliers, cannot be identified until the first stage of market information gathering and analysis is done. This is complicated by the fact that the first "deals" generated by the project are not expected before the 8th or 9th quarter (July - August 1991) at the earliest.

## 2. Available Sources of Credit

### a) FIDE

FIDE is the major local source of medium and long term funding for the private sector. Medium and long term industrial credit from FIDE is very limited at the present time. Available credit lines for local industries include:

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o Export Credit Program

Local firms exporting (sales to the IFTZs would be considered as exports, according to FIDE's Industrial Loans Department) more than 25 percent of production are eligible for this credit line. There are two components: pre-shipment and post-shipment financing. Pre-shipment financing is available for short term working capital, and for medium and long term (more than two years) for infrastructure and working capital. Post shipment financing is available short term against documents. This credit program utilizes reflows from USAID and internal loans. Interest rates to final borrowers is 24 percent. Reflows are very limited, and expected to reach RD\$12 million in 1989. An important issue with this credit line is that both the number and amounts of loan requests under this program have grown in the past few years. For example, a firm which might have requested a loan for RD\$100,000 a few years ago is now requesting RD\$1.5 million.

o Industrial Loan Program

Local firms exporting less than 25 percent of production would utilize this program. Medium and long term loans for combined infrastructure/working capital needs are available. The program utilizes reflows from IDB and internal loans, which are very limited. Interest rates to final borrowers are 24 percent. Reflows for 1989 are estimated at RD\$6 million.

o Local Free Zone Companies Program

This credit would be available to IFTZ companies with at least 90 percent Dominican capital. These firms, in turn, could finance working capital needs of local firms which provide subcontracting services or components. The program utilizes internal resources. No resources are available at the present time.

o IDB Industrial Reactivation Program

Original funds from the Industrial Reactivation Program have been totally loaned. Reflows would not be available for industries under this project due to stipulations in the IDB - FIDE contract. The contract limits the use of reflows during the first five years (after the funds's last disbursement) to activities with the same purpose as the original loan.

o USAID Small Industry Credit Line

This credit line has been funded under the USAID Small Business Development Project (517-C150). The balance of US\$814,000 as well as expected 1989 reflows of approximately RD\$2.5 million are totally committed and the program is scheduled to end September 1989. Interest rates for this program range from 15 - 21 percent. Disbursement of funds is currently on hold pending resolution of interest rate-related issues between FIDE and USAID.

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b) Other USAID Credit Lines

o Section 108 Credit Funds

There is RD\$90 million available under this credit program, primarily for agricultural production. Once the funds have been offered to the agricultural sector, excess availability will be eligible for industrial development credit. These funds will be administered by the Chase Manhattan Bank. Interest rates to the ultimate borrower are 29 percent.

o Microenterprise Program

The GODR-owned Local Currency Program of RD\$3 million for microenterprises, is administered through the Dominican Association of Microenterprises (ADEMI). Interest rates to final borrowers is 60 percent.

o PRE Guarantee Program

In addition to the above lines of credit, there is a Guarantee Loan Program, supported by A.I.D., which should be approved shortly. This facility will amplify credit availability by guaranteeing local financing institutions' recovery of loans up to 50 percent of their value.

o Small Business Program

A second new program oriented toward microenterprises and small businesses (assets of US\$250,000 or less), should be on line by the end of the 1989. However, this program will be heavily oriented toward technical assistance and it is still not certain whether credit will even be a component.

o GODR Local Currency Funds

An additional source of credit funds is the GODR-owned local currency funds. An amount equal to US\$800,000 is recommended for the Industrial Linkages Project.

c) Other Donor Activity

Both the World Bank and the InterAmerican Development Bank have expressed interest in and are exploring new industrial credit lines. The World Bank, in its general credit discussions with GODR, has expressed an interest in providing new credit for small industries. They will continue this dialogue in upcoming missions. Any new credit, however, would be dependent on the resolution of several issues, including proper interest rate levels.

The IDB requested that IPC conduct an initial survey of credit needs among export firms in Herrera Industrial Park as a part of the more

comprehensive Herrera survey. An IDB mission is expected to visit the Dominican Republic during the next few months (summer 1989).

### 3. Conclusions and Recommendations

Based on the survey of industrial export credit conducted by the IPC in 1988, and the 1988 Herrera and 1989 ISTI studies, it is reasonable to assume that there will be some need for credit by local suppliers under the Industrial Linkages Project, although new credit is not a necessary condition for Project success. Lack of credit could have some negative impact on the Project, including reduced cost/benefit ratios and a narrowing of the potential project beneficiaries. However, the Project's primary focus is on deal-making through dissemination of market information and technology transfer. It is assumed that with access to market information and proper training and technical assistance, there will be sufficient potential suppliers with access to financing and credit to make initial trade deals.

Other donor agencies (World Bank and the IDB) also have expressed interest in exploring new credit lines for small as well as medium and larger industries. Such new credit, however, will be contingent on the resolution of disputes over interest rate levels and management of programs within FIDE.

During the life of the Project it will be important to facilitate access to credit for some prospective suppliers. This assistance will take two forms:

- o Allocation of project staff and technical assistance resources to inventory, disseminate information and assist local suppliers to obtain necessary financing as part of the "deal-making" process; and
- o Allocation of the local currency equivalent of US\$800,000 in GODR counterpart funds to supplement existing credit lines.

INSTITUTIONAL ANALYSISA. Introduction

The Industrial Linkages Project has been designed to achieve its goals and objectives by strengthening the Association of Dominican Free Zones (ADOZONA) and the Association of Industries (AI).

Because ADOZONA's constituency consists of most of the IFTZs in the country, and the associations of IFTZ manufacturers within the zones, it is ideally positioned to assist the Project to access and elicit the cooperation of the "demand-side" -- prospective buyers of locally produced goods and services. AI's membership consists of a large proportion of the "supply-side" universe -- companies in the domestic sector which are prospective sellers of goods and services to the IFTZs.

Strengthening of these two institutions will be achieved through direct material assistance from USAID and through support from a number of other Project participants. These include a USAID direct hire Industrial Advisor, an Institutional Contractor, and a range of experienced providers of technical assistance and training. These two principal institutions will be further strengthened by their participation in a Consultative Committee which, among other things, will work to achieve consensus on important issues regarding policy, legal and regulatory reform.

B. Institutional Profiles1. ADOZONA

While founded only in 1988, the members of this organization have been working together informally since 1986. Today the organization consists of the operators of the 11 largest private IFTZs and the leadership of the manufacturers associations that exist in four of the Zones, including Government owned zones. The members currently are:

## Zone Operators:

Parque Industrial ITABO  
 Zona Franca San Isidro, S.A.  
 Parque Industrial Villa Mella  
 Corporacion Zona Franca Industrial de Santo Domingo Este, C por A  
 Corporacion Zona Franca Industrial de Santiago, Inc.

Chem Tec Enterprise Dominicana, S.A.  
Corporacion Zona Franca Banileja, Inc.  
Zona Franca de Nigua, S.A.  
Operadora Zona Franca de La Romana  
Zona Franca Industrial de Las Americas, S.A.  
Corporacion Zona Franca Industrial de Puerto Plata, Inc.

Manufacturers' Associations:

Asociacion de Industrias de La Romana  
Asociacion de Industrias de Zonas Francas de Santiago  
Asociacion de Industrial de Zonas Francas de San Pedro de Macoris  
Asociacion de Industrias Textiles (ASINTEX)

ADOZONA is governed by a Board of Directors, with each member being elected for a term of two years. The Board consists of four representatives of Zone developers/operators and three representatives of Zone manufacturers' associations. Current members are:

President: Manuel E. Tavares Sanchez, President, Parque Industrial ITABO;

Vice President: Nicolas E. Quintero R., President, Asociacion de Industrias de la Zona Franca de La Romana;

Treasurer: Ing. Luis Manuel Pellerano Amiama, Zona Franca Industrial de Las Americas;

Secretary: Jose Miguel Ceron Pe a; General Manager, Zona Franca San Isidro;

Members: Ing. Carlos A. Cabral Tejeda, President and General Manager, Invest, Santiago Industrial Free Zone, and President, Asociacion de Industrias de Zonas Francas de Santiago; Angel Ma. Castillo, President and Manager, Old Chearri, San Pedro Industrial Free Zone, and President, Asociacion de Industrias de Zonas Francas de San Pedro de Macoris; and Ing. Virgilio E. Perez Bernal, Parque Industrial Villa Mella.

ADOZONA's formal mission statement describes the organization's major objectives:

- o Promote the orderly development of IFTZs and a favorable investment climate for IFTZ development;
- o Provide a forum for short, medium, and long term planning, and the investigation of innovative solutions in the industrial sector in general, through the IFTZ models;

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- o Serve as a vehicle to communicate the ideas, incentives and projections of the IFTZ sector to leaders in industry and government;
- o Identify and recommend changes in education and technical training, the legal and regulatory framework, and the financial structure for IFTZ development;
- o Serve as a forum for resolving disputes among members; and
- o Promote IFTZs at the national level.

ADOZONA is currently self-sufficient financially. Its current annual budget is RD\$31,500. The organization is financed by member dues. Current dues are an initiation fee of RD\$1,000 and monthly fees of RD\$500 for both zone operators and associations. A new schedule has been discussed which will be two-tiered, based on the level of development of the zone (number of companies, industrial space occupied, etc).

ADOZONA's current staff consists only of a secretary (salary RD\$1,400 per month). It has designated a Project Director for the Industrial Linkages Project (see later). New offices were rented in May in Edificio Seguros La Antillana. These consist of two offices, reception area and conference room.

The organization publishes ADOZONA, a periodical magazine, which first issue appeared in March 1989. The first issue contained articles on legal, Central Bank, and labor issues written by local lawyers, an interview with an industry association President, a testimonial of first IFTZ company in the DR, updates on IFTZ development, and an article on the Manaus, Brazil, IFTZ and maquila activity in Mexico. The second edition is currently at the press. The publication is distributed to IFTZ companies, and to a mailing list of government, service and related industries in the private sector.

ADOZONA's principal activities, programs, priorities, and plans include:

- o Monthly meetings in each of the IFTZs (on a rotating basis) to: 1) help establish industry associations if not in existence, 2) introduce ADOZONA, 3) discuss problems of manufacturers, and 4) determine what service ADOZONA can provide in relation to shared problems of Customs, laws, incentives, labor, etc.;
- o Lobby for passage of the proposed new Free Zone Law;
- o Collaborate with the National Council of Free Zones to streamline import procedures for IFTZ companies.

ADOZONA's role vis a vis its membership is that of administrator and coordinator of the demand side of the linkages program. As a leader in free trade zone development, the Association views the linkages program as a necessary next step in further development of the industrial sector and as an important potential source of products for IFTZ manufacturers.

## 2. AI

The Association of Industries is the most well represented organization of its kind in the country. Founded in 1962, it has drawn solid support from its more than 467 nationwide industry members. The Association, after 27 years of service to indigenous industries, continues to fill a unique role in support of the industrial development of the country. It is charged by its members with the responsibilities of acting as spokesmen for the sector on various issues that include legislative actions, business environment, and other matters of mutual interest to the members of the industrial sector.

The organization is self-sustaining, through membership dues. Its annual budget is RD\$475,000.

AI is governed by a Board of Directors consisting principally of industrialists. Current members are:

Ing. George Arzeno Brugal  
 Presidente de la Asociacion de Industrias  
 Presidente del Consejo de Directores  
 de la Cia. Brugal & Cia. C. por A.

Ing. Miguel Guerra Sanchez  
 1er Vicepresidente de la Asociacion de Industrias  
 Administrador-Vicepresidente de Dominit, S.A.

Jose Manuel Paliza  
 2do. Vicepresidente de la Asociacion de Industrias  
 Gerente Int. de Mercadeo de Fertilizantes Santo Domingo

Sr. Ramon Vila Piola  
 Tesorero de la Asociacion de Industrias  
 Presidente de Industrias Nigua

Juan Jose Attias  
 Secretario de Actas de la Asociacion de Industrias  
 Vicepresidente de Actas de la Asociacion de Industrias  
 Presidente-Tesorero de Alambres Dominicanos, C. por A.

Sr. Roberto Bonetti G.,  
 Vocal de la Asociacion de Industrias  
 Administrador General de la Sociedad Industrial Dominicana

Sr. Manuel Diez Mendez  
Vocal de la Asociacion de Industrias  
Presidente-Tesorero de Industria Petroquimica Dominicana

Sra. Mariana Gomez Franco  
Vocal de la Asociacion de Industrias  
Presidente de Maximo Gomez P. C. por A.

Sr. Lorenzo Garcia Lopez  
Vocal de la Asociacion de Industrias  
Presidente-Tesorero de Manufacturas La Palmesana

Sr. Elizardo A. Dickson N.  
Vocal de la Asociacion de Industrias  
Coordinador General de la Compa ia Anonima de  
Explotaciones Industriales (Casa Vicini)

Ing. Pedro Rivera, Hijo  
Vocal de la Asociacion de Industrias  
Vicepresidente del Supermercado Gigante

Lic. Pedro Garcia Troncoso  
Vocal de la Asociacion de Industrias  
Gerente General de Juan J. Garcia

Sr. Mario Rodriguez Mansfield  
Vocal de la Asociacion de Industrias  
Director de Operaciones de Industrial de Confecciones, S.A.

Sr. Franklin Baez Brugal  
Suplente de Vocal de la Asoc. de Industrias  
Gerente General de Brugal & Cia. C. por A.

Sr. Alfredo Rodriguez  
Suplente de Vocal de la Asoc. de Industrias  
Vicepresidente de Talleres ALCE

Sr. Francisco A. Rodriguez  
Suplente de Vocal de la Asoc. de Industrias  
Vicepresidente-Tesorero de Fertilizantes Quimicos Dominicanos

Sr. Ramon Alejandro Crouch  
Suplente de Vocal de la Asoc. de Industrias  
Vicepresidente de Industrias Asociadas

Sr. Celso Manuel Perez  
Suplente de Vocal de la Asoc. de Industrias  
Director de Investigacion y Desarrollo de  
Celso Perez, C. por A.

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Sr. Franklin Leon Herbert  
Suplente de Vocal de la Asoc. de Industrias  
Gerente del Grupo de Marca de la Cerveceria  
Nacional Dominicana, C. por A.

Members of the Board of Directors are elected for terms of two years and the President, Vice Presidents, Secretary and Treasurer must be permanent residents of the National District.

The organization's major objectives are to:

- o Defend the interests of members;
- o Promote development of existing industries;
- o Promote creation of new industries;
- o Promote national industrial development.

AI conducts a wide range of information and educational activities for its membership. For example, it publishes a monthly magazine (circulation 2000) for members and other groups such as industrial associations, government agencies and officials, and foreign embassies. It also publishes a monthly newsletter for members only.

AI's monthly magazine, El Industrial, has been published since 1968. Several recent issues have included articles on local IFTZs and their growth, IFTZ legislation in other countries, and a review of foreign investment legislation.

AI's newsletter, Carta Informativa, is published on an "as needed" basis (about every two months on the average). It has been used to disseminate up to date economic indicators and information on changes in the legal and regulatory framework which affect local industry. The most recent issue gave a status report on the proposed amendments to Law 299 and AI plans to present an overview and analysis of the changes when approved by Congress.

AI has a staff of nine, including a General Manager and the Editor of El Industrial. It is housed in a two-story building which includes an auditorium capable of holding 350 persons, and a conference room for 30.

AI's principal activities and programs include:

- o Representation on the Boards of Directors of various institutions, including:

- Quality Control
- National Training Institute
- Industrial Dev. Directorate (approves Law 299 incentives)
- Cotton Commission
- Trademarks/Industrial Names
- Price Stabilization Institute

Port Authority  
 National Agricultural/livestock Committee  
 Social Security Institute  
 National Energy Policy Committee  
 Foreign Investment Directorate  
 Dominican Institute for Agricultural Investigation  
 National Salary Committee

- o Serving as the coordinating institution for many other business associations in the preparation of draft amendments to Law 299 and Law 5911 (Income Tax Law) and advocacy.
- o Sponsoring workshops and seminars on a range of industrial and business topics. For example, AI sponsors one large seminar each year for its members and the general public. Events in the past few years include:

- Operating Your Business in an Inflationary Economy. October, 1988. AI sponsored this 12 hour (3 days, 3 - 7 pm) seminar/workshop in conjunction with the National Businessmen's Association and the Catholic University (UCMM). Speakers included: Dr. Hector Chyrikins, Argentina, advisor to Latin American Central Banks and private businesses; and Luis Guilfo, a Peruvian economist and consultant to Latin American governments and financial institutions.

The seminar included formal presentations and informal group discussions led by the speakers. Specific topics included: Macroeconomic Effect of Inflation and its Impact on the Business Sector; Inflation Indexing and its Impact on Business, Management in Inflation; Macroeconomic Effects of Inflation: Peruvian Case Study; Management in Inflationary Times: Argentina Case Study; The Inflationary Situation in the Dominican Republic. The seminar was held at UCMM. Cost was RD\$925 per person. Attendance was limited to 120 participants.

- Seminar/Workshop on the Economics of Small and Medium Size Industries. March 1987. AI sponsored this all day event in conjunction with the Association of Small and Medium Size Industries.

Speakers and topics of presentations included: Small and Medium Industries and Gross Domestic Product in the DR, Lic. Rosario, Advisor to the Governor of the Central Bank; Fiscal, Financial and Exchange Incentives Favoring Small and Medium Industries, Dr. Lamarche, Ex Secretary, Technical Department, Sec. of Industry and Commerce; Customs Regime and Procedures for Importing Raw Materials and Inputs, Sr. Noboa, Former

Director of Customs; Income Tax and the Small and Medium Business, Sr. Ravelo, Former Director of Income Tax; FIDE Programs and Projects, Lic. Liz, Assistant Manager for Development of the Central Bank; Industrial Development Corporation Programs and Projects, Lic. Pineda Perez, Director of CFI.

The seminar was held at the AI auditorium. There was no charge.

AI's major activity this year has been the drafting of and lobbying for the revised Industrial Incentives Law (Law 299).

C. Roles in the Industrial Linkages Project

1. AI

AI is the Project Grantee. It will play an instrumental role in accessing a large number of domestic manufacturing companies located throughout the country, which have little or no experience supplying IFTZ firms and have limited experience in the export processes. The role of AI is to take the lead in establishing outreach programs for its "supply side" membership. Activities will include participation in conducting "supply-side" research and establishing the supplier database, coordination of technical assistance to supply-side firms, helping to create a publications program, analyzing needs for subgrants, and sponsoring seminars and workshops using industrial technical experts to enable its member industries to develop the ability to supply quality products to free trade zone firms or for obtaining sub-contracts from foreign-based operations.

AI will also play a lead role in policy development affecting the sector. Working within the Consultative Committee, disincentives including Customs procedures, regulations affecting the tax basis for production for export, and other barriers, will be examined and recommendations made on behalf of the sector. This aspect of AI's activities will be closely coordinated with both ADOZONA and IPC, which are also involved in policy and legislative changes on a multi-sectoral level.

2. ADOZONA

ADOZONA will play a leadership role in assisting the Project to access and obtain the cooperation of the demand-side -- IFTZ operators and manufacturing firms who are prospective buyers of locally produced products and services.

It will play a major role in conducting the demand analysis research, which is a pivotal initial activity of the Project. It will do this by working with the Institutional Contractor and short term technical

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assistance resources to ensure that data is obtained on a continuing basis from Zone firms so that it may then be analyzed and entered into the demand side database for eventual dissemination to supply side firms.

ADOZONA will also participate in the Project's program for publications, workshops and seminars, the identification of subgrant needs and subgrant organizations, and technical assistance and training.

ADOZONA will play an active role in the membership and work program of the Consultative Committee. The organization's major activity during 1989 has been the drafting of the proposed new Free Zone Law. This background will be of great value in the deliberations of the CC.

#### D. Institutional Strengthening Through the Project

##### 1. ADOZONA

The Project provides ADOZONA with an opportunity to present an important new service to its clients by fomenting and strengthening more direct economic linkages with the local economy. Such linkages are also important in political terms, as they would help alleviate the resentment that has grown up over the years by the local manufacturers against the IFTZs, which they see as having received favored treatment while local manufacturers were neglected.

Under the project, ADOZONA's institutional base will be supported to assist in overseeing the demand-side subgrants program and to assure coordination between other organizations involved in its implementation.

On the technical side, ADOZONA's own institutional development will be supported through the Project. The Institutional Contractor will assist in systems design for management information, subgrant review processes and procedures, and staff training, thereby assuring continuity of both the linkages program as well as a strengthened, private sector oriented ADOZONA.

However, while strengthening the institutional capacity of ADOZONA, the Project is not designed to address its long-term sustainability. As a member-based association, ADOZONA is capable of generating sufficient resources to provide basic services. The Project will expand its role in industrial development and will provide the resources for it to do so without straining its institutional capacity. The ability of the Association to sustain itself following Project termination will depend upon the members' satisfaction with the level and nature of services provided by ADOZONA. The Association presently is self-sustaining.

##### 2. AI

While AI is similarly self-sustaining financially, and does not require the Industrial Linkages project for its sustainability, the Project will nonetheless provide the organization with important benefits.

AI will receive continuous exposure to a range of activities envisioned for the Project. These include identification of technical assistance and training needs, creation of the supply side database, workshops, seminars, publications and other methods of information dissemination, and participation in the work of the Consultative Committee (where AI's recent work in creating amendments to Law 299 will be a major asset).

The Industrial Linkages Project, and the support provided within it, will enable AI to reach out to more of its supply side constituency and to offer a package of specific and practical services to local vendors of goods and services.

#### E. Other Project Elements

##### 1. Consultative Committee (CC)

The CC will be limited to eight members, including two co-chairmen representing the supply (AI) and demand (ADOZONA) communities. Other members from the demand side (3) would include IFTZ operators and manufacturers. These would be drawn from both public and private IFTZs. The other supply side members (3) would be drawn from AI itself, or from other major industrial associations, both regional (e.g., Herrera, Santiago) or functional (textiles, plastics, etc.).

The CC would meet not less than quarterly, and probably monthly during the first 18-24 months of the Project.

The CC will play four key roles in the Industrial Linkages Project:

- o It will review and make recommendations concerning the objectives, priorities, activities and workplan of the project.
- o It will review and provide feedback on the results and presentation of the supply and demand research and database programs.
- o It will identify and/or consider allocations of resources to fund sub-grants.
- o It will address and make recommendations on a range of public policy/legal/regulatory issues where change and reform are thought necessary.

The CC will be an informal advisory body with no official authority. However, its role as provider of feedback and builder of consensus should not be underestimated. Co-Chairmen and members of the CC would be nominated by AI and ADOZONA for USAID approval.

The CC will be supported by a Technical Coordinating Committee (TCC). The TCC will serve as the CC's secretariat and provide staff resources to support the work program of the Committee. For example, it will prepare agendas based on input from all Project participants, convene meetings, and provide logistical and follow-up support. The TCC will consist of the C.O.P. of the Institutional Contractor, and the AI and ADOZONA Project Directors.

## 2. Industrial Advisor

The Project will be further supported by an Industrial Advisor, who will be a direct USAID hire, and will represent AID vis a vis other project participants and overall supervision of the Project.

The principal responsibilities and tasks of the IA are set out in the position description presented at the end of this annex.

## 3. Institutional Contractor

USAID will negotiate a contract with a firm to provide strategic and day-to-day management of the overall Project. The IC will:

- o Prepare detailed workplans, timetables and budgets for every aspect of the Project.
- o Provide staff to implement these activities.
- o Maintain continuous liaison with all project participants.
- o Make periodic reports of progress, plans and problems as required by USAID.
- o Provide staff support for the work of the CC.
- o Identify, working with AI and ADOZONA, activity areas in which sub-grants would be justified and help to prepare proposals to USAID to fund these.
- o Implement the initial demand and supply side research and database compilation, including the identification and provision of short term technical assistance to accomplish this task.
- o Identify all other short and long term technical assistance and training needs, recruit appropriate resources subject to USAID approval and contracting procedures, and provide liaison and support for such TA resources.

The Institutional Contractor will have the following executive staff:

- o Chief of Party (industrial engineer)
- o Industrial Specialist (local hire)
- o Communications Specialist (local hire)
- o Information Specialist (local hire)

The IC will also provide all necessary support staff, including a receptionist/secretary, secretary, driver, guard, accountant, etc. The IC will be housed in its own offices.

Principal tasks and responsibilities of the IC's staff are set out in the position descriptions presented at the end of this annex.

#### 4. SubGrant Program

The Project envisions that both ADOZONA and AI, in cooperation with the IC, will identify areas of activity in which implementation could most efficiently be carried out by other organizations, associations, companies or individuals. The Consultative Committee will act as the "filter" for such proposals. Once the CC has approved a prospective subgrant idea and candidate, AI and ADOZONA respectively will work with the Institutional Contractor to prepare a formal proposal and budget to USAID.

#### 5. Special Relationship to IPC

There is a need for the Industrial Linkages Project to coordinate closely with other USAID funded projects and efforts of other donor agencies.

##### a) IPC/WB and USAID

The IPC will be carrying out the following projects, with either World Bank or USAID funding. World Bank funding would come from the technical assistance component of the recently signed loan for Free Zone Development (infrastructure development), while the USAID funding would come from current IPC programs.

- o Assist the GODR in streamlining Customs procedures for non traditional exporters located outside the IFTZs, including those local firms exporting to the IFTZs. It is estimated that approximately US\$100,000 will be available.
- o Carry out a comparative study of public and private IFTZs in the Dominican Republic, focusing on relative pricing strategies. The study will be used to encourage the GODR to manage the public IFTZs on a more businesslike basis. US\$240,000 has been set aside for this study.

b) USAID/IPC

The USAID funded IPC program has several activities/components of interest to the Industrial Linkages Project:

o Policy Reform

USAID has approximately US\$100,000 available in its current agreement with the IPC which could be used for the customs policy/procedures study. The study will take place, although at this point it is not clear who will finance it - USAID or World Bank.

o Initial Investor Contact

The IPC is the first contact point for many new IFTZ investors, especially in their priority sectors: apparel, electronics, shoes and information services. At the initial phase of investor interest, the IPC could identify raw materials and inputs which the investor would be interested in purchasing locally. If such inputs can be supplied locally, the Dominican Republic becomes a more attractive location vis-a-vis competitors. By identifying investors at the early stages of investment, there will be more lead time to identify and work with potential local suppliers.

A recent example is the case of The Franklin Mint, which will be establishing an operation in one of the IFTZs to manufacture some of their lower quality porcelain figurines. The IPC has been instrumental in assisting them, and in the course of working together identified several inputs which they would be interested in purchasing locally given the proper quality, quantity and reliable supply. They include: cardboard boxes, wooden cases for figurines, glass, mixtures of clays, injection molding. It is a very large project, with an initial investment of US\$17 million. The project is expected to occupy 140,000 square feet and eventually employ 5,000 workers. As there is a long lead time (approximately 1 year) for the training of such a large work force, it might be possible to develop the capacity of local suppliers during the interim.

o Sectoral Programs

The IPC's sectoral programs for apparel, electronics and shoes should provide valuable input to the "supply side" analysis. The major focus of these programs has been to promote subcontracting operations between foreign firms and firms located in the Dominican Republic, both in the IFTZs and outside the IFTZs.

Intitial, and in some cases more extensive evaluations of local industrial technical and managerial capacity have been conducted by consultants from the International Executive Service Corps. A survey of subcontracting capability among local apparel manufacturers was conducted in

1987 and is to be revised in the next few months. This will consist of a brief 15 - 30 minute in-plant evaluation. Similar evaluations have been conducted in the shoe and electronics sectors. More extensive in-plant diagnostics of approximately two days have been conducted in the shoe sector as well.

Such evaluations will be helpful in obtaining an initial idea of the technological and managerial issues facing local producers, and of the level of actual interest on the part of local firms in expanding operations and/or entering into new markets. For example, evaluations in the shoe sector (both local and IFTZ firms) revealed that the major problems are: a) inefficient plant layout, b) pricing methodology (or lack of it), and c) internal payment systems, ie shifting from hourly wage to piecework. Based on these results, one of the future IPC projects is an intensive two day observation and analysis of the production process in a local shoe factory to study the pricing issue in more detail and identify how to best assist local manufacturers.

o IPC/Herrera Industrial Park Subgrant

The objectives of this subgrant are a) to promote contract production between foreign firms and local manufacturers; b) to promote the integration of the IFTZs and the industries in Herrera, in order to increase market opportunities for the local industries and reduce the costs and turn around time for the IFTZ firms, and c) to contribute to improving the investment climate in the Dominican Republic. Funding for the program consists of RD\$200,876 from the IPC and counterpart funding of RD\$100,000 from the Association of Industries of Herrera (AEIH). The program will run from July 1989 through December 1990.

In the area of market information, the project envisions: a) development of a databank of goods and services that Herrera industries could provide to IFTZs. This process has already begun under the current IPC/AEIH grant; and b) information on demand which will be generated mainly from the list of products Herrera firms identified as having sold to IFTZs during the recent survey. The project coordinator recognizes that such a list represents only a fraction of goods that might possibly be sold, and that a more systematic method for identifying IFTZ needs is required. Some new demand will be identified through meetings with zone industry associations and visits to individual IFTZ companies.

Activities in the area of information dissemination include: a) communication of IFTZ needs for inputs, raw material and personnel to local industries in Herrera; b) integration of the IFTZs in ExpoHerrera, a product exhibition; and c) serving as a facilitator between firms in the IFTZs and Herrera. In terms of "deal making" technical assistance, the project proposes to serve as a "broker" between the IFTZs and local industries. This will include organization of investor visits to Herrera, dissemination of samples, and follow up on requests for price quotes.

The project will also address policy reform, especially in the area of Customs procedures for local company sales to IFTZs. In addition to the above activities, the AEIH will develop and maintain a databank with information on IFTZ and local firms assisted by the program, the number and value of new sales generated, and jobs created.

c) InterAmerican Development Bank

The IDB has expressed an interest in providing credit to local industries. At the request of the IDB, the IPC funded a survey of credit needs of selected export firms in Herrera Industrial Park and Santo Domingo. A mission will be coming to the D.R. in the next few months (summer 1989), but with elections in August of 1990, there is uncertainty as to when any such financing, if approved, would be available (possibly as early as late 1990). IDB seems willing to consider an amount similar to the Industrial Reactivation Program (PRI), i.e. US\$50 million. They believe, based on their experience with a much larger Agroindustrial Program, they would have trouble disbursing any larger amount.

## P O S I T I O N   D E S C R I P T I O N S

INDUSTRIAL ADVISOR (IA)Responsibilities:1. General

The IA will be USAID's principal representative in the Project and the chief liaison between USAID and the various institutional participants. The IA will be responsible for:

- Monitoring the plans and activities of the various participating institutions, including ADOZONA, the Association of Industries, the Consultative Committee, subgrantees, the Institutional Contractor, and others who may become involved in the Project.
- Directing a unified effort to achieve, to the greatest extent possible, the goals and objectives of the project, i.e. successful linkages between IFTZ buyers and domestic sellers.
- Assisting each participating organization to develop specific objectives, strategies, workplans and budgets, and to determine the financial, technical and human resources required to achieve their goals.
- Advising USAID on the status, capabilities and progress of each participating organization and their relative strengths and weaknesses in implementing their work programs.

2. Specific Tasks

The IA will carry out a variety of tasks including the following:

- Develop working relationships with all project participants, as well as with other relevant organizations such as the Investment Promotion Council and agencies of the GODR involved in industrial and export development.
- Develop an understanding of the nature, scope and breadth of each of the participating organizations, focusing on those activities and resources that could assist the Project to achieve its goals.
- Identify the financial and technical assistance requirements of each of the participating organizations and, in cooperation with the Institutional Contractor, draft scopes of work and budgets as may be required.

- Identify, in cooperation with the Institutional Contractor, ADOZONA, AI, organizations and institutions which could be candidates for sub-grants and assist these organizations to prepare proposals to USAID.
- Advise USAID on the specific policy problems or constraints faced by project participants and recommend actions to be taken to ameliorate these constraints.
- Advise USAID on the progress of the overall project, and each of its participating institutions, on a periodic basis as required.

Reports to: Chief, Private Enterprise Division, USAID.

Qualifications:

The IA should have 5-10 years of international business experience, with exposure to both the technical and marketing aspects of industrial development. Experience in production for export in developing countries will be essential. Further experience with (a) small to medium business and (b) multinational companies in the industrial sectors most often found in small, developing countries, will be helpful.

Education:

The IA will have an advanced degree in international business with a concentration in international marketing or production engineering.

Languages:

Fluency in written and spoken English and Spanish will be essential.

**INSTITUTIONAL CONTRACTOR**

**CHIEF OF PARTY**

**Responsibilities**

The C.O.P. will be required to:

1. Direct and monitor the overall implementation of the Industrial Linkages Program.
2. Develop strategies, action plans and budgets to achieve the goals of the program.
3. Maintain continuous liaison with the principal institutional participants in the program, and with the Dominican industrial community in general.
4. Provide counsel and assistance to ADOZONA, AI, the Consultative Committee and all other individuals and organizations involved in the Project.
5. Identify projects and institutions capable of carrying out worthwhile activities related to the industrial linkages process, and assist them to develop proposals for subgrants.
6. Maintain contact with organizations carrying out related work, principally the IPC, as well as other donor organizations such as the IDB, the World Bank, and the UN.
7. Be responsible for the financial and quality control of the program.
8. Make periodic reports to USAID.

**Reports to:** Industrial Advisor.

**Experience:**

Applicant should have had at least ten years work experience in industrial engineering or production management, and be familiar with production methods in a range of industries, materials and technology procurement, cost and quality controls, management accounting and plant layout. Experience in an LDC export-oriented company is essential.

**Education:**

Undergraduate degree in engineering or industrial economics. Graduate degree would be helpful but not essential.

**Languages:**

Applicant should be fluent in written and spoken English and Spanish.

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INSTITUTIONAL CONTRACTOR

COMMUNICATIONS SPECIALIST

Responsibilities:

The Communications Specialist will be responsible for the development, implementation and coordination of the program of information dissemination in support of the Project.

Specific tasks will include the following:

1. Preparation of reports, press releases, publications, speeches and other written materials.
2. Conception and supervision of execution and construction of displays and exhibits.
3. Organization of seminars, workshops, conferences, meetings.
4. Preparation of audio and audio-visual presentations.
5. Public speaking on industrial subjects relevant to the Project.
6. Liaison with the industrial community in the IFTZs and in the domestic sector, as well as with relevant agencies of the GODR and private organizations.
7. Supervision of photography.

Reports to: Chief of Party.

Experience

The CS will have a minimum of five years experience in journalism, advertising, public relations or sales promotion in the private sector. Experience in international and/or export-oriented small-to-medium businesses will be a major asset.

The CS must be familiar with the requirements and techniques necessary to carry out the tasks above, including knowledge of computerized databases and desk-top publishing.

Education

Undergraduate degree with a concentration in business, communications, marketing or journalism.

Languages

Fluency in written and spoken English and Spanish.

**INSTITUTIONAL CONTRACTOR**

**INDUSTRIAL SPECIALIST**

**Responsibilities:**

The Industrial Specialist will be responsible for day to day liaison with companies and organizations in the IFTZs and in the domestic sector, as well as with relevant trade and industry associations and organizations, sources of technical assistance and appropriate agencies of the GODR and other donor organizations.

Specific responsibilities will include:

1. Initiating and maintaining contact with both supply side and demand side companies and becoming familiar with the requirements and problems of both.
2. Arranging contacts between supply side vendors and demand side buyers.
3. Assisting the Chief of Party to ascertain the technical assistance requirements of supply side companies and to identify and make contact with sources of technical assistance.
4. Implementing the logistics of technical assistance.
5. Developing a keen awareness of sales opportunities in IFTZ companies and bringing these to the attention of supply side companies.
6. Maintaining continuing liaison with domestic and overseas organizations which could support the linkages process.
7. Developing plans and projects to increase and enhance face to face contacts and relationship-building between supply and demand sides.

**Reports to:** Chief of Party.

**Qualifications**

The IS will have a minimum of three years employment experience with a manufacturing or services company in the export-oriented private sector, with substantial exposure to technical, production and marketing areas. Employment with a multinational company operating in a developing country would be a major asset.

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Education

Undergraduate degree in engineering or industrial marketing.

Languages

Fluency in written and spoken English and Spanish.

**INSTITUTIONAL CONTRACTOR**

**INFORMATION SPECIALIST**

**Responsibilities:**

The Information Specialist will have a day to day responsibility for designing and maintaining an electronic database of supply side and demand side companies and their product offerings and requirements in a form that will make it easily accessible to Project participants and prospective beneficiaries.

Specific responsibilities will include:

1. Participation in the design of appropriate systems and software.
2. Supervision of data collection and its computerization.
3. Preparation of specifications for the most cost-effective hardware.
4. Design and supervision of a management information system for the Project.
5. Primary and secondary industrial and market research.
6. Preparation of reports and printouts as required.
7. Development of a detailed MIS budget and cost control system for the Project and its participants.

**Reports to:** Chief of Party.

**Qualifications**

The Information Specialist will have a minimum of three years work experience in corporate data processing, specifically in systems and software design and applications, will have participated in the creation and maintenance of large databases, and will have a general familiarity with current DP technology.

**Education**

Undergraduate degree with a concentration in computer science, MIS or equivalent.

**Languages**

Fluency in written and spoken English and Spanish, as well as most widely used computer languages.

## ECONOMIC ANALYSIS

The overall objective of the Industrial Linkages Project is to increase the net benefits to the local economy of the free zone program. In operational terms the project aims at increasing and diversifying the local value added component of the output of IFTZ firms. Specifically this implies developing mechanisms to facilitate the purchase of and improve the quality, price competitiveness, and delivery reliability of Dominican suppliers of raw materials, component parts, facilitating materials (such as packaging), service suppliers, or subcontracting capabilities.

The economic consequences of the project are focused on increasing the local value added component of IFTZ firm output, primarily by replacing foreign or intra-IFTZ purchases of services, inputs and subcontracting with purchases from local Dominican firms. In addition to enhancing the local value added component of IFTZ activities, other important economic benefits will be the generation of foreign exchange earnings and, to a lesser extent, employment in local industry.

Other important project goals are less quantifiable and include participation in creating a "climate" and policy framework under which linkages between local and IFTZ firms will be encouraged, developing necessary information resources, and technical assistance to enhance the international competitiveness of local firms. Specific project goals were developed by ISTI ("Dominican Republic: Initial Assessment of the Potential for Backward Linkages with Free Trade Zones", International Science and Technology Institute, Inc., February, 1989) as part of their empirical analysis and input into the Project Identification Document.

As modified by subsequent analysis and discussion within the Mission, these goals, as stated elsewhere in this report, are accepted as desired, reasonable expectations of project outcomes. On the benefit side, the determining goal is that the portion of value added by the local economy will increase from 30 percent currently to 40 percent, with three points of this 10 point increase accounted for by local purchases of components, inputs, raw materials, or finished goods, compared to virtually none now. Benefits of exchange generation and employment all result directly from attainment of this goal.

The operational definition of local value added utilized in this analysis parallels that utilized by the IPC, Central Bank, and previous Mission analyses. The definition relies on a flow of production factors approach.

Law 299 regulates the incentives which apply to firms operating in the IFTZs. This law requires that these firms deliver to the Central Bank foreign exchange that is to be converted into pesos for all local expenses. These local expenses include purchases of raw materials, salaries and wages, utilities such as water, electricity, telex and telephone, rent, purchases of supplies, fuel, repair, and maintenance, transportation and shipping, and others.

Thus, the sum of these expenditures constitutes the local component in the gross product of the IFTZs. Following standard practice, the value of IFTZ product is measured by the invoice value reported to customs for export statistics purposes. The operational simplicity, availability, and widespread use of this definition and data make its utilization appropriate.

Given this situation, then, local value added increments, for the purposes of this project, represent IFTZ purchases of the above-mentioned items generated by the increased proportion of LVA as well as subcontracts from IFTZ firms to Dominican enterprises. Given the regulatory framework of Law 299, all of these purchases would represent gross foreign exchange earnings or accruals to the country. Consequently, all income generated for local firms is paid in US dollars, via the Central Bank, and represents gross foreign exchange generation. Consideration of the import component of local firm production would result in estimates of net foreign exchange earnings.

The most conservative estimate of project benefits is that for net foreign exchange generation. As described previously, gross foreign exchange generation is operationally identical to incremental local value added (termed income generation in Table 3) because of the Central Bank requirement of foreign exchange conversion for payment of all local inputs. Net foreign exchange generation differs from incremental local value added in that the import component of local production is deducted (as calculated in Table 4). Using a ten year period for benefit accrual results in a total present value of US\$221.8 million for this conservative estimate of benefits, as calculated in Table 4.

Return on investment (ROI) and internal rate of return (IRR) calculations were not considered appropriate criteria for evaluation of the benefits produced by this project. As indicated in Tables 7 and 8 private sector investments account for a large portion of project costs. It is logical and rational to assume that these investments would not be attracted unless investors were assured that returns would offset opportunity costs, since investors seek equally profitable ROIs.

As a rough estimate of IRR, however, it can be noted that the calculations in Table 4 and Table 7 indicate a net present value of 182 million dollars, which indicates that IRR significantly exceeds the 23% present value factor utilized in these calculations. As described previously, Table 4 employs net foreign exchange generation as the criteria for increasing project benefits, which is the most conservative estimator of those examined.

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If a present value factor of 50 percent is utilized, a net present value of 54.2 million dollars results. Since IRR represents that return which equates the present values of the flows of benefits and costs, the conclusion of this sensitivity analysis is that IRR exceeds 50 percent, a most favorable outcome. The wide range (23%-50%) of estimates that still result in a positive net present value suggest that the conclusion of positive returns is justified, even given significant variations from the assumptions or estimates utilized.

As calculated in Table 7, the total present value of project costs over the 10 year forecast period is US\$39.8 million. These costs consider not only the contributions of all of the direct participants in the project (AID, GODR, AI, and ADOZONA) but also the likely investments required by local industry to increase capacity, productivity or add new facilities to attain the level of activity projected by project goals.

Consequently, the benefit/cost ratio is 5.6 to 1, a quite favorable ratio for a project of this nature. This measures the ratio of project benefits (the US\$221.8 million of net present value of total foreign exchange generated, calculated in Table 4), divided by the total present value of project costs (US\$39.8 million, calculated in Table 7). The analysis and calculations described above and presented in the various tables also suggest other important conclusions about the project. These include:

1. The project can be expected to attract and coalesce incremental private sector investment totaling US\$105.4 million dollars in nominal terms, or US\$35.2 million in present value over the life of the project. Thus the present value of AID, GODR, AI and ADOZONA project contributions (US\$4.6 million) is leveraged by a 7.65 to 1 ratio.

2. Total incremental employment is estimated to be a conservative minimum of 3,737 new jobs, but may be as high as 18,477, depending on whether subcontracting and service purchases by IFTZ firms replace IFTZ employment or represent activities that would not otherwise take place.

3. Net foreign exchange generation is, in essence, coincident with net income generation. This means that foreign exchange generation is exceptionally favorable and highly leveraged for this project. In present value terms over a ten year period each dollar of total project costs generates about 5.6 dollars of net foreign exchange. Since direct project costs are highly leveraged by local private investments each dollar of AID, GODR, AI and ADOZONA contribution generates about 48 dollars of foreign exchange.

4. The absolute level of project benefits is sensitive to overall growth in IFTZ activity. Since total project costs are largely determined by private investment (which is, in turn, dependent on the level of linkage activity with the local economy), benefit/cost ratios are not significantly altered.

Table 1 summarizes gross project performance, as measured by the income generated for local firms by increasing LVA share from 30 percent to 40 percent by EOP. As the Table suggests, the value of this incremental income generation depends upon:

1. The level and growth of overall IFTZ production.
2. The speed with which EOP goals are reached over project life.

Table 2 projects the annual movement toward EOP goals for each component of the overall LVA goal. Progress towards goal attainment varies, given differing project implementation schedules and different difficulties inherent in the nature of the production process and technical assistance required for generating service and subcontracts versus manufactured inputs. The Table also indicates the US dollar value of these linkages, based on the planned goal attainments and projected levels of IFTZ activity assumed in Table 1.

Projected annual levels of IFTZ activities are presented in column 1 of Table 1. These projections rely heavily on the estimates of secondary sources, most notably AID Mission projections and the study of IFTZ performance prepared in March, 1989, by World Bank staff as background for the recently approved US\$51 million loan and project to, among other activities, fund loans to private industrial free zone developers to construct new IFTZ factory space and supporting infrastructure. Projections for 1992-1998 assume 15.71 percent average annual growth in IFTZ output, the rate which prevailed during the 1981-1987 period.

These projections envision significant, continuous IFTZ activity growth. Since the dollar value of project benefits derives from capturing an incremental share of such activity, continued growth is a critical assumption. Although these projections forecast significant growth, they do seem reasonable considering:

1. Projections are expressed in nominal dollars and, thus, reflect the effects of inflation as well as real growth. Assuming only 5 percent annual inflation, the US\$450 million of IFTZ gross exports in 1988 becomes US\$733 million in 1998.

2. The very favorable international competitive position and supportive environment for Dominican Republic IFTZ activities, as discussed earlier in the paper.

3. Projections are consistent with programmed increases in factory space. As illustrated in Table 6, the World Bank documented demand for an additional 6,279,000 square feet of IFTZ factory space between mid-1988 and 1991. This compares to 3,770,000 square feet existing at the end of 1987. The IBRD loan project alone will finance 2,500,000 square feet of space. Assuming that the value of 1998 IFTZ output per square foot is similar to that prevailing in 1988, and considering a modest 5 percent annual inflation, total

factory space anticipated by 1991 will support about US\$1,910 million of IFTZ exports in 1998. Post 1991 factory space additions, plus increasing unit values of IFTZ production, will augment this total even more. All of this suggests that projections are not unreasonable. Obviously, attainment of this projection assumes a favorable policy environment and appropriate GODR exchange rate structures, as discussed in the section on policy constraints.

As an additional check on the sensitivity of project benefits to increased levels of IFTZ activity, a worst case scenario analysis was conducted. The analysis posited only 1988 levels of IFTZ output (US\$450 million) projected to 1998 by assuming 5% annual inflation. Further, the most pessimistic scenario for obtaining benefits was assumed, i.e., that the goal of an incremental 10% in LVA was reached only at EOP in 1994. The analysis indicated that benefit/cost ratios were not significantly reduced. Although the absolute level of project benefits did decline, so did costs, which in the majority represent private investment that is, within relevant ranges, proportional to incremental local activity.

Table 2 projects the movement toward EOP goals, for each year of the project, for each component of the overall LVA goal. Progress toward goal attainment varies throughout the life of the project, given project implementation schedules, varying inherent complexities of the production task in each sector, and differences in the technical assistance and lead times required to produce outcomes. This project implementation schedule, and the relatively lengthy process required to produce results once project activities commence, mean that benefits will not accrue until the later years of project activity.

Since benefits are skewed towards later years, this results in heavier present value discounting of benefits than would be the case in projects capable of more rapid start-up or earlier generation of returns. Table 2 also presents the dollar equivalents resulting each year from progress toward meeting project goals. These dollar amounts represent the incremental percentage of local value added attained as a consequence of project activity multiplied by total IFTZ exports.

Table 3 summarizes the gross increases in local income demonstrated in Table 2 and discounts these flows for present value. The annual figures represent the additional local value added generated in each year as a consequence of attaining project goals. Benefits are projected for 10 years and assume equal accrual within each year. Secondary and tertiary benefits, such as indirect job creation, and the multiplier effect of employee consumption expenditures in the local economy were not considered. These additional benefits, however, would be real and add to project returns.

Table 4 converts Table 3 benefits into foreign exchange generation. As described previously, given the present regulatory environment and a unified, market equilibrated exchange rate structure, all IFTZ linkages with local producers generate equivalent gross foreign exchange earnings for the

economy. Since local producers utilize imported components in their production processes, foreign exchange expenditures will result. Table 4, consequently, also projects net foreign exchange earnings, based on the likely respective imported components of subcontracts, services and processed inputs.

The treatment of subcontracts in the analysis of income and foreign exchange benefits is problematic. A subcontract by an IFTZ firm to a Dominican producer for work on an item to be later completed and exported by that IFTZ firm clearly represents an increase in local value added, as defined. Moreover, given the high labor content likely in such contracts, much of this will represent net local income and foreign exchange generation. However, in many cases the IFTZ firm may have the option of performing that activity itself, rather than subcontracting. In such case, the income and foreign exchange generation (especially for labor and other such costs) would have accrued anyway, regardless of whether the activity was performed in the free zone or the local economy. In other cases the IFTZ firm may not have the unutilized capacity, time to expand, or a strategic management policy incentive to perform this activity itself. Here subcontracting is clearly incremental and involves no foregone economic benefits.

Although it is rational to assume that no IFTZ operator will subcontract activities that it is willing, capable and beneficial to perform itself, it is unlikely that these preconditions will be met in all cases. The projected level of subcontracts, 3.5 percent of IFTZ exports by 1994, considered this factor. The unlikely worst case (all subcontracting represents foregone IFTZ production and hence no incremental income foreign exchange generation) implies, in practice, that half the benefits reported in the value added subs/services columns in Table 3 will be eliminated. The effect of this is to reduce the present value of total income reported in Table 3 to these levels:

Millions of US\$									
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
0	0	5.9	11.2	26.3	32.2	30.1	28.5	26.8	25.2

This, in turn, reduces the present value of total gross foreign exchange to US\$145 million. The benefit/cost ratio then is reduced from 5.6 to 1 to 3.6 to 1. Net foreign exchange leverage then becomes \$2.82 of foreign exchange for every dollar of total project cost and \$24.34 for every dollar of project contribution by AID, GODR, AI, and ADOZONA. Notwithstanding this reduction, favorable outcomes still result.

Table 5 presents estimates of direct employment likely to result from project activities over a ten year period. These calculations are based on the attainment of project goals in each sector following the time pattern described in Table 2, and then converts these levels of activity to jobs, using dollars of activity per job ratios documented for the appropriate respective types of activity. Capacity utilization rates are also considered, as described in Table 5.

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TABLE 1  
PROJECT OUTCOMES  
INCOME GENERATION FROM INCREMENTAL LOCAL VALUE ADDED

In Millions of US Dollars

	<u>FTZ Gross Exports</u> <u>1/</u>	<u>Local Value Added for Services</u> <u>2/</u> <u>Induced by Project</u>	<u>Local Value Added for Components</u> <u>Induced by Proj.</u>	<u>Total Project Induced LVA</u>
1986	246.2	-	-	-
1987	323.1	-	-	-
1988	450.0	-	-	-
1989	550.0	0	0	0
1990	700.0	0	0	0
1991	900.0	9.0	0	9.0
1992	1041.0	31.2	10.4	41.6
1993	1204.0	60.2	24.0	84.2
1994	1393.0	97.5	42.0	139.5
1995	1612.0	113.0	48.2	161.0
1996	1866.0	131.0	56.0	187.0
1997	2159.0	151.0	65.0	216.0
1998	2498.0	175.0	75.0	250.0

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1/ Source: "World Bank Staff Appraisal Report, Dominican Republic Industrial Free Zone Development Project", March 8, 1989, P. 53 for 1986-1987 projections; 1992-98 projections based on 15.71% average annual growth, the comparable statistics for period 1981-87; 1988-91 projections based on Mission FY 1990/91 Action Plan Worksheet, Economic Indicators.

2/ Based on Table 2

TABLE 2  
PROJECT GOAL ATTAINMENT, BY YEARS  
PERFORMANCE LEVEL

GOAL	1990	1991	1992	1993	1994	1995	1996	1997	1998
	Percent of FTZ Exports								
A. Local Value Added for services, subcontracts, etc. becomes 7% of FTZ gross exports by EOP	0	1	3	5	7	7	7	7	7
1. Services	0	1	2	3	3.5	3.5	3.5	3.5	3.5
2. Subcontractors	0	0	1	2	3.5	3.5	3.5	3.5	3.5
B. Local Value Added for manufactured inputs, raw materials, components becomes 3% of FTZ gross exports by EOP	0	0	1	2	3	3	3	3	3

US DOLLAR EQUIVALENTS <sup>1/</sup>  
(Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
A. Local Value Added Sub-Total	0	9	31.2	60.2	97.5	113.0	131.0	151.0	175.0
Services	0	9	20.8	36.1	48.7	56.5	65.5	75.5	87.5
Subcontracts	0	0	10.4	24.1	48.7	56.5	65.5	75.5	87.5
B. Local Value Added for Inputs	0	0	10.4	24.0	42.0	48.0	56.0	65.0	75.0
Total A plus B	0	9	41.6	84.2	139.5	161.0	187.0	216.0	250.0

<sup>1/</sup> Based on projections of total IFTZ gross exports in Table 1.

TABLE 3

ESTIMATED DIRECT BENEFITS  
INCOME GENERATION

Millions of US Dollars

	N O M I N A L			PRESENT VALUE*		
	<u>Local Value Added Subs/ Services</u>	<u>LVA Components</u>	<u>Total</u>	<u>LVA Subs/ Services</u>	<u>LVA Com- ponents</u>	<u>Total</u>
1989	0	0	0	0	0	0
1990	0	0	0	0	0	0
1991	9	0	9	5.9	0	5.9
1992	31.2	10.4	41.6	16.8	5.6	22.4
1993	60.2	24.0	84.2	26.3	10.5	36.8
1994	97.5	42.0	139.5	34.6	14.9	49.5
1995	113.0	48.0	161.0	32.6	13.9	46.5
1996	131.0	56.0	187.0	30.8	13.1	43.9
1997	151.0	65.0	216.0	28.8	12.4	41.2
1998	175.0	75.0	250.0	27.2	11.6	38.8

\*Present value factor is 23% based on 17% opportunity cost of capital and 5% annual inflation, with project initiation in 1989.

TABLE 4

FOREIGN EXCHANGE GENERATION  
In Millions of US Dollars

	<u>GROSS FOREIGN EXCHANGE GENERATION 1</u>		<u>NET FOREIGN EXCHANGE GENERATION 2</u>	
	<u>Nominal</u>	<u>Present Value</u>	<u>Nominal</u>	<u>Present Value 3</u>
1989	0	0	0	0
1990	0	0	0	0
1991	9.0	5.9	7.7	5.1
1992	41.6	22.4	32.8	17.6
1993	84.2	36.8	65.6	28.7
1994	139.5	49.6	108.0	38.4
1995	161.0	46.5	124.8	36.0
1996	187.0	43.9	145.0	34.0
1997	216.0	41.2	167.4	31.9
1998	<u>250.0</u>	<u>38.2</u>	<u>193.8</u>	<u>30.1</u>
Total	1,088.3	285.0	845.1	221.8

1. Equivalent to the value of IFTZ firm purchases from local sources, consistent with Central Bank requirement to deliver dollars for conversion to pesos for all local input payments, and based on projections in Table 1.
2. Assumes 85% local content for subcontracts and services and 60% local content for local inputs, reflecting the import content of the local economy reported by INTEC (Assessment of the Industrial Sector and Small Business in the Dominican Republic, 1983).
3. Assumes 23% PV factors, based on 17% opportunity cost of capital and 5% inflation, with initiation in 1989.

TABLE 5

PROJECT IMPACT, DIRECT EMPLOYMENT  
EMPLOYMENT RESULTING FROM LINKAGES, BY SECTOR  
Jobs

Linkage Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998
A. Subcontracts 1	0	0	1,270	2,944	5,949	6,901	8,000	9,222	10,688
Services 2	<u>0</u>	<u>417</u>	<u>963</u>	<u>1,672</u>	<u>2,260</u>	<u>2,617</u>	<u>3,034</u>	<u>3,498</u>	<u>4,052</u>
Total	0	417	2,233	4,616	8,209	9,518	11,034	12,720	14,740
B. Manufactured Inputs raw materials, components 3	0	0	518	1,196	2,093	2,392	2,791	3,240	3,737
Total (A+B)	0	417	2,751	5,812	10,302	11,910	13,825	15,960	18,477

1. Calculation of employment resulting from subcontracts by IFTZ firms to local producers assumes a) that staffing patterns will be the same as those in IFTZ firms, since activities are identical to those now occurring. 1989 World Bank study figures indicate that (for the average of the three year period 1986-1988), one person is employed in the IFTZ for each US\$4,912 invoiced as IFTZ exports. Calculations also assume that local subcontractors are currently operating below capacity, such that only 60% of subcontracts result in new hiring.
2. Calculations assume one service job per US\$5,398 of activity, as indicated in the 1989 World Bank Free Zone Study and that only 25% of new service activity requires additional hiring due to underutilization of existing capacity.
3. Calculations assume one manufacturing job per US\$3,010 of activity, as indicated in the 1989 World Bank Free Zone Study and that only 15% of activity requires additional hiring due to underutilization of existing capacity and/or productivity gains allowing increased output with existing staffing.

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TABLE 6

PRESENT VALUE CALCULATIONS OF PROJECT COSTS 3/

<u>Calendar Year</u>	<u>AID Contrib.</u>	<u>GODR Contrib.</u>	<u>AI/ADOZONA Contrib.</u>	<u>Local Firm<sup>1/</sup> Investments</u> Millions	<u>Total Proj. Nominal Cost</u> Millions	<u>Total<sup>2/</sup> Present Value</u> Millions
1989	0	0	0	0	0	0
1990	954,758	115,000	225,655	0	1.3	1.1
1991	1,474,812	235,000	209,024	2.4	4.3	2.8
1992	1,378,145	260,000	229,287	13.3	15.2	8.2
1993	1,438,688	260,000	240,251	17.4	19.3	8.4
1994	753,597	130,000	122,934	25.6	26.7	9.5
1995	0	0	0	9.2	9.2	2.7
1996	0	0	0	10.9	10.9	2.6
1997	0	0	0	12.2	12.2	2.3
1998	<u>0</u>	<u>0</u>	<u>0</u>	<u>14.4</u>	<u>14.4</u>	<u>2.2</u>
	6,000,000	1,000,000	1,027,151	105.4	113.5	39.8

1/ Estimated on the basis of a capital investment cost per job created of \$5,700. Job creation estimates are from Table 5.

2/ PV factor is 23%, reflecting 17% opportunity cost of capital and 5% annual inflation, with project initiation in 1989.

3/ Project costs include AID contributions, GODR counterpart, AI and ADZONA contributions, and anticipated capital investments contributions by local firms.

TABLE 7

## CAPITAL INVESTMENT COSTS OF EMPLOYMENT GENERATED

Year	INCREMENTAL JOBS GENERATED			Total	TOTAL NOMINAL PRESENT VALUE <sup>3</sup>	
	Subcont., Number of Jobs	Services	Manufactg.		Investment	Millions of US Dollars
1990	0	0	0	0	0	0
1991	0	417	0	417	2.4	1.6
1992	1,270	546	518	2,334	13.3	7.1
1993	1,674	709	678	3,061	17.4	7.6
1994	3,005	588	897	4,490	25.6	9.1
1995	952	357	299	1,608	9.2	2.7
1996	1,099	417	399	1,915	10.9	2.6
1997	1,222	464	449	2,135	12.2	2.3
1998	<u>1,466</u>	<u>554</u>	<u>497</u>	<u>2,517</u>	<u>14.4</u>	<u>2.2</u>
	10,688	4,052	3,737	18,477	105.4	35.2

<sup>1/</sup> Based on Table 5 calculations.

<sup>2/</sup> Based on US\$5,700 capital investment per job created, as per "Dominican Republic, Project Paper, Export and Investment Promotion".

<sup>3/</sup> Based on 23% discount factor, 1989 initiation, with 17% opportunity cost of capital and 5% annual inflation.

EXPRESSIONS OF INTEREST LETTERS FROM AI AND ADOZONA

ASOCIACION DE INDUSTRIAS  
DE LA REPUBLICA DOMINICANA, INC.

March 20, 1989

Mr. Kenneth Lanza  
Acting Chief, Private Sector Office  
A.I.D.  
Santo Domingo, D.R.

Dear Sir:

Your words of last Thursday, 16 of March, 1989, at the Association of Industries of the Dominican Republic, Inc., concerning the industrialization process of the Dominican Republic, and the limitations it confronts in order to become dynamic and competitive, were welcomed by the Board as well as by some associates with which we were able to communicate as being necessary at this time.

The Association of Industries of the Dominican Republic, Inc. has shown concern, at the Directorate of Industrial Development of the Ministry of Industry and Commerce, as well as in seminars and informal conversations, for the necessary integration of the manufacturers both within and outside the industrial free trade zones; as we are aware that the former represent a magnificent opportunity not only to broaden the markets, but also to deepen the import substitution process being applied in the country since 1978, through a greater integration towards the origin of the companies established.

As proof of our interest on the subject, the Association has initiated a technical operation and is presently installing, several computer units which among other things serve to support the industrialization policy. The next step will be the inauguration of a technical office in charge of keeping updated sector data, and tightening the bonds between the members, AID and Government offices related to the industrial sector. This project was made known to AID over 18 months ago and only requires the necessary financial support.

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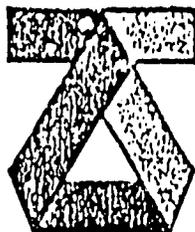
This letter is in evidence of our concern for the Industrial Linkages Program and to take the opportunity of expressing our willingness of implementing it in coordination with your Office as asoon as possible.

I remain,

Sincerely,

Ing. George Arzeno Brugal  
President

(Translated from Spanish by AReid)



ASOCIACION DOMINICANA  
DE ZONAS FRANCAS INDUSTRIALES

**ADOZONA**

Apartado Postal 275-2, Santo Domingo, República Dominicana.

Dec 28 9 26 AM '88

December 27, 1988

RECEIVED  
AID C & R

Mr. Kenneth Lanza  
Agency for International Development  
Leopoldo Navarro esq. César Nicolás Penson  
Ciudad

Dear Ken:

Our December 16 meeting, in which you presented the Industrial Linkage Project, was very exciting. As you know, the integration of the local economy to the free zones is the next step in our industrial development, and one to which we are fully committed. This subject is of such importance, that it is one of the principal objectives of ADOZONA, as expressed in our by-laws.

ADOZONA was only recently formalized, but its founders, the private sector free zone operators and associations, have been working closely for almost two years. One of our main activities has been the new free zone legislation. Our work with the legislation also reflects our conviction of the necessity of industrial linkages. This new legislation provides for various incentives and operational facilities for the integration of the local economy to the free zones.

Now that ADOZONA is formalized, we are proceeding to institutionalize it. We will soon have a permanent office and are currently searching for a high level Executive Director who will form a competent staff to carry out the policies of the Association as established by our by-laws and Board of Directors.

I would like to emphasize that, since financial support from its members is sometimes hard to materialize for a new organization, PIISA and San Isidro, along with some of the other major privately owned and operated free zones, are fully committed to support ADOZONA financially in its early stages.

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ADOZONA would be very anxious to implement the Industrial Linkages Project, and I believe that because of the composition, experience and resources of its members, it is ideally suited to do so.

I look forward to our next meeting.

Sincerely,



Manuel E. Tavares  
President

MET/ldm :

SELECTED RESPONSES TO SURVEY OF MANUFACTURERS IN THE HERRERA INDUSTRIAL PARK

Following are excerpts from a survey of manufacturers located in the Herrera Industrial Park. The questions and responses below concern local firms' experience with knowledge of and attitudes toward IFTZs as a market. The survey was carried out in 1988 on behalf of the Investment Promotion Council.

- Q. How many IFTZs are there in the DR?  
A. One third didn't know. One third said 6-8. About 20% said more than 9.
- Q. How many firms are there in the IFTZs?  
A. Seventy-three percent didn't know. About 25% chose the 150 and up range.
- Q. Do you have direct experience selling to IFTZ firms?  
A. Yes - 31. No - 125
- Q. For what period of time?  
A. About one third have been selling/sold for more than 2 years, one third for 1 to 2 years. Eight had sold for less than 3 months.
- Q. How has your experience been?  
A. Only one firm had a bad experience.
- Q. Why?  
A. Most who answered said because the IFTZs pay on time (23) or fulfill the contract (3). The one with the bad experience attributed it to a very demanding client.
- Q. How was the sale generated?  
A. By direct request from the IFTZ firm (17 of 31); by the marketing agent of the local firm (11).
- Q. What products could you provide the IFTZs?  
A. The largest were: machinery, parts and electric accessories (12); machine shop products, steel cables (11); chemical products, glue, paint (9); furniture (7); cement products (7); and detergents (7).

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- Q. To what degree could your production line supply IFTZ companies?  
A. Of those who answered (85), 60 said by receiving contracts from the IFTZs that would not require them to diversify product lines. Five said by diversifying production, 2 through increasing production.
- Q. Do you think the IFTZs are an attractive market for your product line?  
A. Yes - 70. No - 69.
- Q. Are you willing to introduce new product lines to satisfy IFTZ demand?  
A. Yes - 73. No - 80.
- Q. Are you familiar with administrative and customs procedures for selling to IFTZ?  
A. Yes - 32. No - 121

## SUMMARY COMMODITY BUDGET

For ADOZONA and Association of Industries

Summary of Capital Expenditures (1)

	<u>TOTAL</u>	<u>AID/DA</u>	<u>ADOZONA</u>	<u>A.I.</u>
Vehicles: ADOZONA (1 4-DR Sedan, 1 motor)	18,000	18,000	0	
A.I. (1 4-DR Sedan, 1 motor)	18,000	18,000		0
I.C. (2) (1 4-DR Sedan, 1 motor)	<u>18,000</u>	<u>18,000</u>		
-----Sub-total Vehicles	54,000	54,000	0	0
Equipment: ADOZONA	20,576	20,576	0	
A.I.	20,576	13,276		7,300
I.C. (Temp. use)	<u>49,945</u>	<u>49,945</u>		
-----Sub-Total Equipment	91,097	83,797	0	7,300
Audio/Visual Equipment: (Total) (3)	<u>15,738</u>	<u>15,738</u>		
TOTAL CAPITAL EXPENSES	\$160,835	153,535	0	7,300
MISCELLANEOUS OFFICE SUPPLIES & PURCHASES	<u>164,165</u>	<u>55,465</u>	0	<u>108,700</u>
TOTAL	\$325,000	209,000	0	116,000

NOTES:

- (1) See details attached in separate worksheets for ADOZONA/A.I. and for Institutional Contractor.
- (2) For temporary use of I.C. after project completion, vehicles revert to A.I. (1 jeep and 1 motorcycle).
- (3) To be based with I.C. but used by all project participants.

## COMMODITY BUDGET

For ADOZONA

		<u>US\$/Unit</u>	<u>Total</u>	<u>AID/DA</u>	<u>ADOZONA</u>
<u>Vehicles</u>					
(1) vehicles (4-DR-Sedan)	@	15,000	15,000	15,000	
(1) Motorcycles	@	3,000	<u>3,000</u>	<u>3,000</u>	
TOTAL			18,000	18,000	
<u>Equipment</u>					
-Furniture					
Desks	5	637	3,185	3,185	
Exec. Chairs	5	239	1,195	1,195	
Chairs	10	127	1,027	1,027	
File Cabinets	4	111	444	444	
Tables	1	425	425	425	
Accessories			<u>4,000</u>	<u>4,000</u>	
SUB-TOTAL			10,276	10,276	
- Computers					
Personal Comp	2	1,500	3,000	3,000	
Std. Printer	1	1,000	1,000	1,000	
UPS	1	2,300	2,300	2,300	
Software	-	1,000	<u>1,000</u>	<u>1,000</u>	
SUB-TOTAL			7,300	7,300	
- Communications & Reproduction Systems					
Copier (desktop)	1	1,000	1,000	1,000	-
Telefax	1	2,000	<u>2,000</u>	<u>2,000</u>	-
SUB-TOTAL			<u>3,000</u>	<u>3,000</u>	<u>0</u>
TOTAL EQUIPMENT			20,576	20,576	0

COMMODITY BUDGET  
For Association of Industries

		<u>US\$/Unit</u>	<u>Total</u>	<u>AID/DA</u>	<u>A.I.</u>
<u>Vehicles</u>					
(1) vehicles (4-DR-Sedan)	@	15,000	15,000	15,000	
(1) Motorcycles	@	3,000	<u>3,000</u>	<u>3,000</u>	
	TOTAL		18,000	18,000	
<u>Equipment</u>					
-Furniture					
Desks	5	637	3,185	3,185	
Exec. Chairs	5	239	1,195	1,195	
Chairs	10	127	1,027	1,027	
File Cabinets	4	111	444	444	
Tables	1	425	425	425	
Accessories			<u>4,000</u>	<u>4,000</u>	
	SUB-TOTAL		10,276	10,276	
- Computers					
Personal Comp	2	1,500	3,000		3,000
Std. Printer	1	1,000	1,000		1,000
UPS	1	2,300	2,300		2,300
Software	-	1,000	<u>1,000</u>		<u>1,000</u>
	SUB-TOTAL		7,300		7,300*
- Communications & Reproduction Systems					
Copier (desktop)	1	1,000	1,000	1,000	-
Telefax	1	2,000	<u>2,000</u>	<u>2,000</u>	-
	TOTAL		<u>3,000</u>	<u>3,000</u>	<u>0</u>
			=====	=====	=====
			20,576	13,276	7,300

\*A.I. will contribute "in-kind" the computer equipment recently purchased with AID funds through an IPC sub-grant.

## INSTITUTIONAL CONTRACTOR COMMODITY BUDGET

	<u>US\$ Unit</u>	<u>Total</u>	<u>AID/DA</u>
<u>Vehicles</u>			
1 vehicles	15,000	15,000	
1 motorcycle	3,000	<u>3,000</u>	
Total		18,000	<u>18,000</u>
<u>Audio/Visual Package</u>			
1 slide projector	643	643	
1 overhead project	400	400	
1 VCR and monitor	1,695	1,695	
2 screens	150	300	
1 vynyl blackboard	100	100	
1 tripod	100	100	
Accessories	10,000	10,000	
1 camecorder	2,500	<u>2,500</u>	
Total		15,738	<u>15,738</u>
<u>Equipment:</u>			
<u>-Furniture</u>			
12 desks	637	7,644	
12 chairs/desk	239	2,868	
46 chairs	127	5,842	
6 file cabinets	111	666	
5 tables	425	2,125	
Accessories		<u>5,000</u>	
Sub-Total		24,145	24,145
<u>Computers</u>			
4 personal computers	1,500	6,000	
1 regular printer	1,000	1,000	
1 laser printer	2,500	2,500	
1 UPS	2,300	2,300	
Desk top publishing software	2,000	2,000	
Software	8,000	<u>8,000</u>	
Sub-Total		21,800	21,800
Copier (Stand-up)	2,000	2,000	
Fax	2,000	<u>2,000</u>	
Sub-Total		4,000	<u>4,000</u>
TOTAL EQUIPMENT			<u>49,945</u>

## TECHNICAL ASSISTANCE

Long Term TA Expenses

Ex-Pat Chief of Party		
*\$300,000/yr. x 4 years	=	1,200,000
Industrial Specialist (local)		
42 mos. @ 3,000/mo.		126,000
Information Specialist (local)		
42 mos. @ 3,000/mo.		126,000
Database Development Specialist (local)		
30 mos. @ 3,000/mo.		90,000
	Subtotal	<u>1,542,000</u>

\*Fully loaded and assuming employee has three dependents, highest salary level and working for profit making institutional contractor.

Short-Term Expenses

U.S. and Third Country TA		
**60 p/m @ 14,000/mo.		840,000
Local TA - 60 p/m @ 3,000/mo.		180,000
	Subtotal	<u>1,020,000</u>

Other Operating ExpensesAdministrative Support

Administrative Assistant		
14,000/yr. x 4 years		56,000
Executive Secretary - 5,500/yr x 4 yrs		22,000
Receptionist/Secretary - 3,500/yr x 4 yrs		14,000
Financial Secretary - 5,500/yr x 4 yrs		22,000
DTP Assistant - 5,500/yr x 4 yrs		22,000
2 Drivers - 4,000 x 4 yrs		16,000
Messenger - 1,700 x 4 yrs		6,800
Concierge - 1,700 x 4 yrs		6,800
	Subtotal	<u>165,600</u>
	+ 50% benefits	82,800
	Salaries & Benefits	<u>248,400</u>

\*\*Assumes a four-week stay in country.

Travel and Per Diem

8 RT airfares per year @ 1,000/trip x 4	32,000
10 days trip x 8 trip @ 150/day x 4	48,000
8 trips for misc. expenses @ 500 x 4	<u>16,000</u>
Subtotal	96,000

Transportation

Vehicle Operation - 12,000/yr x 4	48,000
Insurance - 6,000/yr x 4	<u>24,000</u>
Subtotal	72,000

Office Operations

Communications - 6,000/yr x 4	24,000
Reproductions - 4,000/yr x 4 yrs	16,000
Publications - 8,000/yr x 4 yrs	32,000
Supplies - 7,000/yr x 4 yrs	28,000
Other - 5,400/yr x 4 yrs	<u>21,600</u>
Subtotal	121,600

TOTAL TECHNICAL ASSISTANCE	3,100,000
----------------------------	-----------

## INDUSTRIAL ADVISOR BUDGET

Salary and Post Differential	85,000 x 4 years	\$340,000
Housing	15,000 x 4 years	60,000
Education Allowance	5,500 x 4 years	<u>22,000</u>
	Subtotal	\$422,000
Furniture		30,000
Shipping Household Effects		20,000
Home Leave and R&R		10,000
Travel, Supplies & Miscellaneous		<u>18,000</u>
	Subtotal	\$ 78,000
	GRAND TOTAL	\$500,000

## OPERATING EXPENSES

ASSOCIATION OF INDUSTRIES

Communications and Information	\$ 279,000
Policy Dialogue	77,000
Technology Transfer	<u>280,000</u>
	\$ 636,000

ADOZONA

Communications and Information	\$ 192,000
Policy Dialogue	52,000
Technology Transfer	<u>191,000</u>
	\$ 435,000

TOTAL OPERATING EXPENSES	<u>\$1,071,000</u>
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SUMMARY BUDGET  
BY YEARS  
(US\$ 000'S)

	AID CONTRIBUTION					
	YEAR I	YEAR II	YEAR III	YEAR IV	YEAR V	
1. COMMUN & INFO:	\$76	\$628	\$425	\$445	\$470	\$2,044
2. POLICY DIALOGUE:	\$0	\$116	\$120	\$131	\$134	\$501
3. TECHNOLOGY TRANSFER:	\$0	\$435	\$446	\$468	\$486	\$1,835
4. INDUSTRIAL ADVISOR	\$80	\$105	\$105	\$105	\$105	\$500
5. EVALUATION & AUDIT	\$0	\$0	\$60	\$0	\$60	\$120
	\$156	\$1,284	\$1,156	\$1,149	\$1,255	
SUBTOTAL:						\$5,000 -----
	AI CONTRIBUTION					
	YEAR I	YEAR II	YEAR III	YEAR IV	YEAR V	
1. COMMUN & INFO:	\$10	\$33	\$34	\$34	\$35	\$146
2. POLICY DIALOGUE:	\$7	\$15	\$15	\$15	\$15	\$67
3. TECHNOLOGY TRANSFER:	\$17	\$52	\$53	\$55	\$55	\$232
	\$34	\$100	\$102	\$104	\$105	
SUBTOTAL:						\$445 -----
	ADOZONA CONTRIBUTION					
	YEAR I	YEAR II	YEAR III	YEAR IV	YEAR V	
1. COMMUN & INFO:	\$16	\$26	\$26	\$28	\$29	\$125
2. POLICY DIALOGUE:	\$7	\$11	\$11	\$12	\$12	\$53
3. TECHNOLOGY TRANSFER:	\$4	\$8	\$10	\$11	\$11	\$44
	\$27	\$45	\$47	\$51	\$52	
SUBTOTAL:						\$222 -----
	GOOR CONTRIBUTION					
	YEAR I	YEAR II	YEAR III	YEAR IV	YEAR V	
1. COMMUN & INFO:	\$26	\$38	\$50	\$62	\$74	\$250
2. POLICY DIALOGUE:	\$48	\$74	\$100	\$126	\$152	\$500
3. TECHNOLOGY TRANSFER:	\$26	\$38	\$50	\$62	\$74	\$250
	\$100	\$150	\$200	\$250	\$300	
SUBTOTAL:						\$1,000 -----
TOTAL	\$317	\$1,579	\$1,505	\$1,554	\$1,712	\$6,667

SUMMARY BUDGET  
BY  
GRANT RECIPIENTS  
(US\$ 000'S)

	A1	ADOZOHA	TOTALS
1. COMMUN & INFORMATION			
YEAR 1:	\$51	\$77	\$128
YEAR 2:	\$453	\$272	\$725
YEAR 3:	\$314	\$221	\$535
YEAR 4:	\$332	\$237	\$569
YEAR 5:	\$353	\$255	\$608
			\$2,565
2. POLICY DIALOGUE			
YEAR 1:	\$31	\$31	\$62
YEAR 2:	\$146	\$70	\$216
YEAR 3:	\$161	\$85	\$246
YEAR 4:	\$148	\$136	\$284
YEAR 5:	\$176	\$137	\$313
			\$1,121
3. TECHNOLOGY TRANSFER			
YEAR 1:	\$35	\$12	\$47
YEAR 2:	\$390	\$143	\$533
YEAR 3:	\$378	\$181	\$559
YEAR 4:	\$434	\$162	\$596
YEAR 5:	\$470	\$156	\$626
			\$2,361
4. INDUSTRIAL ADVISOR	\$375	\$125	\$500
			\$500
5. EVALUATIONS & AUDITS	\$90	\$30	\$120
			\$120
	\$4,337	\$2,330	\$6,667
TOTAL BY YEAR FOR RECIPIENTS:*			
YEAR 1:	\$177	\$140	\$317
YEAR 2:	\$1,067	\$512	\$1,579
YEAR 3:**	\$976	\$529	\$1,505
YEAR 4:	\$992	\$562	\$1,554
YEAR 5:**	\$1,122	\$590	\$1,712
	\$4,334	\$2,333	\$6,667

\*INDUSTRIAL ADVISOR TIME ALLOCATED PROPORTIONALLY BETWEEN GRANTEEES

\*\*EVALUATIONS & AUDITS ALLOCATED IN YEARS THREE AND FIVE AND PROPORTIONALLY BETWEEN GRANTEEES.

ANNEX H-10

INDUSTRIAL PACKAGES  
LIFE OF PROJECT  
BY SOURCE AND USE OF FUNDS

PROJECT BUDGET  
(US\$000's)

USE OF FUNDS:	YEAR I								YEAR I								
	TECHNICAL ASSISTANCE				COMMODITIES				OPERATING EXPENSES				TOTAL				
	SOURCE				SOURCE				SOURCE				SOURCE				
	A.I.D.	AI	ADOZONA	GOOR	A.I.D.	AI	ADOZONA		A.I.D.	AI	ADOZONA	GOOR	A.I.D.	AI	ADOZONA	GOOR	
MARKET COMMUNICATIONS & INFORMATION																	
ASSOCIATION OF INDUSTRIES:									\$23	\$10			\$18	\$23	\$10		\$18
ASSOCIATION OF FREE ZONES:	\$30								\$23		\$16	\$8	\$53		\$16	\$8	
POLICY REFORM																	
ASSOCIATION OF INDUSTRIES:										\$7			\$24	\$7			\$24
ASSOCIATION OF FREE ZONES:												\$7	\$24		\$7	\$24	
TECHNOLOGY TRANSFER																	
ASSOCIATION OF INDUSTRIES:										\$17			\$18	\$17			\$18
ASSOCIATION OF FREE ZONES:												\$4	\$8		\$4	\$8	
INDUSTRIAL ADVISOR	\$80													\$80			
EVALUATION AND AUDIT																	
TOTALS	\$110	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$46	\$34	\$27	\$100	\$156	\$34	\$27	\$100	

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INDUSTRIAL LINKAGES PROJECT BUDGET  
 LIFE OF PROJECT (US\$000's)  
 BY SOURCE AND USE OF FUNDS

USE OF FUNDS:	YEAR II								YEAR II				GRAND TOTAL				
	TECHNICAL ASSISTANCE				COMMODITIES				OPERATING EXPENSES					TOTAL			
	SOURCE				SOURCE				SOURCE					SOURCE			
	A.I.D.	AI	ADOZONA	COOR	A.I.D.	AI	ADOZONA	COOR	A.I.D.	AI	ADOZONA	COOR		A.I.D.	AI	ADOZONA	COOR
MARKET COMMUNICATIONS & INFORMATION																	
ASSOCIATION OF INDUSTRIES:	\$190				\$150	\$5			\$61	\$28		\$19	\$401	\$33		\$19	\$453
ASSOCIATION OF FREE ZONES:	\$128				\$59				\$40		\$26	\$19	\$227		\$26	\$19	\$272
POLICY REFORM																	
ASSOCIATION OF INDUSTRIES:	\$65					\$5			\$16	\$10		\$50	\$81	\$15		\$50	\$146
ASSOCIATION OF FREE ZONES:	\$23								\$12		\$11	\$24	\$35		\$11	\$24	\$70
TECHNOLOGY TRANSFER																	
ASSOCIATION OF INDUSTRIES:	\$243					\$10			\$67	\$42		\$28	\$310	\$52		\$28	\$390
ASSOCIATION OF FREE ZONES:	\$79								\$46		\$8	\$10	\$125		\$8	\$10	\$143
INDUSTRIAL ADVISOR	\$105												\$105				\$105
EVALUATION AND AUDIT																	\$0
TOTALS	\$833	\$0	\$0	\$0	\$209	\$20	\$0	\$0	\$242	\$80	\$45	\$150	\$1,284	\$100	\$45	\$150	\$1,579

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INDUSTRIAL LINKAGES PROJECT BUDGET  
 LIFE OF PROJECT (US\$000's)  
 BY SOURCE AND USE OF FUNDS

USE OF FUNDS:	YEAR III								YEAR III				GRAND TOTAL				
	TECHNICAL ASSISTANCE				COMMODITIES				OPERATING EXPENSES					TOTAL			
	SOURCE				SOURCE				SOURCE					SOURCE			
	A.I.D.	AI	ADOZONA	GOOR	A.I.D.	AI	ADOZONA	GOOR	A.I.D.	AI	ADOZONA	GOOR		A.I.D.	AI	ADOZONA	GOOR
MARKET COMMUNICATIONS & INFORMATION																	
ASSOCIATION OF INDUSTRIES:	\$191				\$10				\$64	\$24		\$25	\$255	\$34		\$25	
ASSOCIATION OF FREE ZONES:	\$129								\$41		\$26	\$25	\$170		\$26	\$25	
POLICY REFORM																	
ASSOCIATION OF INDUSTRIES:	\$53				\$7				\$18	\$8		\$75	\$71	\$15		\$75	
ASSOCIATION OF FREE ZONES:	\$36								\$13		\$11	\$25	\$49		\$11	\$25	
TECHNOLOGY TRANSFER																	
ASSOCIATION OF INDUSTRIES:	\$245				\$15				\$70	\$38		\$10	\$315	\$53		\$10	
ASSOCIATION OF FREE ZONES:	\$84								\$47		\$10	\$40	\$131		\$10	\$40	
INDUSTRIAL ADVISOR	\$105												\$105				
EVALUATION AND AUDIT	\$60												\$60				
TOTALS	\$903	\$0	\$0	\$0	\$0	\$32	\$0	\$0	\$253	\$70	\$47	\$200	\$1,156	\$102	\$47	\$200	

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INDUSTRIAL LINKAGES PROJECT BUDGET  
 LIFE OF PROJECT (US\$000'000)  
 BY SOURCE AND USE OF FUNDS

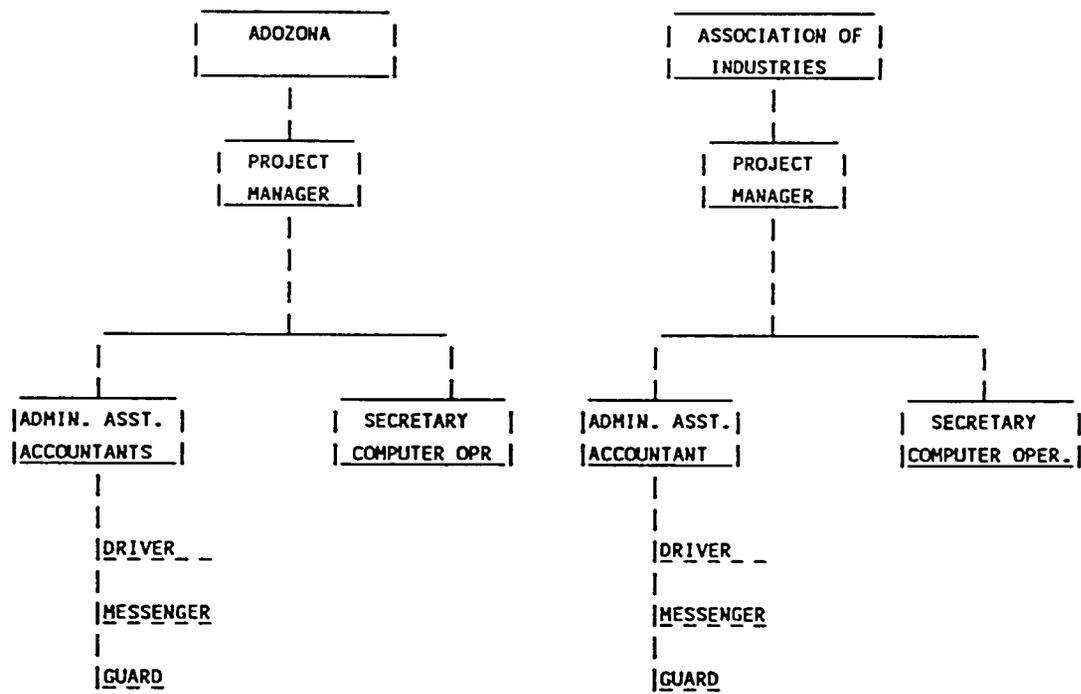
USE OF FUNDS:	YEAR IV								YEAR IV				GRAND TOTAL					
	TECHNICAL ASSISTANCE				COMMODITIES				OPERATING EXPENSES					TOTAL				
	SOURCE				SOURCE				SOURCE					SOURCE				
	A.I.D.	AI	ADOZONA	COOR	A.I.D.	AI	ADOZONA	COOR	A.I.D.	AI	ADOZONA	COOR	A.I.D.	AI	ADOZONA	COOR		
MARKET COMMUNICATIONS & INFORMATION																		
ASSOCIATION OF INDUSTRIES:	\$202				\$10				\$65	\$24			\$31	\$267	\$34		\$31	\$332
ASSOCIATION OF FREE ZONES:	\$136								\$42		\$28		\$31	\$178		\$28	\$31	\$237
POLICY REFORM																		
ASSOCIATION OF INDUSTRIES:	\$50				\$7				\$20	\$8			\$63	\$70	\$15		\$63	\$148
ASSOCIATION OF FREE ZONES:	\$47								\$14		\$12		\$63	\$61		\$12	\$63	\$136
TECHNOLOGY TRANSFER																		
ASSOCIATION OF INDUSTRIES:	\$258				\$15				\$71	\$40			\$50	\$329	\$55		\$50	\$434
ASSOCIATION OF FREE ZONES:	\$90								\$49		\$11		\$12	\$139		\$11	\$12	\$162
INDUSTRIAL ADVISOR	\$105													\$105				\$105
EVALUATION AND AUDIT																		\$0
TOTALS	\$638	\$0	\$0	\$0	\$0	\$32	\$0	\$0	\$261	\$72	\$51	\$250	\$1,149	\$104	\$51	\$250	\$1,554	

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INDUSTRIAL LINKAGES PROJECT BUDGET  
 LIFE OF PROJECT (US\$000'±)  
 BY SOURCE AND USE OF FUNDS

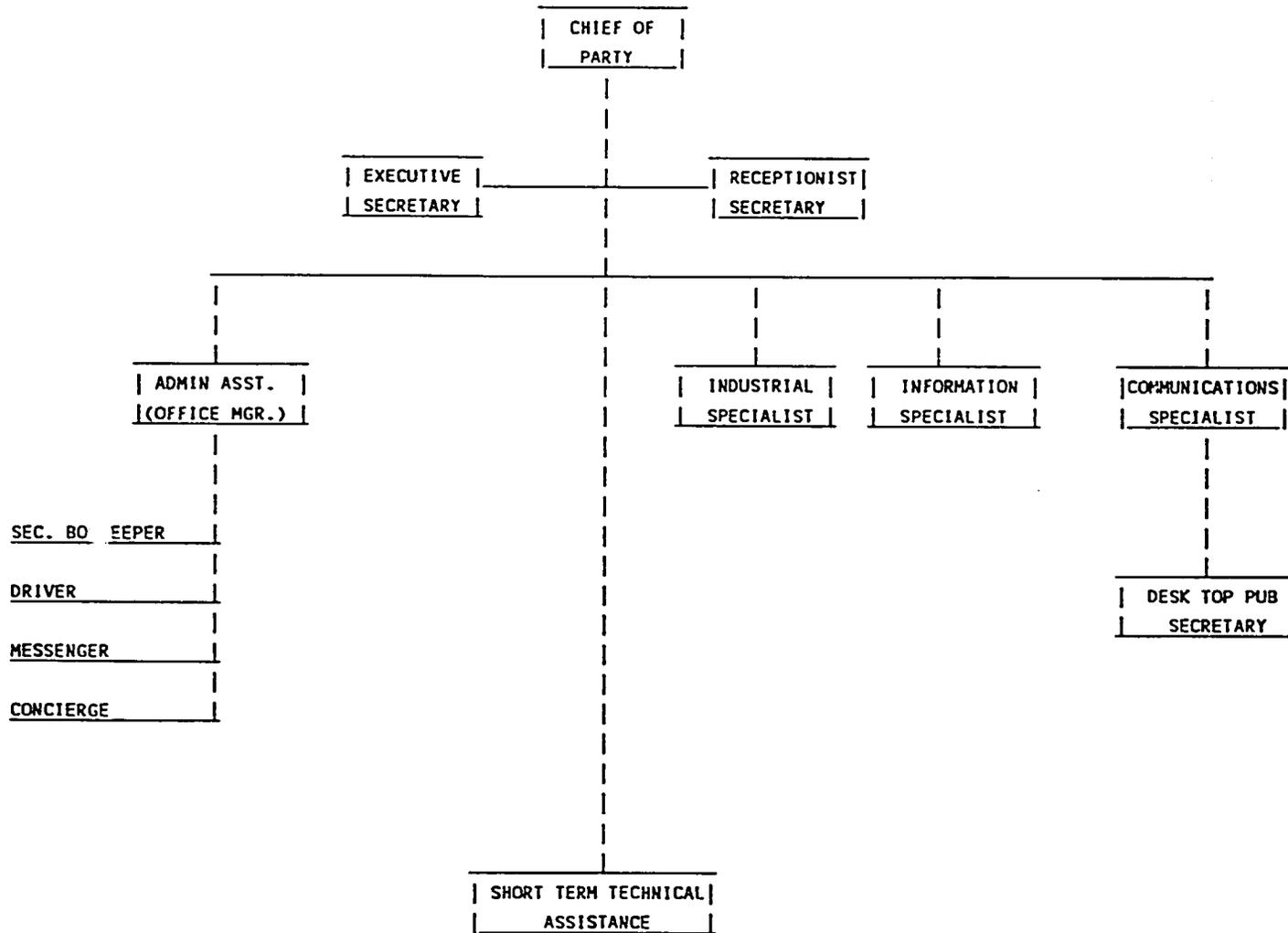
USE OF FUNDS:	YEAR V								YEAR V				GRAND TOTAL				
	TECHNICAL ASSISTANCE				COMMODITIES				OPERATING EXPENSES					TOTAL			
	SOURCE				SOURCE				SOURCE					SOURCE			
	A.I.D.	AI	ADOZONA	GOOR	A.I.D.	AI	ADOZONA	GOOR	A.I.D.	AI	ADOZONA	GOOR		A.I.D.	AI	ADOZONA	GOOR
MARKET COMMUNICATIONS & INFORMATION																	
ASSOCIATION OF INDUSTRIES:	\$214				\$10				\$67	\$25		\$37	\$281	\$35		\$37	
ASSOCIATION OF FREE ZONES:	\$144								\$45		\$29	\$37	\$189		\$29	\$37	
POLICY REFORM																	
ASSOCIATION OF INDUSTRIES:	\$49				\$7				\$22	\$8		\$90	\$71	\$15		\$90	
ASSOCIATION OF FREE ZONES:	\$49								\$14		\$12	\$62	\$63		\$12	\$62	
TECHNOLOGY TRANSFER																	
ASSOCIATION OF INDUSTRIES:	\$273				\$15				\$72	\$40		\$70	\$365	\$55		\$70	
ASSOCIATION OF FREE ZONES:	\$92								\$49		\$11	\$4	\$141		\$11	\$4	
INDUSTRIAL ADVISOR	\$105												\$105				
EVALUATION AND AUDIT	\$60												\$60				
TOTALS	\$986	\$0	\$0	\$0	\$0	\$32	\$0	\$0	\$269	\$73	\$52	\$300	\$1,255	\$105	\$52	\$300	

ORGANIZATION STRUCTURE



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ORGANIZATION STRUCTURE -- INSTITUTIONAL CONTRACTOR



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## ENVIRONMENTAL THRESHOLD DECISION

Project Location : Dominican Republic  
Project Title : Industrial Linkages  
Project Number : 517-0152  
Funding : 6.0 million  
Life of Project : 5 years (FY 89-94)  
IEE Prepared by : Peter W. Amato, PDO  
 USAID/Santo Domingo  
Recommended Threshold Decision : Categorical Exclusion  
Bureau Threshold Decision : Concur with Recommendation  
 Comments : None  
     Copy to : Thomas Stukel, Director  
                     USAID/Santo Domingo  
     Copy to : Peter W. Amato, PDO  
                     USAID/Santo Domingo  
     Copy to : George Hazel, LAC/DR/CAR  
     Copy to : Andre DeGeorges , REMS/CAR  
     Copy to : IEE File LAC-IEE-89-49

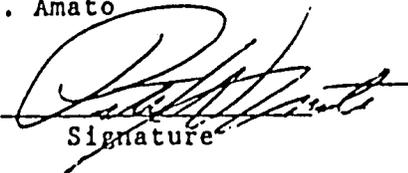
*John O Wilson* Date 5/31/89

John O. Wilson  
 Deputy Environmental Officer  
 Bureau for Latin America  
 and the Caribbean

## INITIAL ENVIRONMENTAL EXAMINATION

Project Location : Dominican Republic  
 Project Title : Industrial Linkages (517-0252)  
 Funding : FY 1989 - FY 1991 (US\$3,000,000 Grant)  
 Life of Project : Five years.  
 Environmental Action Recommended: Categorical Exclusion Sought (Section 216.2(c)(1) of 22 CFR Part 216)

IEE prepared by: Peter W. Amato

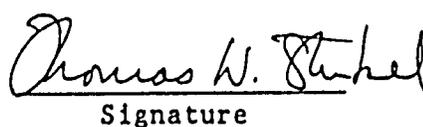
  
 Signature

Date: April 21, 1989

## Justification:

The proposed project seeks to improve the quality of production, capacity and competitiveness of domestic industries by developing competitively based production linkages between local manufacturers, the Industrial Free Trade Zones and off-shore producers. The activities will include technical assistance and training, capital investment in machinery and support for program personnel. The activities sponsored with the funds granted under this project will not affect the environment to any extent. No physical infrastructure is to be financed. It is, therefore, recommended that this project be categorically excluded from further consideration of environmental impact in accordance with the Agency's Environmental Procedures as stated in 22 CFR Part 216.2 (c) (1).

CONCURRENCE: Thomas W. Stukel, Mission Director

  
 Signature

Date: 5/5/89