ROBERT R. NATHAN ASSOCIATES, INC.

Evaluation of Cash Transfers for Policy Reform in the Dominican Republic

Prepared for
U.S. Agency for International Development,
Center for Development Information
and Evaluation

Under Macroeconomics IQC
Contract No. PDC-000-I-12-6135-00

Prepared by
Robert R. Nathan Associates, Inc.
Washington, D.C.

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PREFACE

This report is the third in the series entitled, "A Comparative Study of the Effectiveness and Economic Development Impact of Cash-Transfer-Based Policy Reform Programs." It was prepared under the A.I.D. Macroeconomic IQC, Contract No. PDC-0000-I-12-00, and was managed by A.I.D.'s Bureau for Latin America and the Caribbean (LAC). The basic scope of work for the series was designed jointly by LAC and the Center for Development Information and Evaluation (CDIE).

The research involved was carried out by a Robert R. Nathan Associates, Inc. (RRNA) team over a five-week period during November and December 1987. The RRNA team leader was Mr. M. Haris Jafri; Mr. Samuel Eaton served as program analyst; and Mr. Gerard Sequeira served as research assistant. Mr. Craig Buck, Mr. James Fox, and Mr. James Walker of LAC provided useful assistance and guidance.

The research team would like to thank USAID/DR Mission Director, Mr. Tom Stukel, and Mr. Jack Eyre, Deputy Director, for their active cooperation and that of their staff during the performance of this evaluation. Mr. James Philpott and Mr. Kenneth Beasley of the Programs/Economics Office were especially helpful in providing necessary statistical material and logistical support. Mr. Larry Armstrong, Mr. Arthur Valdez, and Ms. Deborah McFarland also provided support and information on the Mission tracking and administration of the cash transfer system. Mr. Dwight Steen, Chief or the Agriculture Rural Development Office, and Mr. Kenneth Lanza of the Private

Sector Office provided useful information on the policy aspects of USAID/DR projects in various areas.

Special thanks are due to Ambassador Kilday and to Mr. Joe McLaughlin, Deputy Chief of Mission, for providing the team with valuable insight into the history of the policy dialogue between U.S. Government and Government of the Dominican Republic (GODR).

TABLE OF CONTENTS

TABLE OF CONTENTS
(Continued)

TABLE OF CONTENTS
(Continued)

LIST OF TABLES

LIST OF ACRONYMS

A.I.D.	Agency for International Development
A.I.D/W	Agency for International Development, Washington, D.C.
BCRD	Banco Central de la Republica Dominicana
CBI	Caribbean Basin Initiative
CDA	Compania Dominicana de Aviacion
CDE	Corporacion Dominicana de Electricidad
CDIE	Center for Development Information and Evaluation, AID/W
CDSS	Country Development Strategy Statement
CEA	Consejo Estatal de Azucar
CFF	Compensatory Financing Facility of the IMF
CIP	Commodity Import Program
CORDE	Corporcacion de Empresas Estatales
CP	Condition Precedent
DA	Development Assistance
DR	Dominican Republic
EFF	Extended Fund Facility (of the IMF)
ESF	Economic Support Funds
ESF	Economic Stabilization and Recovery Agreement, the basic agreement for ESF cash transfers
FY	Fiscal Year
GDP	Gross Domestic Product
GODR	Government of the Dominican Republic
IBRD	International Bank for Reconstruction and Development (the World Bank)
IBD	Inter-American Development Bank
IMF	International Monetary Fund
INESPRE	Instituto de Establizacion de Precios
LAC	Bureau of Latin America and the Caribbean, AID/W
LAC/DP	Latin America and the Caribbean, Development Planning, A.I.D./W
NGO	Non-Governmental Organization
PAAD	Program Assistance Approval Document
PL 480	Public Law 480 of the United States
PP	Project Paper
PVO	Private Voluntary Organization
RRNA	Robert R. Nathan Associates, Inc.
SAL	Structural Adjustment Loan (of IBRD)
USAID	U.S. A.I.D. Mission
USAID	U.S. A.I.D. Mission to the Dominican Republic

EXECUTIVE SUMMARY

This study, an evaluation of cash transfers to the Dominican Republic (DR) under the Economic Support Funds (ESF) program, has been prepared for the Agency for International Development, Washington, (A.I.D./W), as one of a series of cash transfer evaluations prepared for other countries in Central America and the Caribbean.

The ESF cash transfer program, initiated in the DR in 1982, has had multiple and broad-based objectives such as economic stabilization, private sector expansion, agricultural diversification, and infrastructure support. However, the priority among these objectives was influenced by the persistent macroeconomic disequilibrium generated largely by adverse external factors, which interrupted the self-sustaining growth process in the early 1980s and brought the GODR face to face with difficult macroeconomic policy choices. By 1982, it had become abundantly clear that the attainment of economic stabilization was the highest priority at that time, and more specifically, that major attention had to be focused on fiscal and exchange rate policies that had aggravated the disequilibrium. Hence, the effectiveness of the ESF cash transfer mechanism in the DR must be judged primarily in terms of progress towards monetary stabilization. Judged by this criterion, the ESF program has provided crucial support to the GODR in the pursuit of policies designed to attain economic stabilization. Progress has also been made towards the attainment of the other objectives (mentioned above) of the ESF program, which would have been impossible in the absence of progress towards stabilization.

For the sake of systematic presentation and in order to bring out the decisive role of ESF adequately, a brief overview of macroeconomic policies (including the role of the IMF) is presented first, followed by an evaluation of

the effectiveness of ESF cash transfers including an appraisal of ESF policy conditionality, coordination with other donors and with other AID programs, and contribution of cash transfers to policy reforms and to economic development. Finally, major recommendations are summarized.

Macroeconomic Policy Overview

The macroeconomic disturbance in the DR in recent years can be traced to inappropriate policy responses to the balance-of-payments pressures created by the massive oil price increases of 1979-81, and the consequent worldwide recession and steep increases in international interest rates. In an attempt to shield the economy from the adverse consequences of the increased balance-of-payments deficit (and the resulting foreign exchange scarcity), the Government of the Dominican Republic (GODR) increased external borrowing and permitted larger budget deficits and greater monetary expansion. This weakened private sector confidence and aggravated the loss of foreign exchange reserves, which led to an economic slowdown by 1982.

By 1982, the macroeconomic deterioration had turned into a crisis, and in January 1983, the Dominican authorities adopted a comprehensive adjustment program supported by a three-year Extended Fund Facility (EFF) from the International Monetary Fund (IMF). Economic performance improved in 1983, since the DR was able to comply with the EFF program conditions for the first five months (until September) and to obtain a major rescheduling of its debt to foreign commercial banks. However, by the end of the year, the DR was no longer in compliance with the EFF performance criteria. The divergence from the EFF targets widened during 1984, and the EFF arrangement was canceled in January 1985.

The year 1984 was one of transition. The major adjustment problem was the unification of the official and the parallel market exchange rates, as the two rates diverged increasingly during the year. The GODR adopted a more gradual adjustment policy following the serious riots of April 1984, which erupted after the GODR had tried to proceed quickly towards a revival of the EFF program. Maintaining continuous policy dialogue with USAID/DR and close contact with IMF, the GODR implemented an "interim economic program" of gradual adjustments in exchange rate, fiscal, and pricing policies, which included the establishment of an "intermediate" exchange rate for petroleum imports. These policies arrested the balance-of-payments deterioration, and reduced the public sector deficit, excluding the operating losses of the Banco Central de la Republica Dominicana (BCRD). However, the growth rate of real gross domestic product (GDP) fell as a result of a squeeze on imports and a bad harvest.

The 1984 policies of gradual adjustment culminated in January 1985 in a unification of the exchange rate, supported by stringent measures of fiscal and monetary restraint. These and other supplementary measures led to the conclusion of a one-year IMF standby arrangement in April 1985. The GODR successfully implemented the standby program, meeting all performance criteria. While major economic adjustments were implemented in order to restore internal and external balance, and the fiscal and balance-of-payments situation improved noticeably with a sizable build-up of net foreign assets, there was a downturn in real GDP, due mainly to a drop in agricultural output because of bad weather.

With the termination of the IMF standby in April 1986 and the approach of presidential elections, the GODR stabilization efforts gave way to expansionary fiscal and monetary policies. As these policies continued in the early months of the new administration, which assumed office in August 1986, private sector confidence weakened, leading to foreign exchange difficulties, debt service problems, and increased differential between the official and the parallel exchange rates. In early 1987, the GODR adopted a mildly contractionary fiscal and monetary policy stance, but it did not prove adequate to restore private sector confidence. As the exchange rate in the parallel market continued to depreciate, the GODR resorted in desperation to exchange controls in June 1987. This measure further shook the already weakened private sector confidence, which further reduced the supply of foreign exchange. The GODR tightened fiscal and monetary policies in an attempt to turn the confidence factor around, but that proved ineffective.

In November 1987, the GODR signaled its return to orthodoxy by eliminating exchange controls, unifying the official and parallel markets at a market-determined exchange rate, raising additional revenue with new taxes, and increasing the politically volatile petroleum price. These policies continued essentially unchanged until the end of February 1988, with the exception of limited GODR intervention in the exchange market in January and February 1988. The policies followed by the GODR since November 1987 should make possible a standby arrangement with the IMF. That in turn would lead to Paris Club and commercial bank rescheduling. However, the present Dominican administration is reluctant to request an IMF standby arrangement.

In spite of erratic GODR policies in 1986 and 1987, the stabilization efforts of 1985-86 led to a modest economic recovery, which became stronger and more broadly based in 1987, led by a sizable increase in nontraditional exports. The fiscal performance of the Central Government showed a marked improvement in 1987 after some deterioration in 1986. Net foreign assets increased again in 1986, although not by as much as in 1985, while overall balance-of-payments equilibrium was barely achieved in 1987.

The foregoing review of macroeconomic policies makes it clear that

- Progress has been made since 1982 towards the attainment of monetary stabilization through the pursuit of appropriate macroeconomic policies.

- The macroeconomic disturbance has proved to be rather intractable because it has been caused essentially by adverse external factors.

- The implementation of stabilization policies has proved to be exceedingly difficult because of the adverse political and social impact of the temporary contraction of economic activity and reduction of real income.

- Hence, the GODR has not been able to maintain the adjustment policies without interruption and there has been considerable slippage and back sliding in the stabilization effort.

Effectiveness of Cash Transfers

In the Dominican context, AID has, since 1986, given a higher priority to economic stabilization as a necessary condition for the attainment of other ESF program objectives. The success of the ESF cash transfer mechanism in the DR is therefore denoted by the fact that the AID policy role has been the single most important influence in convincing the GODR to maintain stabilization policies in the face of tremendous odds (as in 1984 and 1985), and/or to return to such policies after having been forced to abandon them temporarily (as in 1987). It is safe to say that the ESF program has occupied the center stage in GODR policy formation and has proved to be the major catalyst in nudging the GODR toward maintaining the stabilization effort or restoring it after interruption by difficulties.

- The implementation of ESF conditionality by USAID/DR has been highly successful, because of effective policy dialogue, good political judgment, and judicious use of available instruments. This performance is remarkable, when one considers that the policy reforms implemented were drastic and that there were serious dissensions within the GODR and frequent changes in the economic team during 1984-85.

- The five elements that contributed to this success are size of the ESF, terms of resource transfer, timing of disbursements, use of sanctions to enforce Conditions Precedent and Covenants, and policy dialogue. USAID/DR has made a deliberate and systematic effort to make a coordinated use of these elements. For example, it has tailored the size of the ESF allocations to the magnitude and severity of the GODR adjustment effort to cushion the impact. Since 1984, it has provided the ESF softer terms because of the difficult adjustment policies being implemented. USAID/DR has let the timing of disbursements be determined by policy considerations, by making faster disbursements to "lubricate" the GODR decision making for policy reforms and slowing down or withholding disbursements in the event of policy "drift" or inaction. It has used sanctions sparingly, so that the Dominican authorities know that sanctions can be used but only as a last resort. Most important, it has conducted a continuous and effective policy dialogue in order to assist the GODR in pursuing sound macroeconomic policies using an appropriate combination of firmness of resolve and understanding for the problems encountered by the GODR in the implementation of these policies.

- The key factors have been willingness to withhold cash transfers when main conditions were not being met, willingness and ability to provide immediate cash transfers in critical amounts and timely fashion in support of stabilization measures, and patient and responsive policy dialogue.

Given the compatibility of their objectives with respect to short-run stabilization, there has been close coordination between A.I.D. and the IMF, particularly since 1984, as a necessary element for the successful implementation of the conditionality established by both institutions. While AID and IMF have developed their own conditionality independent of each other, separately, their conditionality has been consistent and mutually supportive because of the harmony among their objectives. There has not been much need for significant policy coordination between AID and donors other than IMF in view of the rather passive policy role of the latter.

Through its cash and commodity transfer programs, its local currency programming, and its project assistance, AID has also promoted objectives other than stabilization, such as price liberalization for agricultural products, availability of sugar lands for alternative production, diversification of exports, and a greater role for the private sector. There is considerable complementarity among projects funded by ESF, PL 480 Title I, and Section

416. All three programs provide direct or indirect balance of payments support. Complementarity among programs is kept in mind in the programming of the local currency that each program generates.

ESF cash transfers have made a positive contribution to the adoption and implementation of policy reform programs in the DR. These policy reforms have covered stabilization as well as structural adjustment policies. The structural policy agenda includes diversification and privatization of sugar lands; liberalization of controls and restrictions on exports; rural savings mobilization; improvement in institutional and financial performance of state enterprises, such as the CDE; and reduction of consumption subsidies by limiting the role of INESPRE. The contribution of cash transfers to the economic development of the DR has been substantial--directly through the infusion of foreign exchange and indirectly in the sense of removal or lessening of impediments to economic development through policy reforms. While there was an unavoidable social cost of adjustment policies during the transition period, the resumption of economic growth on a sustainable basis as a result of cash transfers has stimulated exports and agricultural production and has promoted equity by benefiting the rural, relatively poor population including women.

The cash transfer program in the DR has been well-managed, with a clear sense of purpose. The monitoring of dollar transfers has been relatively simple because the policy reform components contain quantifiable targets. As for the large and diverse local currency programs for which USAID/DR has either joint or sole programming responsibility, appropriate mechanisms have been established for satisfactory monitoring.

Major Recommendations

1. ESF cash transfers should continue to be used in the DR in the context of policy reform, with appropriate conditionality.

2. A substantial ESF allocation should be programmed for FY 1988 and

FY 1989 in order to support the GODR stabilization efforts that were resumed in November 1987.

3. Beyond FY 1989, there should be a shift of emphasis in the ESF program from short-run stabilization to medium-term structural adjustment.

4. USAID/DR should continue its present effective approach to the implementation of ESF conditionality, which has made coordinated use of five elements: size of the ESF, terms of resource transfer, timing of disbursements, use of sanctions, and policy dialogue.

5. USAID/DR should continue its close coordination with the IMF with respect to stabilization policies. As the priorities of the ESF program shift in favor of medium-term structural adjustment, a meaningful coordination with the IBRD should be initiated.

6. In the programming of local currency, USAID/DR should continue, through effective coordination, to enhance the complementarity among various AID programs in the DR.

7. USAID/DR should continue its effective monitoring of local currency programs.

I. INTRODUCTION

This evaluation of A.I.D. cash transfers for policy reform in the Dominican Republic (DR) is one of a series entitled, "A Comparative Study of the Effectiveness and Economic Development Impact of Cash-Transfer-Based Policy Reform Programs." The countries covered by this series of evaluations are Costa Rica, the Dominican Republic, Jamaica, and Honduras. It is the intention of A.I.D./W to conduct similar evaluations in several other countries. The evaluation report on Costa Rica, the first in the series, has served as a model for subsequent reports. Hence, this report is patterned, to the extent possible, after that report.

According to the scope of work, (Annex 2), the objectives of this evaluation are to assess the effectiveness of the cash transfer program in the DR, and to analyze its economic development impact. The scope of work for this report is based on these objectives and specifies the following tasks:

- Review of macroeconomic trends
- Analysis of the stabilization and structural adjustment programs supported by multilateral donors
- Evaluation of A.I.D.'s contribution to policy reform programs and to economic development through the cash transfer mechanism
- Assessment of cash transfer design, implementation, and management

As described at some length in the evaluation report for Costa Rica and in Chapter IV of this report, this study is of great topical interest because of the increase in the relative importance of cash transfers as well as Economic Support Funds (ESF) in recent years. The total cash transfer component of ESF has increased from $873 million (or 45 percent of ESF) in FY 1979 to a projected $2,306 million (or 64 percent of ESF) in FY 1988, while the share of ESF in the total A.I.D. budget rose from 55 to 62 percent in the same period. The interest in the effectiveness of the cash transfer mechanism compared with other foreign assistance mechanisms, as a means of bringing about policy reform and promoting economic development in LDCs, has not been confined to A.I.D. but is shared by other Executive Branch agencies (particularly the State Department, the Treasury, Office of Management and Budget) and by Congress.

The methodology used for the evaluation of cash transfers in the DR closely follows the methodology developed in the cash transfer evaluation for Costa Rica and is presented in detail in Appendix A of that study. Appropriate adjustments in methodology have been made in the case of the DR to reflect differences from the Costa Rican case, such as the smaller size of the ESF program and lesser availability of statistical data in the DR than in Costa Rica.

The basic elements of the methodology, designed to facilitate systematic analysis, consist of the classification of available information regarding cash transfers into manageable policy categories and the identification of appropriate performance indicators for each policy category. The pertinent information regarding cash transfers includes covenants, conditions precedent, dollar transfers, local currency programs, policy impacts, and economic effects. The cash transfer program involves not only transfers of dollar funds but a program based on the utilization of local currencies generated by these funds. Policy impacts need to be distinguished from economic effects because of the inevitable lags inherent in the transmission of policy changes to bring about changes in economic aggregates. The policy categories may be enumerated as (1) policies to stimulate export-oriented production and promote private sector participation, (2) exchange rate and trade liberalization policies, (3) fiscal and monetary policies, and (4) agricultural sector policies. The measures of performance are derived, to the extent possible, from Country Development Strategy Statements (CDSS) and Action Plans. The analysis of policies and performance stresses the interrelationships of the policy programs of A.I.D., the IMF, and the IBRD.

The plan of this study essentially follows that of the Costa Rica cash transfer evaluation report. This study covers a shorter period than the Costa Rica report, because serious efforts to undertake policy reform were initiated in 1983 with the conclusion of the first ESF program and the Extended Fund Facility (EFF) arrangement with the IMF. The scope of work, the methodology, and the plan of study are presented in Chapter I. By way of background, there is an overview of macroeconomic trends in the 1980s in Chapter II and an examination of the policy reform agenda of multilateral agencies (particularly the IMF) in Chapter III. This is followed by the main body of the report in Chapter IV, which deals with the background, mechanism, and content of the ESF cash transfer program (in the context of the overall A.I.D. program) since 1982; ESF policy conditionality; coordination with other donors; linkage of cash transfers with other AID programs; contribution of cash transfers to the achievement of policy reform objectives and to economic development; and implementation and management of cash transfers. Chapter V presents the conclusions and recommendations.

II. MACROECONOMIC TRENDS IN THE 1980S - AN OVERVIEW

A persistent macroeconomic disequilibrium in the early 1980s, generated largely by adverse external factors, interrupted a prolonged period of self-sustaining economic growth. The unsatisfactory economic performance in the 1980s can be seen clearly from Tables 1-28. The rate of growth of real GDP slowed from 5 percent a year in 1979-80 to almost 4 percent in 1981 and to a little over 1 percent in 1982. Following a very rapid run-up to 25% in the aftermath of Hurricane David in September 1979, the rate of inflation slowed down to an annual rate of 7-8 percent until 1982.

The overall balance-of-payments deficit rose from an annual average of $100 million during 1978-80 to $150 million in 1981, and more than doubled to $310 million in 1982. In 1980, the current account deficit reached a record $670 million (10 percent of GDP, twice the 1978-79 level), reflecting a sharp rise in imports associated in large part with the reconstruction effort following Hurricane David. In 1981, the current account deficit was reduced to about 6 percent of GDP as a result of a fall in imports and a temporary recovery in exports because of higher sugar prices. With a fall in both exports (lower sugar prices) and imports (reduced foreign exchange availability), the current account deficit worsened to about 6 percent of GDP in 1982. External public debt outstanding nearly doubled in dollar terms between 1978 and 1981, rising from 15 percent of GDP in 1978 to 29 percent by 1982, while external debt service as a ratio of exports of goods and nonfactor services increased from

18.6 percent in 1980 to 30.9 percent in 1981 and to 42.8 percent in 1982. Substantial payments arrears were accumulated during 1981 and 1982. Reflecting these disturbing developments, the premium for the U.S. dollar in the parallel foreign exchange market, which had hovered around 25-30 percent (selling rate) during most of 1980-81, rose to some 50 percent by the end of 1982.

The overall deficit of the consolidated public sector (including the quasi-fiscal deficit of the BCRD) increased from 5.3 percent of GDP in 1978 to 6.4 percent in 1981, and 6.6 percent in 1982. This progressive deterioration in fiscal performance was brought about mainly by a drop in tax collections from 13 percent of GDP in 1976-77 to about 10 percent in 1981 and a little over 8 percent in 1982. In fact, the Central Government current account surplus, which used to be large enough to yield a current account surplus for the entire public sector in spite of substantial current account deficits for the rest of the public sector, gave way to a current account deficit in 1982. The overall deficit of the consolidated public sector would have been larger in these years had it not been for a policy of expenditure restraint, reflected in a containment of current expenditures and actual cuts in capital expenditures. The sluggish performance of tax revenue (particularly the sharp decline in 1982) was due to the overall economic situation (slowdown of economic activity, contraction of foreign trade), as well as deficiencies in tax administration, a rise in tax exemptions, and erosion of the tax base because of excessive reliance on specific rates of taxation.

Faced with declining foreign exchange reserves and mounting external payments arrears, the monetary authorities sought to moderate the expansion of bank credit and reduce the demand for import payments in the official exchange market. Given the large and growing financing needs of the public sector, this meant a rather restrictive stance towards credit to the private sector, reflected in the curtailment of rediscounts to commercial banks, the raising of reserve requirements, and the amplification of the scope of the advance import deposits scheme. In addition, commercial bank liquidity remained under pressure during this period as a result of the authorities' failure to adjust domestic interest rates to the rise in international interest rates and owing to increased competition from the non-bank financial intermediaries, which were able to pay higher interest rates than commercial banks on their liabilities to the private sector.

Faced with these difficulties, the administration that took office in August 1982 quickly prepared an economic and financial program, supported by the IMF's three-year EFF arrangement which took effect in January 1983 (see Chapter III). The main aim of the EFF program was to achieve, in the medium term, a viable external payments position in the context of high and stable rates of economic growth. The cornerstones of the program were sound fiscal and monetary management and an adequate public investment program, combined with incentives for private investment. These cornerstones were to be achieved by means of tight demand management (reduction of the budget deficit) leading to an increase in public investment from 20.8 percent of GDP in 1982 to 24.6 percent by 1985, and through the pursuit of flexible, market-related exchange rate, interest rate, and pricing policies. Such policies would mobilize private savings, stimulate private investment as well as nontraditional exports, and reduce the need for foreign financing from 5 percent of GDP in 1980-81 to 2 percent by 1985. Deregulation and other policies to promote domestic and foreign investment were to supplement these policies.

Performance under the EFF arrangement was initially quite satisfactory and the GODR complied with the EFF performance criteria in the first five months of the program (through the end of September 1983). However, in the last quarter of 1983, significant deviations from the program developed with respect to the performance criteria for public finance and external payments arrears (after making necessary adjustment for the effects of the refinancing agreement with commercial banks in December 1983; see below). As a result, the overall balance-of-payments deficit in 1983 exceeded $350 million, virtually unchanged from the 1982 level, and the peso depreciated sharply in the parallel foreign exchange market in the second half of 1983.

One favorable development traceable to the existence of the EFF arrangement was the conclusion in December 1983, after protracted negotiations, of a refinancing agreement with commercial banks. Under this agreement, total obligations to banks in an amount of $456.3 million were converted into a government-guaranteed five-year loan to the BCRD. The GODR also approached the Paris Club in August 1983 with a request for debt rescheduling, but the conclusion of this agreement was delayed until 1985.

Negotiations between the GODR and the IMF continued during 1984 in an effort to reach agreement on new terms and conditions for the reinstatement of the EFF arrangement. This, however, did not prove feasible and the EFF arrangement was terminated in January 1985 in the context of negotiations with the IMF for a one-year standby arrangement involving a new set of adjustment policies. Faced with a growing domestic and external imbalance, the GODR implemented several measures during 1984 (see Chapter III), in close consultation with the IMF, to move towards flexible and realistic exchange rates, and to bring about fiscal improvement through revenue, expenditure, and pricing policy measures. These policies culminated, in January 1985, in a unification of the exchange system (with a freely floating market determined exchange rate) and other drastic measures, which paved the way for the initiation of a one-year standby arrangement with the IMF in April 1985. The year 1984 was thus one of transition from the three-year EFF program (which the GODR was not able to comply with after the third quarter of 1983) to the new standby program.

The economic performance in 1983 was somewhat better than in 1982, with a higher rate of economic growth and a lower public sector deficit. The improved fiscal performance was largely the result of a recovery in revenues with restrained expenditure growth. While both exports and imports remained stagnant and the balance of payments continued to be under pressure, there was a sizable build-up of net foreign assets in 1983 (compared with the large drawdown in 1982), which reflected the exceptional financing received through the refinancing of commercial bank debt in December 1983, as well as the accumulation of payments arrears (outside the BCRD). The 1984 performance essentially reflected the adjustment efforts that led to a sharp decline in the rate of economic growth and a steep rise in the rate of inflation. Although the deficits of both the Central Government and public enterprises were greatly reduced because of revenue improvement and expenditure restraint, the overall public sector deficit rose in relation to GDP as a result of BCRD losses and increased deficits of the rest of the public sector. As for the balance of payments, the current account deficit was reduced because of a recovery in exports with continued import stagnation. and a moderate build-up of net foreign assets. However, this apparent improvement in the balance of payments was due entirely to a large accumulation of payments arrears (which exceeded $500 million by the end of 1984). The increasing spread between the official and the parallel exchange rates which had created an untenable situation by the end of 1984 was a more accurate indicator of the underlying balance-of-payments disequilibrium. This situation had to be corrected by the drastic measures of January 1985 mentioned above, particularly exchange unification.

In addition to the crucial measure of exchange unification, the IMF standby program of April 1985 (including the steps already taken in January 1985) contained important fiscal policy actions such as a temporary export surcharge (on traditional as well as nontraditional exports), increases in prices and tariffs charged by public enterprises, and reductions in budgetary transfers to public enterprises. Monetary policy measures included increases in interest rates, restriction of rediscounts, and introduction of a 100 percent marginal reserve requirement on commercial banks.

By the end of the IMF standby program in April 1986, the program had succeeded in achieving its basic objective of restoring domestic and external balance, and strengthening private sector confidence. The exchange rate tended to stabilize after an initial depreciation followed by a significant appreciation. The public sector deficit (including the quasi-fiscal deficit of the BCRD) was substantially reduced (from 6.5 percent of GDP in 1984 to 2.7 percent in 1985) and there was a 14 percent contraction in net domestic credit to the public sector in 1985. As a result, the rate of inflation (after an initial spurt to 3 percent per month in the first half of 1985 because of the exchange rate and price adjustment measures) was substantially reduced (to 1 percent per month in the second half of 1985). In spite of adverse developments in export prices, a balance-of-payments surplus was registered, external payments arrears were reduced, and net international reserves were strengthened. The Dominican authorities were able to obtain debt relief (amounting to $630 million in 1985 and $160 million in 1986) from the Paris Club and commercial bank creditors. However, real GDP declined by 2 percent in 1985, as a result of the drastic adjustment measures. A decline in GDP of less than 1 percent was projected, but the actual decline was more pronounced because of a drought that reduced the output of certain export crops. (see Tables 2 and 3).

The year 1986 was one of transition, with presidential elections in May and the assumption of office by a new government in August. This was reflected in the policies of the outgoing government. The IMF standby was not renewed. As planned, the temporary export surcharge was reduced by almost one-half in January 1986 and eliminated in June 1986, without the adoption of compensatory fiscal measures (as planned in the standby program) to achieve an equivalent contractionary result. The marginal reserve requirement was eliminated in April 1986.

The cumulative impact of these measures, taken before the assumption of office by the new government, was significantly expansionary. In the initial period, it was obviously difficult for the new government to evaluate the situation and to adopt appropriate remedial measures. From the beginning, the new government adopted an austere fiscal stance with respect to the growth of Central Government current expenditures, but this did not prove to be adequate, and the public sector deficit (including the quasi-fiscal deficit of the BCRD) rose to 5 percent of GDP in 1986.

The most prominent and disturbing aspect of monetary developments during 1986 was the explosive growth of BCRD reserve money and private sector money supply, both narrow (M1) and broad (M2) (see Table 12). In fact, these monetary aggregates almost doubled during 1986. In other words, the growth in these aggregates in 1986 was almost equal to the cumulative increase that had taken place in all the years from the establishment of the BCRD in 1947 until 1985. The underlying reason for this development is the asymmetrical nature of BCRD foreign exchange transactions. While the BCRD buys the foreign exchange proceeds of exports (given the present foreign exchange surrender requirements) and creates pesos in the process, it does not normally "extinguish" the pesos by selling exchange to banks or the private sector, which have to buy the needed foreign exchange in the exchange market. The BCRD uses the exchange it has acquired from exporters to pay for petroleum imports and for external debt service of the public sector. In the case of petroleum imports, the BCRD does receive the pesos which would provide the offset but sometimes after a certain lag. In the case of external public debt service, the BCRD has to make the service payments in many cases without receiving the pesos, the impact of which is similar to a credit expansion. The impact is similar when the BCRD makes payments on the private sector debt it has assumed on behalf of the government in connection with the 1983 and 1985 debt renegotiations, also without receiving the pesos in many cases.

In November-December 1986, the BCRD sold foreign exchange in the exchange market at RD$ 2.96 per U.S. dollar (well below the prevailing exchange market quotations) in an unsuccessful effort to bring down (appreciate) the exchange rate. While the sale of exchange "extinguished" the pesos at RD$ 2.96, the difference in exchange had an expansionary impact. Thus, the massive increase in reserve money (see Table 12) in 1986 was due largely to the elimination of the export surcharge and the marginal reserve requirements, which would have offset the expansionary impact of the sale of exchange. The huge increase in private sector money supply is due largely to the increase in the net foreign assets of the banking system and to a 60 percent increase in commercial bank credit to the private sector (made possible by the increase in reserve money).

The monetary overhang in 1986, together with the perceived inability of the monetary authorities to make the scheduled debt service payments (which are extremely large, exceeding expected 1987 export earnings, if arrears are taken into account), was reflected in some weakening of confidence and a slow but persistent depreciation of the peso quotation in the exchange market in the first quarter of 1987. The government recognized the danger signals and adopted some contractionary monetary-fiscal measures. These measures included the reintroduction of the 100 percent marginal reserve requirement on commercial banks, the introduction of reserve requirements on "financieras," and the "demonetization" by the government of RD$ 250 million (RD$ 200 million during September-December 1986, and RD$ 50 million in January 1987) by depositing these amounts in a special account at the BCRD (pending their subsequent use to finance investment projects). These attempts to achieve a monetary offset did not prove adequate to restore confidence by neutralizing the monetary overhang of 1986, because of the adverse impact of measures affecting the exchange market that were adopted by the Monetary Board on February 19, 1987 (see Chapter II). These measures apparently sent the wrong signal that the government planned to shift emphasis from monetary-fiscal measures to direct intervention in the payments mechanism and in exchange rate determination. This aroused concern that the government intended to take further measures toward direct controls.

As a consequence of these developments, the rate of inflation accelerated in 1987, with a rise of some 18 percent in the Consumer Price Index (end of period) for the 12 months ended June 1987 compared with about 6 percent for the 12 months ended December 1986. The peso depreciated in dollar terms by 20 percent from RD$ 3.07 per U.S. dollar in January 1987 to RD$ 3.85 per U.S. dollar in June 1987. In desperation, the authorities adopted full-fledged exchange controls with an officially determined exchange rate on June 17, 1987. This experiment was short-lived since it led to a reduction in the supply of exchange, and did not stem the depreciation of the peso. As the parallel exchange rate depreciated as low as RD$ 4.90 per U.S. dollar in October 1987, the Monetary Board reestablished a unified, market-determined exchange rate in November 1987 at RD$ 4.60-4.70 per U.S. dollar (see Chapter II).

During November and December 1987, the official exchange rate, in fact, followed the previous day's market quotations. However, in January 1988, when the market quotations of more than RD$ 5.00 per U.S. dollar were registered, the official rate was pegged just below RD$ 5.00 per U.S. dollar. By the second week of February, the exchange rate had depreciated to RD$ 5.55 per U.S. dollar (having temporarily reached a low of RD$ 5.70 earlier).

At this time, the BCRD reached an informal agreement with the commercial and exchange banks under which the BCRD undertook to buy, at the market rate, all the foreign exchange offered in return for their collaboration in bringing the exchange rate down (appreciating it) by RD$ .05 per U.S. dollar per week. The BCRD actually bought some $10 million in the market in February, and sold some foreign exchange in the market. At the end of February, the market exchange rate (at which most transactions take place) had appreciated to RD$ 5.25 per U.S. dollar, while the official rate remained pegged at just below RD$ 5.00 per U.S. dollar.

Since the unification of November 1987, the exchange rate quotations reflect the uncertainty and lack of credibility of future government intentions regarding the exchange rate (because of erratic government policies during 1987). The heavy external debt burden (with no debt rescheduling in prospect because of GODR hesitation in concluding a standby agreement with the IMF) has also been a cause for worry. Certainly the sharp exchange rate fluctuations since November 1987 are not explained by the fundamentals (fiscal and monetary developments, price trends, export performance). The GODR has met the challenge by not resorting to controls, and the exchange system remains essentially free of restrictions.

The fiscal performance of the Central Government up to 1987 and the prospects for 1988 are summarized in Table 6. The outstanding aspect of the 1987 performance, as compared with that of 1986, is the near quadrupling of the current surplus. This comes as a result of a 25 percent increase in tax revenues and a 30 percent reduction in current expenditures, which made possible a 130 percent increase in capital expenditures. This is a remarkable achievement by any standard. However, this description obscures certain shortcomings in the Central Government's own fiscal performance, and serious problems in the financial, economic, and administrative performance of key public enterprises such as CDE and CEA. The Central Government registered an overall surplus before adjustment for quasi-fiscal deficit,[1] which permitted a substantial reduction of domestic financing after the utilization of the available net external financing. However, it is certain that there will be a substantial overall deficit after adjustment, especially when the figures for important components of the quasi-fiscal deficit become available.

Fiscal performance in 1988 is expected to be at least as impressive as in 1987, because of new tax measures. Tax revenues are expected to rise by RDS 1,245 million or 47 percent, of which RDS 700 million would be derived from the 20 percent exchange surcharge on nonessential imports introduced in November 1987, RDS 240 million from the tax package announced in November 1987, and RDS 300 million from the recently introduced exchange surcharge on that part of the proceeds of sugar and mining exports which exceeds the exchange rate of RDS 4.00 per U.S. dollar. Also, in November 1987, the government increased the prices of petroleum products at the pump by 20 percent, in order to reduce the petroleum subsidy. As current expenditures are also programmed to increase by RDS 550 million or 42 percent, the current surplus will increase by (only!) 50 percent. Since capital expenditures are budgeted to increase by around 30 percent (a much smaller increase than in 1987), there should be a much larger overall surplus (before adjustment for quasi-fiscal deficit) in 1988 than in 1987, which would make possible another large reduction in domestic financing. Hence, the fiscal measures already taken should be adequate to eliminate even the quasi-fiscal deficit for 1988. In this context, it must be mentioned that the proceeds (RDS 700 million) of the exchange surcharge on nonessential imports are earmarked to reimburse the BCRD for its payment of public sector external debt service obligations.

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1. The quasi-fiscal deficit includes items that are not included in the Central Government budget but affect (or should affect) Central Government fiscal performance, such as debt service payments made by BCRD on behalf of the Central Government and public enterprises without receiving pesos; payments by BCRD of rescheduled private sector external debt service; scheduled service payments by Central Government of its debt to BCRD; operating losses of CDE & CEA; BCRD operating losses arising out of exchange losses; and other factors mentioned above.

The government has approved increases in the monthly minimum wage from RD$ 250 to RD $300 effective January 1, 1988 and to RD$ 400 effective April 1, 1988. Public sector wages in the RD$ 400-1500 per month range would be increased by 10 percent effective April 1, 1988. These wage increases are the first since mid-1985 and real wages would still remain well below the 1984 level. The consumer price index rose about 20 percent during 1987 (end of period), with the annual rate of increase as high as 30 percent in the last four months of 1987.

In February 1988, presumably to provide resources to finance the wage increases, the government announced a freeze on new investment projects. It is not clear at this time what the fiscal impact of this measure will be. The government is maintaining a resolute stance to prevent the resurgence of the fiscal deficit and to keep inflation under control. There are indications that the government may impose a tax on petroleum products or further increase their prices at the pump and take other measures to increase revenue and reduce current expenditures.

The foregoing review of macroeconomics policies makes it clear that:

- Progress has been made since 1982 towards the attainment of monetary stabilization through the pursuit of appropriate macroeconomic policies.

- The macroeconomic disturbance has proved to be rather intractable because it has been caused essentially by adverse external factors.

- The steady implementation of stabilization policies has proved to be exceedingly difficult because of the adverse political and social impact of the temporary contraction of economic activity and reduction of real income.

- Hence, the GODR has not been able to maintain the adjustment policies without interruption and there has been considerable slippage and backsliding in the stabilization effort.

These circumstances have led, as explained in Chapter IV in the section entitled "ESF Policy Conditionality," to the ESF program occupying the center stage in GODR policy formation and proving to be the major catalyst in nudging the GODR towards maintaining the stabilization effort or in restoring it after an interruption forced by difficulties.

III. MULTILATERAL STABILIZATION AND STRUCTURAL ADJUSTMENT PROGRAMS IN THE 1980S

The historical record of GODR policy formulation and implementation in the 1980s, as presented in Chapter II, clearly shows that the GODR adopted important macroeconomic policy decisions in close consultation with the IMF and A.I.D., often as part of policy reform programs supported by financial resources provided by IMF and A.I.D. The roles of the World Bank and the IDB in the DR have been rather limited and their operations have not exerted much influence on policy reform in the context of stabilization and structural adjustments. Hence, one section in this chapter will be devoted exclusively to the IMF and the other section to the World Bank, IDB, and other lenders.

IMF

The analysis of macroeconomic trends in Chapter II inevitably included a discussion of the content of IMF-supported policy reform programs, given the intimate linkage between these programs and GODR policy formulation. In this section, an attempt is made to determine the extent of influence of the IMF programs on policy reform in the DR.

The relationship between the IMF and the DR has a long history. From the late 1950s until the early 1970s, the DR maintained a close relationship with the IMF, and a number of standby arrangements were concluded. Between 1974 and 1982, no standby or extended arrangements were negotiated between the DR and the IMF. In fact, while pursuing fairly cautious macroeconomic policies the DR managed rather well for a few years after the large 1973 oil price rise, as a result of higher export prices (coffee boom). However, after the massive oil price increase of 1979 and the concomitant worldwide recession with greatly increased international interest rates during 1979-82, the DR was afflicted with increased fiscal and balance-of-payments difficulties (see Chapter II). During this period, the DR remained in close touch with the IMF and received IMF financial assistance through various facilities other than standby or extended arrangements, such as the Compensatory Financing Facility and the Buffer Stock Financing Facility.

The main features of the three-year EFF program which took effect in January 1983 have been highlighted in Chapter II. This comprehensive program of short-term monetary stabilization and medium-term structural reform started off rather well. Implementation in the first three quarters of 1983 was more or less as programmed in terms of the performance criteria; however, during the last quarter of 1983, program implementation began to diverge from the targets. A major area of divergence was public finance. The overall deficit of the consolidated public sector reached 5.6 percent of GDP in 1983, which represented a modest improvement over the 6.2 percent registered in 1982 but fell substantially short of the program target of 3.9 percent of GDP. Hence, the subceiling on net credit to the public sector was not met for the last quarter of 1983. Shortfalls were also experienced with respect to the targets related to balance-of- payments performance, after making allowance for the $310 million of exceptional financing received in December 1983 through the refinancing of commercial bank debt. Contrary to the intent of the program, payments arrears accumulated because the DR suspended amortization payments to the Paris Club after requesting rescheduling in August 1983, and because amortization payments to commercial banks were not made on schedule, pending the finalization of the refinancing agreement in December 1983. Thus, external payments arrears rose by a further $210 million in 1983; the overall balance-of-payments deficit remained at more than $350 million, virtually unchanged from the 1982 level; and the peso depreciated sharply in the parallel foreign exchange market in the second half of the year. To be fair, the balance-of-payments performance proved deficient because a large part of the external financing envisioned in the program for 1983 did not materialize; the GODR did not (or could not) undertake compensating policy adjustments. In short, the desired degree of adjustment did not take place in the first year of the EFF.

Divergence from the EFF targets widened during 1984, and the GODR and the IMF were unable to agree on a set of policies that would prove adequate to put the program back on track. Accordingly, the EFF arrangement was canceled in January 1985, and emphasis was shifted to the negotiation of a new one-year standby arrangement, which was concluded in April 1985.

During 1984, the DR and the IMF remained in exceptionally close contact (which was greatly facilitated by A.I.D. policy dialogue; see Chapter IV), working on the content of a new adjustment program. The basic policy difference, which made impossible the revival of the EFF, related to the speed of adjustments (i.e., gradual adjustment versus "shock" treatment). The issues under contention were the speed of exchange rate devaluation and the speed of unification of the official and parallel exchange markets, prompt elimination of the implicit petroleum subsidy at the official exchange rate, rapid reduction of external payments arrears, accelerated build-up of international reserves, accelerated reduction of the fiscal deficit, increases in public service tariffs and charges of the state enterprises, and wage restraint. In April 1984, in an effort to proceed quickly towards a revival of the EFF program, the GODR transferred all imports other than petroleum from the official to the parallel market (from a 1:1 official exchange rate to the parallel exchange rate of US$ 1 = RD$ 2.80). The GODR intended to shift petroleum imports to the parallel market within a short period. However, the resulting sharp increases in the prices (including many controlled prices) of foodstuffs and other basic products and the temporary scarcities of other products still sold at controlled prices led to strong and widespread popular protests, including riots in Santo Domingo that caused many deaths. These events convinced the GODR to abandon any thought of revival of the EFF and led to an informal understanding between the GODR and the IMF in the form of a so-called "shadow" program. Through this program, the GODR reaffirmed its determination to maintain the adjustment policies (although at a somewhat gradual pace) and to create the conditions for exchange rate devaluation and unification over a six- to eight-month period. Using the IMF terminology, the GODR implemented a series of "prior actions" in 1984-85 which laid the groundwork for the 1985-86 standby arrangement. This program represented a modus vivendi between the DR and the international community. It made possible a continuing relationship with the IMF on the basis of the GODR's recognition of the need to maintain the adjustment policies at a gradual rate and in accordance with external debt renegotiation agreements.

Even after the April 1984 riots, the GODR continued to take adjustment measures (exchange and fiscal policy measures) cautiously and gradually during the rest of 1984. In August 1984, the GODR communicated to the IMF an interim economic program (also called the transitional program) designed to lead to exchange unification, to improve exchange reserves, and to reduce fiscal deficits. The exchange policy measures essentially consisted of transfers of specified financial and service transactions to the parallel market; establishment of an "intermediate" exchange rate (in August 1984) for oil imports (other than those of the CDE), which resulted in an increase of more than 60 percent in the prices of petroleum products; transfer of almost all non-traditional exports to the parallel market; and more favorable exchange rate treatment of traditional exports and services. Fiscal policy measures, designed to reduce the budget deficit, included revenue enhancement and expenditure restraint, particularly cutbacks of public investment expenditures.

These measures set the stage for the adoption by the GODR in January 1985 of a comprehensive stabilization package. The package consisted of unification of the exchange rate; imposition of a temporary exchange surcharge of 36 percent on traditional exports and 5 percent on nontraditional exports; increases in electricity tariffs, and in petroleum prices; introduction of 100 percent marginal reserve requirements; an increase in interest rates; and freezing of BCRD discounts. These measures provided a solid basis for the one-year IMF standby arrangement that became effective in April 1985.

The content of the 1985-86 standby arrangement and the performance of the Dominican economy during 1985-87 (up to February 1988) have been described in Chapter II. The DR was able to fulfill the performance criteria established in the standb rangement and was able to obtain substantial debt relief, amounting to $63C million in 1985 and $161 million in 1986, from both Paris Club and commercial bank creditors (the latter in the form of a MYRA). Since the expiration of the standby arrangement in April 1986, no standby or extended arrangement has been negotiated between the DR and the IMF; however, the GODR has remained in close touch with the IMF. The new administration, which assumed office in August 1986, expressed its strong preference (at least until the change in the leadership of the BCRD in November 1987) that the cooperation between the GODR and the IMF take the form of "enhanced surveillance" by the IMF rather than an IMF standby or extended arrangement. The problem with this approach is that IMF "enhanced surveillance" is not adequate for debt renegotiation with the Paris Club, which requires an IMF standby or extended arrangement. Furthermore, in the conditions prevailing in the DR, it is possible that IMF "enhanced surveillance" would not be considered adequate by commercial banks to provide refinancing under the 1985 MYRA. It is, however, important to mention that the fiscal and exchange policy measures adopted by the GODR in November 1987 have led to the restoration of the ESF allocation for FY 1987 (see Chapter IV) and have greatly improved the prospects for the conclusion of a standby arrangement with the IMF, if the GODR makes such a request.

Other Donors

Among the category of other donors, a brief description will be given of the programs of multilateral donors as well as of the major bilateral donors and private commercial banks. As mentioned at the outset of this chapter, only the IMF and A.I.D. (among multilateral and bilateral donors) have had any significant impact on macroeconomic policy reform. Although the direct policy influence of the other donors has been limited, some donors (such as the Paris Club and commercial banks) have linked their policy conditionality to that of the IMF. The indebtedness of the DR to these donors and the scheduled debt service is shown in Tables 24 and 25.

Over the years, the World Bank (IBRD) has extended substantial and broad-based assistance to the DR. At the end of 1986, total commitments and disbursements amounted to $353 million and $237 million, respectively. Most of the lending was destined for the following sectors, in order of importance: transport, agriculture and irrigation, sugar rehabilitation, tourism, industry, housing, and education. However, net lending, which averaged $30 million a year during 1980-83, tapered off and subsequently gave way to net repayment (outflow) in 1986-87. With the implementation of the 1985 IMF standby program, it was expected that substantial net lending by the IBRD would resume, but it has not materialized so far. There are some indications that new IBRD lending to the DR may become available in the near future in the form of some quick-disbursing loans as well as project loans in the agriculture and energy sectors.

The reasons for the weak influence of the IBRD on GODR policies (compared with their influence in other countries) are the small size of net lending since 1983 (particularly the negative lending in 1986-87), and the nature of IBRD lending to the DR (mostly project loans). There have been no Structural Adjustment Loans (SAL) or sectoral adjustment loans, and the number of quick-disbursing loans has been relatively small.

For these reasons, the IBRD's strong interest in macroeconomic and development policy issues in the DR (for example, in fiscal reform, public sector investment, pricing and regulatory policies, agricultural diversification, export promotion)[2] has not been able to exert an effective influence on policies. As for the policy conditions related to its project loans, the IBRD's general approach (for example, with respect to pricing and regulatory policies) has been consistent with the A.I.D.'s general approach. Hence the IBRD and A.I.D. have worked in close collaboration on agricultural sector projects and expect to work closely in the future on energy sector projects (particularly rehabilitation of existing facilities, restructuring of CDE, and the private sector role in power generation and distribution).

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2. The World Bank, Dominican Republic: an Agenda for Reform, January 21, 1987.

At of the end of 1986, the Inter-American Development Bank (IDB) was the second leading creditor to the DR, with $487 million of outstanding credit and $272 million pending disbursement. Most of this credit was for roads, tourism, and agriculture. As described further in Chapter IV, A.I.D. has provided local currency counterpart for some IDB projects, and IDB credit has complemented A.I.D. activities, particularly in agriculture. Coordination between the A.I.D. Mission Agriculture Division and the IDB in providing agricultural credit through the Agricultural Bank has been significant. The two donors have joined in insisting on realistic interest rates. According to its custom, however, the IDB has neither insisted on macroeconomic conditionality, nor entered into sectoral adjustment lending. It has limited itself to project conditionality.

Future IDB lending to the DR is problematical, because of resistance from the present Dominican administration to assuming a greater debt burden, except for the most critical needs. Seven proposed IDB loans totalling $508 million were rejected by the Dominican Congress between 1984 and 1986, and the present administration is reluctant to lend except in selected areas.

Besides the United States, Venezuela, Spain, and Mexico are other major bilateral creditors of the DR. Together, their credits outstanding at the end of 1986 totalled $629 million. This combined total was above the level of the Inter-American Bank. The principal source of Venezuelan and Mexican credits is the San Jose Accord of 1980, under which 20 percent of the value of these two countries' petroleum sales to the DR may be converted into a long-term loan if the GODR uses that percentage for projects that will reduce Dominican dependence on petroleum imports. The DR is in arrears on its repayments to both countries, and has made little investment in projects reducing dependence on petroleum imports.

The Spanish credits are primarily for building dams. There is also a $40 million revolving credit from the Spanish BCRD to the BCRD for balance-of-payments requirements. The DR is in arrears on payments of both principal and interest on the credit, which still has $11 million undrawn. Spain will not provide new credits until the DR is up to date on payments. Spain also has a small $400,000 technical assistance program for rural development.

These countries and other bilateral lenders (except the United States) do not attach macroeconomic or sectoral conditionality to their lending, except through the Paris Club. However, Venezuela and Mexico, whose credits totalled $450 million at the end of 1986, do not participate in the Paris Club.

Japan would like to be a major provider of economic assistance to the DR. It provides about $2 million annually for agriculture (including donations of fertilizers, pesticides, and machinery) and projects for the development of peppers and water resources. Japan also signed a loan agreement for a $60 million hydroelectric project in the western part of the country more than a year ago. However, the Dominican Congress has not yet approved this loan, and Japan is considering cancelling the credit. Two issues remain unresolved, namely, whether the DR really needs additional power capacity now and whether hydroelectric power is better for the country than thermal power. Japan is holding an additional $50 million for other projects in abeyance until a decision is made on the hydroelectric loan.

Germany is also interested in the electric power sector and is in the process of providing DM33 million for distribution sub-stations in the eastern part of the DR. Germany also provides a significant amount of technical assistance, particularly for agriculture; however, Germany will not provide new credits to the DR, until the DR clears up its arrears on existing loans.

Italy is interested in extending credits to the DR. In November 1987, the Governments of Italy and the DR held general discussions on $100 to $150 million in economic development assistance from Italy over a three-year period. Total Italian assistance to the DR up to that point was about $30 million. Tentatively, $25 million of the $100 to $150 million would go for a thermoelectric plant near Baraona; $15 million would go for technical assistance in the energy field from the Italian Electric Power Company; $40 million would go for irrigation and cooperatives projects; $10 million would go for training in tourism; and $10 million would be for projects in the health field.

The only significant coordination among bilateral lenders is through the Paris Club. In view of its insistence on an IMF standby agreement in return for debt rescheduling, the Paris Club has taken on special macroeconomic policy significance with regard to the DR over the last three years, because of the 1985 rescheduling and the present need for further rescheduling. A major Paris Club rescheduling was agreed to in 1985 following an IMF standby agreement. The GODR has since fallen out of compliance with its IMF agreement, and is about $80 million in arrears to Paris Club members. Total GODR medium- and long-term debt outstanding to Paris Club creditors at the end of 1986 was $1,172 million. The GODR is interested in a new Paris Club agreement, but a new IMF standby agreement is a prerequisite.

Commercial bank medium- and long-term credit outstanding to the DR at the end of 1986 was $818.7 million. The commercial banks have effectively joined with the United States, the Paris Club, and the IMF in insisting on macroeconomic stabilization measures by making their debt rescheduling contingent on an IMF standby agreement. The 1985 commercial bank rescheduling covered some $600 million in debt due through 1989. Only interest was to be paid in 1986 and 1987. Principal payments are scheduled to begin in 1988. The commercial banks insisted on a rescheduling of 85 percent of bilateral debt as well as an IMF standby agreement. Presumably, commercial banks would insist on similar terms for a new rescheduling.

IV. A.I.D. CASH TRANSFERS SINCE 1982

The preceding chapters have described and analyzed the macroeconomic trends in the DR, the policy approach of the GODR, and the role of foreign lenders other than A.I.D. (particularly the IMF) in the context of stabilization and structural adjustment programs. This is a necessary background for the examination in this chapter (which is the main body of the report) of the role of ESF cash transfers in influencing GODR macroeconomic policies. As will be shown later in this chapter, the ESF program has occupied the center stage in GODR policy formation and has been the major catalyst in convincing the GODR to undertake the necessary stabilization effort. The first section describes the overall strategy for A.I.D. programs in the DR, presents basic information about the various A.I.D. programs, and examines the relative importance of ESF cash transfers within the overall A.I.D. program. The second section, the most important in the report, evaluates the ESF program by discussing the advantages and disadvantages of cash transfers; analyzing the effectiveness of ESF policy conditionality; appraising coordination with multilateral lending institutions (particularly the IMF); and examining linkages with other A.I.D. programs. The third section is an evaluation of the contribution of cash transfers to the achievement of policy reform and to the economic development of the DR. The final section discusses the implementation and management of cash transfers in the DR.

Overall AID Program

A.I.D. Strategy

The overall A.I.D. strategy in the DR[3] is to contribute to the expansion of employment opportunities and to increases in per-capita income by supporting the financial recuperation and economic growth of the DR on a self-sustaining basis and by stimulating a labor-intensive expansion and diversification of the country's economic base led by the private sector, through

- Sustained implementation of the economic stabilization program
- Increased private investment in the industrial and agricultural sectors to develop a broader base of nontraditional exports
- Accelerated diversification of the agricultural sector into nontraditional crops which may be potential earners of foreign exchange
- Expanded role of the private sector in providing improved access to needed health care and family planning services

The short-term component of A.I.D. strategy reinforces that of the IMF, since its primary emphasis is on a market-determined, unified exchange rate, an effective stabilization program aimed at reducing the consolidated public sector deficit, and the rate of monetary growth and hence the rate of inflation. However, A.I.D.'s overall strategy has a broader scope with a longer time frame than that of the IMF, as is evident from the preceding paragraph. There are many common elements between the A.I.D. strategy and that of the World Bank (IBRD). The IBRD has a and sharper focus on export promotion and savings mobilization, while A.I.D. places more emphasis on privatization.

As may be seen in Tables 24 and 25, the United States is the largest single provider of credits and grants to the DR. Its portion of total foreign credits and grants is between 25 and 30 percent, if commercial bank credits

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3. USAID/DR, Country Development Strategy Statement, FY 1987, January 1986 and Action Plan, FY 1988-89, March 1987.

are included. As indicated in Chapter III, commercial bank credits play an important role in balance-of-payments financing and exert some influence on policy in connection with debt rescheduling negotiations.

A.I.D. has three basic programs (see Table 29) with which to implement the strategy outlined above. They are Economic Support Funds (ESF) in the form of cash transfers, which have totalled $218.0 million from FY 1982 through FY 1987; PL-480 and Section 416 agricultural commodity sales or grants, which have totalled $241.9 million in the same period; and development assistance loans and grants, which have totalled $151.9 million in the same period. In addition, the United States provides the DR with relatively small amounts of military aid and assistance for narcotics control.

Program objectives are achieved through judicious policy conditionality, continuous policy dialogue, and appropriate targeting of resource transfers for particular purposes (as discussed at some length in Chapter IV in the context of ESF programs). The effectiveness of the policy dialogue and policy and project conditionality is enhanced by both the long history of close relations between the United States and the DR and the persistent work of A.I.D. Mission personnel supported by the Embassy, including the involvement of the Ambassador if needed. These factors appear to give A.I.D. programs a degree of influence beyond that which might be expected from the amount of resources involved. This influence is reinforced by effective conditionality, namely, the GODR's awareness that the United States is prepared to interrupt the flow of resources at critical points when key conditions are not being met, as shown at least in the case of ESF cash transfers. The present high level of Dominican acceptance of the policy influence of the A.I.D. program is likely to decline over time, as the Dominican economy becomes more self-reliant and as other sources of resource transfer increase relative to U.S. resources.

Economic Support Funds (ESF)

The ESF cash transfers in dollars represent balance-of-payments assistance in support of stabilization (the short-term component of A.I.D. strategy). The cash transfers are effected simply by depositing the dollar amounts in the Federal Reserve Bank of New York to the account of the BCRD. The GODR agrees that an amount at least equivalent to the transfers will be spent in the year after disbursement to import raw materials, intermediate goods, and capital goods from the United States for private sector industry and agriculture. It also agrees to deposit in a special separate account in the BCRD, within a specified time period after the disbursement of the dollars, the peso equivalent of the U.S. dollar disbursement.[4] The rate of exchange used to determine the amounts of local currency to be deposited is the average rate for imports of goods of the imputed types for the 30-day period following the day the funds are transferred.

The GODR has further agreed to a series of substantive conditions relating to stabilization in return for the cash transfers, and to joint programming of the local currency that is generated by the transfers. The local currency belongs to the DR, but the joint programming agreement permits the United States to maximize its use for A.I.D. program objectives and to apply conditionality effectively.

The FY 1982-84 cash transfers were loans; the FY 1985 and FY 1986 cash transfers were grants. The change from loan to grant was made because the DR's needs were critical and a major breakthrough in exchange rate and stabilization policies seemed possible only in return for grants. Moreover, assumption of new debt requires the approval of the Dominican Congress, which is often hard to obtain.

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4. See the Basic Cash Transfer Grant Agreement of December 26, 1984 and the Memorandum of Understanding on Operational Procedures for the Use of Counterpart. The time within which the pesos should be deposited has varied; for example, it was prescribed as 130 days under the Amendment to the Memorandum of Understanding of December 27, 1985.

Since the inception of the ESF program in the DR in FY 1982, the cash transfers in dollars have accounted for one-third to one-half (and more) of the total A.I.D. program in dollars in the DR, with the exception of FY 1983 and FY 1987. The ratio of ESF cash transfers to the total A.I.D. program in the DR has been as follows: 51 percent in FY 1982; 13 percent in FY 1983; 35 percent in FY 1984; 55 percent in FY 1985; 40 percent in FY 1986; and zero in FY 1987. As explained in Chapter IV, the small ESF allocation in FY 1983 and the zero allocation in FY 1987 reflected special factors. In terms of local currency, ESF local currency generations during FY 1982-86 amounted to 62 percent of the local currency generated under all A.I.D. programs in the DR.

PL-480

The PL-480 program provides balance-of-payments assistance through the transfer of agricultural commodities, as a complement to ESF cash transfers for balance-of-payments support. In the Dominican case, the commodities have been rice, wheat, vegetable oils, and corn. There are two types of PL-480 programs: Title I (loans) and Title II (grants). In addition, agricultural commodities are provided through Section 416 (Sugar Compensation program) of the Agricultural Adjustment Act. The total value of commodities provided under Title I in FY 1982-87 was $149.9 million. These commodities were provided as loans, and local currency is generated from their sale. The local currency deposits must at least be equivalent to the dollar value of the commodities at the world market price, converted into pesos at the going rate of exchange when the commodities are shipped. The deposits may exceed this minimum if the local sale price is higher. The local currencies, which are owned by the DR, are programmed jointly and used to diversify food production, and to some extent to assist in economic stabilization programs. Title I commodity agreements have a series of self-help conditions which relate to A.I.D.'s overall program strategy. The PL-480 Title I local currency is programmed in conjunction with ESF local currency programming.

Under new Section 108, most Title I PL-480 commodities will be sold for U.S.-owned local currency and will be used for the private sector.

The agricultural commodity imports under Section 416 grants began on a small scale in FY 1984 as emergency relief and increased sharply in FY 1987 as compensation for foreign exchange losses which resulted from reduced U.S. quotas for imports of Dominican sugar. Such imports totalled $78.8 million in value from FY 1984 through FY 1987. The local currency proceeds from Section 416 commodities provided in FY 1987 and FY 1988 will be used for sugar diversification activities on former sugar and sugar mill lands.

Title II PL-480 agricultural commodities are provided as grants through private voluntary agencies for low-income families. The total value of commodities provided under Title II PL-480 programs was $13.2 million in FY 1982-86.

The United States is conscious of the production disincentive potential of providing large amounts of food at favorable prices. Wheat is not produced in the DR, but there are partial substitutes such as rice, corn and millet. An obvious question is whether the current level of wheat imports to the DR under PL-480 might discourage domestic production. It is equally obvious that there would be no disincentive impact if the wheat is imported at the international market price and priced in local currency at a market-determined exchange rate. Rice is produced in the DR, and rice has been phased out of the PL-480 program as Dominican production has increased. Dominican production of corn and vegetable oils is limited.

Development Assistance

Development assistance consists of dollar loan and grant funding for projects supporting A.I.D.'s assistance strategy and goals. The loans are normally for foreign exchange costs of equipment and materials. The grants are disbursed to suppliers or contractors who have won competitive bids in connection with duly approved projects. For smaller amounts, they may be disbursed to pay vouchers (for faster disbursement). Projects supported by dollar development assistance are usually also supported by local currencies generated from either ESF or PL-480, or both.

Tables 31 and 32 provide a summary of dollar development assistance by sector in recent fiscal years, and lists of projects with sources of funding for the three principal objectives of increasing agricultural production, strengthening the private sector, and promoting exports.

Local Currency

A.I.D.'s local currency program is funded from PL-480 Title I local currency generations, and from GODR local currency counterparts to ESF loans and grants. The ESF loan and its amendments, the ESF grant and its first two amendments, and the FY 1983-86 Title I programs have provided the equivalent of approximately US$86 million of local currency per year on average -- an amount three times the average size of the development assistance program during the same period. Given its magnitude, the local currency program has become a critical and integral part of the overall U.S. economic assistance program in the DR. The local currency program is very large and diversified. Local currency programs will become more manageable in the future as local currency accumulates under Section 108. The local currency generated under Section 108 will be U.S. property for which the United States will have responsibility, will be quick-disbursing through credit programs (rather than projects) for the agricultural sector channeled through "agent banks," and will not increase the administrative burden on USAID/DR, since only periodic AID reviews will be required.

Projects financed by local currency generally fall within the four categories that the Mission has outlined as its main objectives: economic stabilization, private sector expansion, agricultural diversification, and expansion and improvement of supporting infrastructure. Between FY 1984 and 1986, RD$ 300 million generated by PL-480 was programmed, of which RD$ 158 million has been released. Of this amount, 47 percent was for infrastructure projects, 26 percent for economic stabilization, 3 percent for private sector expansion projects, 5 percent for agricultural diversification, and 19 percent for the other category, which includes the A.I.D. trust fund (used principally to finance A.I.D. operating expenses). In regard to the ESF, more than RD$ 493 million has been programmed between FY 1982 and FY 1986. Of this amount, RD$ 398 million — or 80 percent — has been authorized for release by the Mission. The programmed, authorized, and released amounts of U.S. economic assistance to the DR in local currency are shown in Table 30.

Under the Economic Stabilization category, the principal focus has been on providing shorter term credits, mainly for agriculture, including supporting IBRD and IDB agricultural production credits. Considerable local currency has been programmed under the Private Sector Expansion category for longer term credit programs, tourist infrastructure, agribusiness enterprises, and free trade zone construction and improvement. The programming of local currency under the Agricultural Diversification category has covered part of the GODR counterpart fund requirements of many A.I.D.-financed agriculture projects. The Supporting Infrastructure category has been used principally to finance A.I.D., other donor, and GODR infrastructure projects considered important for support of private sector expansion and agricultural diversification, with small amounts allocated to support PVOs. Lastly, in the Other category, the principal item is the A.I.D. Trust Fund which when established, will be used to support A.I.D. operational expenses as well as finance the cost of a new A.I.D. building in Santo Domingo.

ESF Program

This section undertakes an evaluation of the ESF program by analyzing the advantages and disadvantages of the cash transfer mechanism; the effectiveness of ESF policy conditionality, including A.I.D. policy dialogue with the GODR; coordination with multilateral agencies, particularly the IMF; and linkages of the ESF program with other A.I.D. programs.

Advantages and Disadvantages of Cash Transfers

Cash transfers have three major advantages over commodity transfers and project lending. First, the dollars enter immediately into the country's reserves and can be used for a broad range of imports. Commodities arrive some time after agreements are reached, and the timing of project disbursements is subject to the readiness of projects. Cash transfers are therefore an effective mechanism of providing immediate balance-of-payments support in connection with critical stabilization measures. The success of these measures often depends on rapid additions to foreign exchange reserves in order to maintain the flow of essential imports, to strengthen confidence, and to avoid destabilizing capital flight. Both the necessary political will for stabilization and the success of other external efforts to support stabilization may turn on the ability of A.I.D. and other donors to provide timely infusion of external resources in support of viable stabilization policies. Second, cash transfers immediately generate local currency that may be used for a variety of program purposes. This is not the case with dollar project lending. In the case of commodity transfers, local currency generations may be delayed by the time taken to sell the commodities, or distorted if the commodities are sold below cost. Third, USAID's control over how the local currency is used has given the Mission important leverage in negotiations with the GODR over crucial policy reform areas such as the reduction or elimination of food subsidies, the diversification of CEA lands, and the expansion of the private sector's role in the development and management of free trade zones.

The principal disadvantage of cash transfers is that it is difficult to earmark dollar funds for specific projects,[5] which implies loss of management, accountability, and control that AID missions have over local currency programs.

ESF Policy Conditionality

The ESF cash transfer program, initiated in the DR in 1982, has had multiple and broad-based objectives, such as economic stabilization, private sector expansion, agricultural diversification, and infrastructure support. (For details, see Annex 4.) However, the priority among these objectives was influenced by the persistent macroeconomic disequilibrium generated largely by external factors, which interrupted the self-sustaining growth process in the early 1980s and brought the GODR face to face with difficult macroeconomic

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5. There are some infrequent instances of dollar funds (in U.S. AID programs) being earmarked and "projectized."

policy choices. By 1982, it had become abundantly clear that the attainment of economic stabilization had the highest priority at that time and, more specifically, that major attention had to be focused on fiscal and exchange rate policies which had aggravated the disequilibrium. Hence, the effectiveness of the ESF cash transfer mechanism in the DR must be judged primarily in terms of progress towards economic stabilization. Judged by this criterion, the ESF program has provided crucial support to the GODR in the pursuit of policies designed to attain economic stabilization. Progress has also been made towards the attainment of the other objectives (mentioned above) of the ESF program, which would have been impossible in the absence of progress towards stabilization.

In the Dominican context, AID has, since 1984, given a higher priority to economic stabilization as a necessary condition for the attainment of other ESF program objectives. The success of the ESF cash transfer mechanism in the DR is therefore denoted by the fact it has been the single most important influence in convincing the GODR to maintain stabilization policies in the face of tremendous odds (as in 1984 and 1985), and/or to return to such policies after having been forced to abandon them temporarily (as in 1987). It is safe to say that the ESF program has occupied the center stage in GODR policy formation and has proved to be the major catalyst in nudging the GODR towards maintaining the stabilization effort or in restoring it after an interruption forced by difficulties.

Accordingly, the ESF conditionality basically has been designed to persuade the GODR to maintain stabilization efforts and, in particular, to reduce the budget deficit and to allow a free, market-determined exchange rate to function in an exchange system free of restrictions[6]. For such an exchange system to function effectively, USAID/DR has supported complementary policies to create the right conditions, such as pass-through of the cost of exchange rate adjustments to the state enterprises (such as CDE) and to the ultimate consumer; reduction of the budget deficit of the Central Government and of

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6. Details of the conditions incorporated in each ESF agreement since FY 1982 are included in Annex 3.

the consolidated public sector; monetary restraint and maintenance of positive real interest rates; and prudent external debt management.

In addition to the short-term stabilization component, ESF conditionality also includes a medium-term structural adjustment component, such as higher prices of commodities (petroleum) and increased charges for services of state enterprises (electricity tariffs charged by CDE); gradual elimination of consumption subsidies and state marketing (by limiting operations of parastatals such as INESPRE); removal of controls and restrictions on exports; reduction of the electricity generation costs of CDE; liberalization of controls and restrictions on exports; diversification of sugar lands; and improved access for the private sector to CEA lands.

The ESF for FY 1982 and FY 1983 made hardly any use of policy conditionality -- only provisions for regular GODR-AID consultations on economic recovery and for a GODR letter outlining the economic program. The U.S. Embassy and the USAID Mission were more concerned at that time with helping the DR recover from the severe effects of Hurricanes David and Frederick than in macroeconomic policy reforms. Also the macroeconomic problems had not developed into a full-blown crisis at that time. With new leadership in the U.S. Embassy and the USAID Mission, and as a result of the worsening macroeconomic environment, the ESF programs since FY 1984 contained increasingly severe conditions related to stabilization policies (see Annex 3). The FY 1984 ESF, still in the pre-Kemp Amendment period, made GODR-IMF agreement one of the conditions, but subsequent ESF agreements contained specific conditions formulated by AID staff and made no reference to the IMF.

In the USAID/DR approach to the implementation of ESF policy conditionality since FY 1984 the important elements have been the size of ESF, terms of resource transfer, timing of disbursements, use of sanctions to enforce Conditions Precedent and Covenants, and policy dialogue.

As for the <u>size of the ESF</u>, the year-by-year variations in ESF amounts (see Table 29) show that there has been an effort to tailor the ESF allocations to the magnitude of the adjustment effort being made by the GODR. For example, the large allocations in FY 1982 and FY 1984-85 represented A.I.D. recognition of the GODR adjustment efforts related to the 1983 EFF agreement with the IMF, the adjustment measures taken by the GODR in 1984 and early 1985 as part of the "shadow" program, and the implementation of the 1985 IMF standby agreement. The smaller allocations in FY 1983 and FY 1987 reflected A.I.D.'s displeasure with the "drift" in the GODR's economic policies.

Although it is true that the ESF cannot and should not be used as a "bribe" and that one cannot buy policy change, the "carrot" in the "carrot-and-stick" approach can be effective if properly applied.[7] In the DR, the relatively large size of the cash transfer in the "adjustment years" had an economic justification as well -- to provide resources for essential imports in order to reduce social and political discontent generated by the hardships resulting from the adjustment measures By the same token, the absence of any ESF disbursement in FY 1987 reduced the policy influence of AID in helping correct the erratic policies followed by the GODR in 1987.

As for the terms of the resource transfers, softer terms presumably would provide a greater incentive for policy reforms, based on the logic contained in the preceding paragraph. With this in mind, the ESF cash transfers after FY 1984 were changed from loans to grants, in view of the difficult adjustment policies implemented by the GODR in late 1984 and early 1985. Another reason was that, in view of the political in-fighting in the GODR, the required legislative ratification of external loan agreements was doubtful, since Senate President Majluta had expressed his opposition to President Blanco's policies.

The importance of careful timing of disbursements in order to facilitate difficult policy decisions is brought out in the Dominican case. On the positive side (the decision to go ahead with the disbursement), mention may be made of the two disbursements of the $34 million FY 1984 ESF (in August and September 1984), linked to implementation of the "shadow" program during

7. For an interesting comparison, see USAID/Bangladesh, Evaluation of Rural Finance Project, December 1986, a report written by M. Haris Jafri.

1984, the adoption of the "interim economic program" in August 1984, including the adoption of an "intermediate" exchange rate for oil imports; and the disbursement of the $50 million FY 1985 ESF in December 1984 that paved the way for the exchange unification and other drastic measures of January 1985. The three ESF disbursements totalling $135 million in December 1984, April 1985, and December 1985 enabled the DR to meet the IMF performance criteria with respect to net foreign assets, repayment of external payments arrears, and net domestic assets.

For any foreign donor, the use of sanctions for noncompliance with conditions poses difficult problems. Although sanctions are a last resort, USAID/DR did resort to sanctions on a few carefully selected occasions. A good example of sanctions is the decision of USAID/DR in the first half of 1987 not to sign the ESF agreement for FY 1987 (even though the allocation for the DR had already been made) in the absence of agreement on stabilization (particularly exchange rate) policies. In addition, USAID/DR delayed through administrative action, the disbursement of A.I.D. funds available to the DR under existing agreements. These sanctions had an important bearing on the GODR decision to go back to stabilization policies in November 1987. In another instance, A.I.D. stopped local currency disbursement until the GODR complied with the requirement for making counterpart deposits. An important factor was the Dominican perception that the United States would withhold disbursement in the event of noncompliance.

Policy dialogue constitutes the most important instrument for the implementation of conditionality and makes possible a coordinated use of the four other instruments mentioned above. A.I.D. has an advantage in this respect because of its continuous presence in the country, while donors like the IMF and the IBRD have to rely on periodic missions. This makes it possible for A.I.D. to have a continuous policy dialogue, the effectiveness of which depends on the quality of the Mission's economic analysis, political judgment, personal relations with host country officials, and judicious use of the four other instruments mentioned. Judged by the results since 1984, the performance of USAID/DR (supported by the Embassy, including the active involvement of the Ambassador) has been excellent. The policy dialogue and use of other instruments by A.I.D. contributed meaningfully to the broad-based stabilization efforts in 1984-85 (including the 1985 IMF standby), and the exchange rate and fiscal policy measures of November 1987. The performance may be considered remarkable if one takes into account the drastic nature of the policy reforms, the continuing dissension within the GODR, and the frequent changes in the composition of the Dominican economic team. The influence of USAID programs in the DR in achieving policy reforms represents a high "rate of return" on U.S. "investment" in the DR through its aid programs. For the sake of perspective, however, the DR is a special case with a long, close relationship with the United States.

The ESF allocation for the DR for FY 1987 is shown as zero in Table 29. An ESF allocation of $19.8 million was originally programmed for FY 1987. The negotiations between USAID/DR and the GODR regarding the conditionality for the FY 1987 ESF broke down in June 1987, because the GODR was unwilling to commit itself to a market-determined exchange rate policy. Later, $6 million of the $19.8 million was reprogrammed by A.I.D. for other uses. After GODR fiscal and exchange rate policy measures of November 1987 (see Chapter II) showed that stabilization efforts were back on track, USAID/DR recommended the restoration of the remaining FY 1987 ESF allocation of $13.8 million. This recommendation has been approved by A.I.D./W. In retrospect, it is clear that the absence of ESF disbursement in FY 1987 and the dim prospects for ESF allocation in FT 1988 made it difficult for the USAID Mission to influence the course of policies in 1987.

For FY 1988, a significant reduction in the tentative allocation of $35 million (see Table 29) is expected. In fact, no FY 1988 ESF allocation has been approved so far (March 1988) to the DR or any other Caribbean country. In view of the considerations mentioned above regarding the size of the ESF allocation, it is important that a substantial ESF allocation for the DR be approved for FY 1988, since the GODR has taken important policy measures and plans other measures to achieve stabilization (see Chapter II). On the basis of these policy measures, it is likely that a GODR request for a standby arrangement would be approved by the IMF, which would make possible a rescheduling of the external debt owed to the Paris Club and commercial banks. Hence, one may visualize a scenario in which a substantial ESF allocation in FY 1988 (when it is sorely needed) would make possible a phaseout, in the foreseeable future, of the ESF program to support short-run stabilization and its replacement by one directed to medium-term structural adjustment.

Coordination with Other Donors

The objectives of the stabilization policy component, which constitutes the basic thrust of ESF conditionality, are consistent with the objectives of the policy mix incorporated in IMF standby and EFF programs. While AID and IMF have developed their own conditionality independendently of each other,their conditionality has been consistent and mutually supportive because of the harmony among their objectives. The successful implementation of ESF conditionality necessarily involves close coordination with the stabilization and adjustment policies supported by the IMF. For example, the intensive and continuous A.I.D. policy dialogue with the GODR was a major contributory factor to the 1985 standby agreement and the large and timely infusions of ESF cash transfers enabled the DR to stay in compliance with the IMF performance criteria.

A.I.D. and IMF policy coordination in the DR has been close. Although some contact has been maintained between A.I.D. and the IMF in Washington at the headquarters level, policy coordination in a real sense has been achieved in the field between USAID/DR and visiting IMF missions. The conclusion of an EFF agreement between the IMF and the DR was facilitated to some extent by the A.I.D. policy dialogue with the GODR and the FY 1982 ESF. However, it can be stated categorically that the more active and effective policy role of USAID/DR during 1984-85 was crucial to the conclusion of the 1985 IMF standby agreement as well as to the successful implementation of the stabilization program. This was due to a number of factors, such as: the change in the leadership of the U.S. Mission in the DR (both the Embassy and USAID/DR); the willingness of the Mission not only to make ESF conditional on acceptable macroeconomic performance (see Annex 3), but to implement such conditionality effectively through a coordinated use of the instruments available; the relatively large size of the EFF during 1984-85; the Dominican perception that the United States would withhold disbursement in the event of noncompliance; and the careful timing of the disbursements to facilitate difficult policy decisions, for example, the disbursements of August and September 1984. Furthermore, without the three ESF disbursements of December 1984, April 1985, and December 1985, it is doubtful that the GODR would have adopted the necessary measures that led to the conclusion of the IMF standby agreement in April 1985, or that the DR would have been able to comply with the standby performance criteria for net foreign assets, repayment of external payments arrears, and net domestic assets (see Chapter IV).

During 1987 and 1988, USAID/DR has maintained its policy dialogue with the GODR and its contact and coordination with the IMF, even though no IMF standby agreement has been in effect since April 1986, and there was no ESF allocation in FY 1987. The conditionality proposed by USAID/DR for the ESF for FY 1987 (which the GODR rejected in April 1987) was consistent with the IMF approach. The persistent efforts of USAID/DR, even in the absence of ESF disbursements, have greatly influenced the GODR exchange rate and fiscal policy decisions since November 1987, which show the resumption of stabilization efforts (see Chapters II and IV).

While the coordination between A.I.D. and the IMF in the DR has thus been exceptionally close, the timing and magnitude of the local currency expenditures under A.I.D. programs occasionally led to some conflict between the two. For example, in 1985, the BCRD "sterilized" some of the A.I.D. counterpart funds <u>without prior consultation with A.I.D.</u>, in order to stay within the IMF credit ceilings. As a matter of principle, USAID/DR objected to this event; consequently, the GODR agreed to avoid any restriction on local currency disbursement "without prior consultation with and written approval of the U.S. Mission" (see Chapter IV). In actual practice, USAID/DR did not have much difficulty in adjusting local currency disbursement to the requirements of monetary stabilization — a goal it shared with the IMF.[8]

There has not been any significant policy coordination in the DR between A.I.D. and donors other than the IMF (such as the IBRD, IDB, Paris Club, bilateral official donors, and commercial banks), because the operations of these donors have not had much direct impact on GODR stabilization and structural adjustment policies. In many developing countries, the IBRD exerts a strong influence on structural adjustment policies. However, the IBRD's influence on GODR policies has been rather weak in recent years, because of the small size of its net lending to the DR since 1983 and, in particular, because of net repayment flow from the DR to the IBRD in 1986-87. Also, the IBRD policy role in the DR has been constrained by the fact that it has made no SAL or sectoral adjustment loan or other quick-disbursing loan for balance-of-payments support. However, broadly speaking, the active role of USAID/DR with respect to structural adjustment policies has supported the IBRD, because there are many common elements between the A.I.D. strategy in the DR and that of the IBRD.

Although the IDB has been a large lender to the DR in recent years, it has followed its normal practice of refraining from imposing conditions related to stabilization or structural adjustment policies. The linkage by the Paris Club and commercial banks of their debt rescheduling to the IMF standby agreement has, in effect, led to some policy coordination between them and A.I.D. The bilateral official creditors (other than the United States) have not required policy conditionality. One important mechanism of coordination used by USAID/DR has been to provide the funding of the local currency counterpart for loans made to the DR by the IBRD, IDB, and other donors.

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8. For a discussion of the conceptual aspects of reconciling local currency disbursements with monetary stabilization, see AAO/Mozambique, Policy Strategy for Utilization of Local Currency Deposits, a report written by M. Haris Jafri.

Linkages with Other A.I.D. Programs

This section deals with the degree to which the diverse A.I.D. programs -- PL-480 Title I, Section 416, and ESF -- complement each other. Since the primary thrust of this study is an evaluation of the efficacy of ESF -- both in terms of assisting the GODR in reaching a level of sustained economic growth and in terms of A.I.D.'s ongoing policy dialogue impact -- PL-480 Title II, which has traditionally been a grant program intended for health and social welfare programs (and not economic development as such), will not be addressed.

Complementarity Among Programs

There is considerable complementarity among PL-480 Title I, Section 416, and ESF-funded projects. On the macroeconomic level, all three programs provide, either directly or indirectly, balance-of-payments support. With the PL-480 and S.416 programs there is no cash transfer; the balance-of-payments support is indirect and takes the form of a commodity transfer. The GODR imports commodities from the United States as a loan, thereby saving foreign exchange that the DR would otherwise have spent on these imports. In comparison, ESF cash transfers provide direct balance-of-payments support. The GODR is required to use the dollars to purchase machinery, spare parts, and intermediate goods from the United States.

The programs differ in the area of local currency generation. Under the PL-480 program, local currency is generated from the sale of commodities in the DR. With ESF, the GODR is obligated to deposit in pesos an amount equivalent to the cash transfer; the source of the pesos is immaterial.

The issue of complementarity is most evident in the programming of the local currency that each program generates. Sectors are specified to which these counterpart funds must be allocated; PL-480 Title I local currency is supposed to be programmed for rural development and ESF local currency is intended for private sector expansion. Local currency generated under the recently initiated Section 416 agreements is programmed almost exclusively for sugar land diversification and related activities since the assistance is provided as compensation for the reduction in the U.S. sugar quota.

Many projects, however, defy simple classification as a rural development or private sector expansion project. An example might be the construction of an artery linking a free-trade zone with a highway. A farm-to-market road could clearly be construed as rural development, but in this case also aids in private sector expansion. So although there are three discrete local currency accounts and the funds in each are treated accordingly, to the extent that many projects cannot be neatly categorized, local currency funds are treated as a pool for funding projects which fall within the scope of the Mission's objectives. A case in point is the ongoing rural savings mobilization project which is being funded by local currency generated under both PL-480 (FY 1984-86) and ESF (FY 1986). The project cannot be strictly classified as either rural development or private sector expansion but is a prerequisite for both.

It is evident that USAID/DR has been prudent in supporting only those projects which dovetail with the objectives outlined in the FY 1987 CDSS. The objectives may be broadly stated as follows:

- Providing funding for projects that aid in the economic stabilization process
- Promoting the expansion of the nontraditional export base through increased private investment
- Assisting in the diversification of the agricultural sector into nontraditional crops with foreign exchange earnings potential

Of the local currency available for programming from ESF FY 1982-86, nearly 43 percent has been allocated to private sector expansion. Local currency generated from PL-480 FY 1984-86 has been geared principally toward infrastructure improvement. Only 5 percent has been allotted for agricultural diversification. This is one area where the Mission intends to focus more of its attention and its resources. The major obstacle facing the Mission in this regard is the reluctance of CEA to relinquish control of sugar lands.

Although CEA is cautiously receptive to the notion of diversification, the Mission has had limited success in persuading it to allow private sector participation in the process.

The Mission has had success in agricultural diversification using S.416 counterpart funds. Virtually all the Section 416 local currency has been programmed for agricultural diversification. The two agreements are expected to yield approximately RD$ 248 million to be used in programs whose principal aim is to alleviate the financial and economic stress associated with reduction of the U.S. sugar quota for the DR and with the collapse of world sugar prices. To this end, roughly RD$ 15.16 million has been authorized for release for a credit extension program to small farmers in areas affected by sugar mill closings; another RD$ 11.6 million has been apportioned as credit for agricultural production for agrarian reform beneficiaries; and roughly RD$ 8.7 million has been allocated to support the Agri-business Division of the State Sugar Council.

The largest portion of local funds generated under PL-480 FY 1984-86 and ESF FY 1982-86, nearly 38 percent, has been programmed for infrastructure support. Of this amount, more than 35 percent has been allotted for the construction or rehabilitation of ports, rural roads, and highways; more than 20 percent to the improvement of irrigation systems; and more than 22 percent for the rehabilitation of existing electricity systems. These projects clearly do not fall under the heading of either agricultural diversification or private sector expansion but are nonetheless essential to facilitate such diversification and expansion.

Agricultural Sector Program

Two of the A.I.D. Mission's principal strategy goals are rapid diversification of the agricultural sector into nontraditional crops with foreign exchange earning potential, and expanded private investment in both the industrial and agricultural sectors. Associated objectives are increased agricultural production and promotion of exports.

The stabilization goal, which is the primary focus of ESF cash transfers, is a primary means of promoting increased agricultural production and exports in nontraditional crops. A market-determined exchange rate is the single most important factor in promoting exports. Reduced inflation encourages savings and long-term productive investment. And rational pricing of food products, which in turn promotes domestic production, is an important factor in reducing public sector deficits. Thus, the ESF conditionality contributes directly to the achievement of the A.I.D. Mission's agricultural goals and has, in fact, been included in the self-help targets of PL-480 programs since 1985. (See Annex B of the PL-480 agreements covering 1985 and 1986.) Furthermore, the December 21, 1984 ESF agreement called for pricing the services of public enterprises at current costs, and reducing the deficit of the price stabilization institute (INESPRE). FY 1986 ESF conditionality went further in areas affecting non-traditional agricultural production and exports by calling for

- The removal of the 5 percent exchange tax on non-traditional exports
- A significant reduction of the 36 percent surcharge on traditional exports
- The development and publishing of objective procedures governing restrictions on export products
- Increased access to state sugar lands by private investors
- A study on which to base national sugar policy and diversification

All of these five points have since been complied with. In 1986 the GODR leased 20,000 hectares of sugar lands to private investors. The GODR has removed INESPRE from functions related to marketing rice and other basic food commodities, and has eliminated the consumer subsidy on rice.

A.I.D.'s project lending in the agricultural sector supports the principal objectives of increased non-traditional production and exports by channeling increased credits for this type of production and for diversification of sugar lands. Agricultural sector projects also provide funds for natural resources management, on-farm water management — with particular focus on local organizations in both cases — and dairy development, and agriculture export promotion. These projects add to A.I.D.'s ability to enter into effective agricultural policy dialogue. That dialogue is further strengthened through funding of an agricultural policy research unit that has already made constructive recommendations on rice and milk marketing to the national agricultural council.

Private Manufacturing Sector Program

The A.I.D. Mission's objective of a strengthened private sector cuts across both the agricultural and industrial sectors. The Mission thus far has done more in the agricultural sector in terms of both investment of resources and results, as described above.

The Mission's principal programs and projects affecting the private manufacturing sector at this time are the provision of some $50 million equivalent in export-oriented agri-business credit, infrastructure support for free zone development, strengthening of investment and export promotion institutions, promotion of microenterprise development, promotion of a debt-equity swaps program, and policy dialogue on regulatory and procedural reforms. Free trade zone progress has been spectacular, particularly in the sewing and re-export of textiles. Other manufacturing is expected to develop in the free trade zones. In 1986 alone, an estimated 12,000 new jobs were created in the free trade zones. Progress has also been made in agri-business and small industry and microenterprises, with an estimated 4,700 new jobs created in 1986. Policy dialogue has led to the resolution of a dispute between OPIC and the DR and the resumption of OPIC investment guarantee, insurance, and loan programs in the country. The Investment Promotion Council and the Joint Agricultural Consultative Committee have been established to provide informational, promotional, and advisory services relating to investment and export.

As in the case of the objectives of increased nontraditional agricultural production and exports, successful stabilization measures promoted by ESF cash transfers are likely to be the single most significant set of actions promoting increased private sector manufactures and exports over the long term. A realistic exchange rate, promotion of savings and investment through reduced inflation, and reduced public sector demands on savings all are boons to rational allocation of resources to private manufacturing.

Two major areas of macroeconomic policy relative to increased private sector manufacturing and exports have not yet been addressed: overall tax policy and tariff policy. An effective tax and tariff policy reform could orient investment toward the most competitive products, eliminate distortionary and wasteful subsidized import substitution, and still maintain an adequate base. This theme is emphasized in the IBRD's January 21, 1987 report No. 5965-00, The Dominican Republic: An Agenda for Reform. It may be possible for USAID/DR to play a valuable role in this area with its ESF cash transfer and local currency resources in coordination with and support of the IBRD. The A.I.D. Mission has a strong role with regard to large and increasing amounts of local currency. Currently, very little of this local currency is going for manufacturing. In the future, more might be channeled to manufacturing through an intermediate credit institution, such as FIDE, in support of tax and tariff reform to promote competitive industry.

Energy Sector Program

Energy is a special issue in the DR because of increasingly severe power shortages due largely to the inefficiency of the Dominican Electric Company (CDE). The CDE provides inadequate and unreliable power while incurring large financial losses. Its financial losses are major contributors to the public sector deficits. CDE's principal current problems are neither lack of capacity nor low rates, although improvements in both capacity and rate structure doubtless will be needed over time. The greatest problems are the results of poor management of existing facilities in terms of maintenance, inventory control, bill collection, avoidance of theft, accounting, budgeting, and operations control. One of the results of CDE's poor performance is the costly installation of small private generators for individual businesses.

The seriousness of the energy problem is widely recognized. Many donors stand ready to assist; however, there is no consensus on how best to assist.

A.I.D. has provided some emergency rehabilitation assistance for boilers and generators, financing for a pilot energy project, and planning assistance. A.I.D. has also lent floating power plants, while pressing both for improved financial management, and for the development of a preventive maintenance program. A.I.D. is also promoting the concept of privatization of at least part of the electric power system, beginning with discrete commercial users such as free zones and commercial centers. Westinghouse is exploring the possibility of joining some Dominican investors in Santiago and in the northern part of the country for private power development.

Japan, Germany, and Italy are also interested in energy projects. Japan signed an agreement to finance a $60 million hydroelectric project near La Vega a year and a half ago, but the Dominican Congress has not approved the project. Germany has financed some sub-stations in the eastern part of the country, and is in a position to provide technical assistance. Italy is considering offering financing for a thermal electric plant near Baraona, and technical assistance in management, training, and collection procedures from ENEN of Italy to CDE.

Meanwhile, the IBRD is nearing completion of a major project proposal for management assistance and rehabilitation of the CDE's activities in Santo Domingo. The IBRD believes the major issues are management and maintenance, not new capacity, and that when new capacity is needed, thermal, not hydroelectric, power should be installed.

CDE's problems relate to ESF conditionality and stabilization primarily through the financial impact of CDE's deficit, and the effect of CDE's inefficiencies on production and competitiveness. Thus, improvement of CDE's operations is of prime economic importance. It is necessary to assess priorities and the appropriate roles of the foreign governments and international agencies interested in the power issue.

Contribution of Cash Transfers to Policy Reform Programs and to Economic Development

It is clear from the discussion in the preceding chapters that the allocation and disbursement of cash transfers under ESF programs have made a positive contribution to the adoption and implementation of policy reform programs in the DR. These policy reforms have covered stabilization policies, including market-determined exchange rates, reduction of public sector deficits, monetary restraint, and positive real interest rates; diversification and privatization of sugar lands; liberalization of controls and restrictions on exports; rural savings mobilization; improvement in institutional and financial performance of state enterprises, such as the CDE; and reduction of consumption subsidies by limiting the role of INESPRE. In fact, it would be safe to affirm that the GODR's pursuit of stabilization policies from mid-1984 to mid-1986 and again towards the end of 1987 would not have been possible without continuous USAID/DR support through policy dialogue and judicious timing of disbursements of substantial cash transfers under ESF agreements.

The contribution of cash transfers to the economic development of the DR has been substantial. The more important contribution has been indirect; cash transfers have made possible the adoption and implementation of stabilization policies and other policy reforms which, in turn, led to economic recovery by removing or ameliorating the impediments to economic development. There is ample evidence from the experience of the DR and other LDCs that economic growth suffers under conditions of persistently high inflation and recurrent balance-of-payments crises, and that sustained stabilization policies lead to accelerated growth after an initial pause or contraction. The direct contribution of cash transfers has been through the infusion of dollars, which augments Dominican purchasing power over external goods and services.

The validity of this proposition is shown by the fact that the growth in real GDP (see Table 1) slowed down in 1982, mainly because of financial imbalances and foreign exchange constraint. Real GDP made a temporary recovery in 1983, largely reflecting greater foreign exchange availability as a result of the ESF, the EFF, and the commercial bank debt rescheduling. The slow growth during 1984-86 reflected the initial pause or contraction resulting from the stabilization policies, aggravated by poor agricultural performance under adverse weather conditions (particularly in 1985). Real GDP resumed growth in 1987. More significant is the increase in agricultural exports from $36 million in 1984 to an estimated $61 million in 1987; the increase in industrial exports (mostly nontraditional) from $83 million in 1985 to an estimated $136 million in 1987; and the increase in value added in nontraditional agriculture of an estimated 4.6 percent in 1987.[9]

From the above discussion, it is clear that, while there was an unavoidable social cost of adjustment policies during the transition period, the resumption of economic growth on a sustainable basis as a result of cash transfers has stimulated exports and agricultural production, and has promoted equity by benefiting the rural, relatively poor, population, including women. The resources provided by ESF have facilitated "adjustment with growth."

For the sake of perspective, it is important to enter a caveat here, which is related not to the usual stabilization versus growth dilemma, but to the problem of the "high debt" countries such as the DR. In spite of the best efforts of the U.S. government (following the approach of the Baker Plan), the IMF, the IBRD, and the Paris Club, the "high debt" countries have not succeeded in attaining acceptable growth rates while maintaining contractual debt service. Various innovative approaches to this problem are being studied in the U.S. government, the U.S. Congress, IMF, IBRD, and academic community. The crux of the problem, namely, the adverse effect of the debt service burden on economic growth and social welfare in "high debt" countries, remains unresolved. This is evident from the proceedings of an international symposium on the subject, with the participation of A.I.D., the IBRD, and the African Development Bank, held in Khartoum in March 1988.

9. Data provided by USAID/DR/PRG/ECON.

Implementation and Management of Cash Transfers

The following implementation and management issues related to cash transfers merit consideration.

ESF Program Monitoring

Monitoring of the ESF program falls into two broad areas: stabilization/structural reform components of the policy dialogue and the local currency program. Since the Mission sets quantifiable targets for such things as money supply growth, credit to the public sector, and fiscal deficits, and these variables are published monthly by the BCRD, progress on these reforms is fairly easy to gauge. USAID sets performance benchmarks for structural reform; these benchmarks include the amount of CEA lands that must be utilized for crops other than sugarcane, and the growth of nontraditional exports. Monitoring performance in these areas is fairly straightforward. But some areas of structural reform are more qualitative than qualitative, such as improvement in tax administration or tariff reforms, and are more difficult to monitor.

LC Program Monitoring

To enable USAID/DR to oversee effectively the large local currency program that has developed over the past four years, two new entities have been created.[10] On the GODR side, a Local Currency Coordinating Unit has been created within the Technical Secretariat of the Presidency (TSP). This unit, under the guidance of the Technical Secretary, is charged with monitoring the execution of the local currency program, reporting to the USAID on program progress, and accounting for all local currency program funds utilized. This unit is composed of three divisions — Projects, Accounting and Audit, and Title I Sales — which have a total staff of 27

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10. The description of the institutional structure for local currency program monitoring is based largely on USAID/DR, FY 1988-89 Action Plan, March 1987.

including 20 professionals. Given the increasing number of projects financed under the local currency program, additional audit personnel will soon be required. These people, as is the case with the current staff, will be hired under contracts financed from local currency program proceeds.

On the USAID side, a Local Currency Coordinating Division has been created within the Capital Resources Development Office. This division is presently composed of three people and is charged with coordinating local currency matters within USAID and between USAID and the Coordinating Unit in TSP. More specific this division manages the local currency programming process and the review of project profiles submitted by the GODR for USAID approval and financing with local currency. This division works closely with the USAID Technical Divisions to oversee the implementation of the local currency program by undertaking site visits, and initiating audits and evaluations of projects or activities as the need arises. Because of the size of the program and the added responsibilities associated with the new Section 416 program, an additional, local hire, PSC local currency specialist is being recruited.

The GODR has identified a basic institutional structure for handling the local currency proceeds under the Section 416 program. The Local Currency Coordinating Unit within TSP will administer this local currency much as it now does for the ongoing Local Currency Program. It will manage the basic programming process, review and process specific requests for uses of this local currency, and insure accountability of funds. Once reviewed by the TSP, the basic programming of local currency as well as specific project requests will be sent to a Sugar Diversification Council, made up of the country's public and private sector sugar producers, for final approval. Once final approval has been given to project requests, the local currency will be disbursed from a Special Account in the BCRD for project purposes.

Relationship Between the Level of Disbursements of Local Currencies and Monetary Targets

At one point, local currency releases for agreed-upon projects were held up by the GODR without consultation with A.I.D., because of IMF concern over the monetary effect of such releases. USAID and Dominican authorities subsequently agreed that this would not recur, and language conveying that understanding was included in Amendment No. 1 of December 27, 1985 to the Letter of Understanding of December 26, 1984. That language reads as follows:

> The Government of the DR commits itself...not to agree with third parties or reach any understanding that restricts the use or disbursement of said local currency without prior consultation with and written approval of the United States Mission.

Delays in Counterpart Deposits by the DR

Delays in making counterpart deposits by the GODR (as specified in the relevant agreements) have occurred for both ESF (see Table 33) and PL-480. Delays for ESF are difficult to understand since ESF deposits require a simple BCRD accounting operation. All but 19,400,000 pesos in ESF local currency counterpart deposits have now been made. The delays in the PL-480 counterpart deposits may occur for more understandable reasons such as Dominican pricing of flour for sale below cost. These delays have been taken seriously by USAID/DR and the issue has been raised with the GODR.

Slowness of Disbursement by the DR

For bureaucratic reasons, the DR frequently delays disbursement of funds released by the A.I.D. Mission. Efforts to improve procedures continue, but these efforts have not yet yielded satisfactory results.

As one part of the effort to speed up disbursements, the A.I.D. Mission has now begun to move some funds through a special private sector inactive account with the Banco de Reservas, instead of through FIDE. This, however, creates a problem of monetary management, because the Banco de Reservas can use the local currency deposits as reserves, thereby expanding its supply of available credit.

Management Oversight of Multiple Channels and Projects

The A.I.D. Mission recognizes the need to limit projects, and a draft internal order calls for a reduction of the number of individual projects funded with local currency. The current intention is to use block assignment for credit programs and allocation to the central government budget for infrasturcture.

Accumulation of Unreleased Local Currency

The A.I.D. Mission has done extremely well in programming virtually all local currency as it becomes available and in releasing to Dominican authorities about 75 percent of that which has been generated thus far (see Table 30). The unreleased accumulation had become rather large by FY 1986 but it has since been greatly reduced, because there has been no new ESF disbursement since 1986. As explained in the early part of this Chapter under "Local Currency," the large amount of local currency expected to be generated by the sale of Section 416 imports will not add to the accumulation, because it will be quick-disbursing through credit programs. In fact, at this time, there is a shortage of non-credit type of local currency for projects. For the sake of precision, it may be stated that, while there is no problem of accumulation of unreleased local currency at this time, there is a substantial accumulation of programmed (released) but undisbursed local currency.

Division of Local Currency Uses Between the Public Sector and the Private Sector

The A.I.D. Mission does not have summary figures on amounts of local currency that have been released to the public sector and amounts released to the private sector, in part because of definitional issues. The Mission has, at different times, endeavored to achieve either 60/40 or 50/50 splits between the private sector and the public sector. The GODR has normally pressed for larger percentages for the public sector, but has seemed willing to count local currency channeled through the Agricultural Bank, for instance, as public sector currency, even though end recipients were private sector borrowers. U.S. leverage on this issue is limited because most local currency generations have been owned by the DR until the advent of Section 108. Nevertheless, there are strong policy arguments behind the A.I.D. Mission's approved strategy to provide a higher percentage of local currency to the private sector. One possibility in this regard would be a new credit program through FIDE for small and medium industry. Such a program might be associated with tariff and tax reforms to increase competitiveness.

V. CONCLUSIONS AND RECOMMENDATIONS

Policy Issues

The cash transfer program under the ESF is not the only, nor even the principal, source of special balance-of-payments assistance to the DR. Other sources include U.S. agricultural commodity transfers, debt restructuring, IMF standbys and EFFs, and Mexican and Venezuelan loans for 20 percent of the value of petroleum shipments under the San Jose accord. The major advantage of cash transfers, which outweighs the disadvantages, is that they can provide immediate balance-of-payments assistance, if so desired, in support of policy reform programs, and thus give the A.I.D. Missions important leverage in negotiations to achieve policy reform. It is recommended that cash transfers continue to be used in the context of policy reform, with appropriate conditionality.

The priority given in the ESF program to stabilization efforts, and particularly to the functioning of a market-determined exchange rate in an exchange system free of restrictions, has been appropriate in the economic conditions prevailing in the DR. However, it is recommended that, as the short-term stabilization policies firmly take hold, USAID/DR should consider shifting the emphasis of future ESF programs (beyond FY 1989) towards medium-term policies such as tax reform to stimulate export-oriented production and investment, and tariff reform to liberalize the international trade of the DR in order to promote efficiency in domestic production.

The implementation of ESF conditionality by USAID/DR has been highly successful, because of effective policy dialogue, good political judgment, and judicious use of available instruments. This performance is remarkable, when one considers that the policy reforms implemented were drastic and that there were serious dissensions within the GODR and frequent changes in the economic team during 1984-85.

The five elements that contributed to this success are size of the ESF, terms of resource transfer, timing of disbursements, use of sanctions to enforce Conditions Precedent and Covenants, and policy dialogue. USAID/DR has made a deliberate and systematic effort to make a coordinated use of these elements. For example, it has tailored the size of the ESF allocations to the magnitude and severity of the GODR adjustment effort, so as to cushion the impact. It has provided the ESF on softer terms since 1984 because of the difficult adjustment policies being implemented. USAID/DR has let the timing of disbursements be determined by policy considerations, by making faster disbursements to "lubricate" the GODR decision making for policy reforms and slowing down or withholding disbursements in the event of policy "drift" or inaction. It has used sanctions sparingly, so that the Dominican authorities know that sanctions can be used but only as a last resort. Most important, it has conducted a continuous and effective policy dialogue in order to assist the GODR in pursuing sound macroeconomic policies, using an appropriate combination of firmness of resolve and understanding for the problems encountered by the GODR in the implementation of these policies.

The key factors have been willingness to withhold cash transfers when main conditions were not being met, willingness and ability to provide immediate cash transfers in critical amounts and timely fashion in support of stabilization measures, and effective policy dialogue. It is recommended that USAID/DR continue its present approach to the implementation of ESF conditionality. In this context, it is also recommended that a substantial ESF allocation be programmed for FY 1988 and FY 1989 (to the extent permitted by the U.S. budgetary constraints) to support the adjustment efforts that the GODR resumed in November 1987.

The U.S. cash transfer programs have had positive policy effects out of proportion to their size, because of the strong tradition of U.S. involvement in the DR, the prestige in which it is held there, and the Dominican perception of the influence that the United States can exert in other forums such as the IMF and the Paris Club. Other reasons for the positive effects are the continual contacts and policy dialogue between the A.I.D. Mission and the Dominican authorities; and the excellent coordination of cash transfers with commodity transfers with IMF programs in terms of conditionality. Continued use of the cash transfer mechanism with appropriate conditionality is recommended for the time being, particularly because the Dominican authorities still rely on policy dialogue with the United States and look to the United States for support. It must be pointed out, however, that Dominican dependence on the United States is likely to decline over time, with the growing economic and political maturity of the DR.

Given the compatibility among their objectives with respect to stabilization policies in the DR, the close coordination between A.I.D. and the IMF has proved effective, particularly since 1984. While AID and IMF have developed their own conditionality independently of each other, their conditionality has been consistent and mutually supportive because of shared objectives. Such coordination has taken the form of continuing consultation and ESF disbursements timed to provide incentive for specific GODR policy actions and to facilitate compliance with IMF standby ceilings. Friction between A.I.D. and the IMF on the magnitude and timing of local currency disbursements has generally been avoided. It is recommended that, the coordination between A.I.D. and the IMF be maintained as described above. It is further recommended that, in USAID/DR programming of local currency disbursements, the impact on monetary aggregates be taken into account, in addition to project requirements.

Although the IBRD has made broad-based recommendations regarding development policies in the DR, it has played a rather passive role with respect to the adoption and implementation of structural adjustment policies. It is recommended that A.I.D. explore with the IBRD and the GODR the possibility of establishing a consultative group for the DR, of the type organized by the IBRD in Colombia and several other countries, and in the context of Caribbean regional association. It is further recommended that USAID/DR portray the advantages of such an association in order to overcome known GODR reluctance.

By way of collaboration with the IBRD, IDB, and bilateral official lenders, USAID/DR provides of local currency counterpart funds for the projects financed by them. It is recommended that USAID/DR continue this practice.

Through its cash and commodity transfer programs, its local currency programming, and its project assistance, AID has also promoted price liberalization for agricultural products, availability of sugar lands for alternative production, diversification of exports, and a greater role for the private sector. There is considerable complementarity among projects funded by ESF, PL 480 Title I, and Section 416. It is recommended that the effective coordination among the various USAID/DR programs be continued and that the complementarity of these programs be reinforced.

The Dominican Electric Power Company (CDE) is the state enterprise with major problems. Its inefficiency adversely affects both public sector fiscal balance, and manufacturing and service sector productivity. The World Bank, the Inter-American Bank, the U.S. government, and the Japanese, Italian, German, Mexican, and Venezuelan governments are all interested in the Dominican energy problem. Each has a somewhat different approach. It is recommended that USAID/DR take the lead in terms of conceptual and programming coordination, since energy shortages have become the most serious constraint on the economic development of the DR.

ESF cash transfers have made a positive contribution to the adoption and implementation of policy reform programs in the DR. These policy reforms have covered stabilization as well as structural adjustment policies. The structural policy agenda includes diversification and privatization of sugar lands; liberalization of controls and restrictions on exports; rural savings mobilization; improvement in institutional and financial performance of state enterprises, such as the CDE; and reduction of consumption subsidies by limiting the role of INESPRE. The contribution of cash transfers to the economic development of the DR has been substantial—directly through the infusion of foreign exchange and indirectly in the sense of removal or lessening of impediments to economic development through policy reforms. While there was an unavoidable social cost of adjustment policies during the transition period, the resumption of economic growth on a sustainable basis as a result of cash transfers has stimulated exports and agricultural production and has promoted equity by benefiting the rural, relatively poor population, including women.

Implementation and Management Issues

The cash transfer program in the DR has been well managed with a clear sense of purpose, even though the local currency programs for which the A.I.D. Mission has either joint or sole programming responsibility are large and diverse. A strong effort has been made by the A.I.D. Mission to manage them well. It is recommended that the Mission should continue its efforts to streamline the monitoring of projects and programs.

The monitoring of the ESF cash transfers in dollars has been relatively simple because the stabilization and structural reform components contain quantifiable targets. No change is recommended.

The local currency program has become very large and diverse and its monitoring has proved to be difficult. It has necessitated the creation of monitoring units within USAID/DR as well as the GODR. The system is working satisfactorily. No change is recommended, except to support USAID/DR efforts to consolidate projects and programs for the sake of administrative simplification.

USAID/DR has taken a serious view of delays in making counterpart deposits (as specified in the relevant agreements) and raised the issue with the GODR. No change is recommended.

The slowness of disbursements by the GODR of funds released by USAID/DR, because of bureaucratic problems and not for reasons of monetary management, has interfered with the rhythm of project implementation. It is recommended that USAID/DR continue its efforts to reduce these delays.

It has proved difficult in practice for USAID/DR to fulfill its target of 60-40 allocation between the private sector and the public sector, because of sustained pressures from the GODR for larger percentages in favor of the public sector. It is recommended that USAID/DR exert strong efforts to attain the 60-40 ratio in favor of the private sector over a reasonable period.

STATISTICAL TABLES

62

Table 1. Dominican Republic: Selected Economic and Financial Indicators, 1980-88

	1980	1981	1982	1983	1984	1985	Prel. 1986	Est. 1987	Proj. 1988
	(Annual percentage changes, unless otherwise specified)								
National income and prices									
GDP at constant prices	6.1	3.9	1.2	4.0	0.4	-2.2	1.0	2.4	5.0
GDP at current market prices	--	9.6	9.8	7.4	24.8	35.6	11.0	17.7	20.8
GDP deflator	13.8	5.4	8.0	3.3	24.4	38.6	9.9	15.0	15.0
Consumer prices (average)	16.8	7.5	7.6	7.0	24.6	37.5	9.7	15.0	15.0
External sector (on the basis of U.S. dollars)									
Exports, f.o.b.	10.7	23.5	-35.4	2.3	10.6	-14.9	-2.3	5.3	2.8
Imports, f.o.b.	33.6	-4.5	-13.4	1.0	-2.0	2.3	-1.5	8.2	2.7
Export volume	-17.6	10.9	-25.7	-1.4	5.3	-11.4	-6.7	-2.3	2.2
Import volume	21.7	-10.0	-14.6	2.2	-6.6	-1.5	12.4	-1.2	1.0
Terms of trade (deterioration -)	22.5	5.0	-14.1	3.8	--	-7.5	19.5	0.8	-0.2
Effective exchange rate[a]									
Nominal	1.1	4.2	-3.1	-10.6	-43.3	-1.3	-17.1	--	--
Real	3.3	0.8	-1.8	-10.4	-24.6	12.6	-15.0	--	--
Central Government									
Revenue	29.0	3.9	-18.5	22.4	30.1	85.6	2.3	26.8	16.5
Expenditure	8.4	2.7	-9.7	17.0	12.5	83.0	6.6	1.0	14.8
Money and credit[b]									
Net domestic assets[c]	24.8	36.1	45.7	36.8	22.4	-3.8	45.0	15.0	14.3
Of which:									
Public sector credit (net)[c]	9.5	32.5	32.5	20.7	18.7	-15.9	20.3	3.3	--
Private sector credit[c]	14.5	-2.3	7.9	10.8	7.8	13.6	31.5	8.2	14.3
Liabilities of the private sector	--	--	--	--	22.7	22.0	55.1	15.0	20.6
Of which:									
Money and quasi-money (M2)	9.6	11.9	15.9	7.9	22.9	19.0	50.7	16.1	18.5
Velocity (GDP relative to year average M2)	4.9	6.1	5.8	5.8	6.3	7.6	5.6	6.2	6.2
	(In percent of GDP)								
Public sector deficit including the operating losses of the Central Bank									
Commitment basis	-6.0	-6.4	-6.6	-4.6	-6.5	-2.7	-5.0	-0.7	-1.4
Gross domestic investment	25.7	23.4	20.6	20.8	20.6	19.8	16.4	18.7	16.8
Gross national savings	15.6	17.8	15.1	15.9	15.7	14.7	13.0	16.5	15.4
BOP-current account deficit	-10.1	-5.6	-5.5	-4.9	-4.9	-5.1	-3.4	-2.2	-1.4
External public debt[d]	29.0	27.0	28.8	36.1	63.6	77.8	69.4	61.4	61.2
	(In percent of exports of goods and services)								
Debt service[e]	22.0	30.9	42.8	44.3	47.1	30.9	36.7	25.9	24.0
	(In million of U.S. dollars)								
Changes in net foreign assets (increase -)	90.5	109.6	356.3	58.2	-108.4	-198.6	-121.0	--	-88.0
Change in arrears (decrease -)[f]	--	--	--	142.6[f]	246.9	-347.0	93.3	-169.0	--
Gross official reserves (weeks of imports)	8.6	10.3	7.1	8.3	11.1	14.4	15.9	10.0	11.5

Source: Central Bank of the Dominican Republic.

a. Based on composite exchange rate which reflects non-oil transactions as used in the Information Notice System (end of the year rate).
b. Banking system.
c. Changes in relation to the liabilities of the private sector outstanding at the beginning of the period.
d. Debt of all maturities (including use of IMF credit, but excluding other reserve liabilities of the Central Bank) in relation to GDP in U.S. dollars. The implicit exchange rates applied to convert GDP to U.S. dollars are RD$1.16 in 1982, RD$1.25 in 1983, RD$2 in 1984, RD$3.1 in 1985, RD$3.0 in 1986 and RD$3.4 in 1987 and RD$3.9 in 1988.
e. Repayments of medium- and long-term loans and interest payments on debt of all maturities. Includes net repayments of public sector short-term debt.
f. Outside the Central Bank.

Table 2. Dominican Republic: Origin of Gross Domestic Product, 1980-87

(Millions of Dominican pesos)

	1980	1981	1982	1983	1984	1985	Prel. 1986	Est. 1987
I. At current prices								
GDP at market prices	6,630.7	7,266.9	7,981.3	8,574.8	10,705.6	14,502.3	16,096.6	18,951.0
Primary production	1,688.1	1,620.1	1,605.4	1,673.8	2,284.7	3,051.2	3,198.0	--
Crops	947.4	951.6	952.0	976.8	1,093.8	1,436.1	1,500.6	--
Livestock	347.0	352.9	410.5	461.7	668.3	888.1	972.3	--
Forestry and fishing	42.0	45.0	49.4	50.0	71.5	102.3	115.9	--
Mining	351.7	270.6	193.5	185.3	451.2	624.8	609.2	--
Secondary production	1,524.8	1,737.0	2,094.3	2,253.8	2,753.6	3,600.1	4,152.9	--
Manufacturing	1,015.4	1,133.1	1,454.9	1,527.5	1,849.6	2,436.6	2,738.8	--
Construction	479.4	537.1	557.0	648.8	715.0	888.6	1,100.4	--
Electricity	30.0	66.8	82.4	77.5	189.0	274.9	313.7	--
Services	3,417.8	3,909.8	4,281.6	4,647.2	5,667.2	7,850.9	8,745.7	--
Commerce	1,047.8	1,197.5	1,348.9	1,449.3	1,718.0	2,268.6	2,485.0	--
Transportation and communications	362.3	408.5	429.2	448.5	858.0	1,157.5	1,296.2	--
Financial services	237.8	286.8	335.8	367.8	277.2	480.8	602.6	--
Housing	556.2	681.2	693.5	750.5	701.3	982.1	1,090.7	--
Public administration	551.8	608.0	663.3	704.2	1,105.8	1,546.2	1,675.0	--
Other	661.9	727.8	810.9	927.1	1,006.9	1,415.7	1,596.2	--
II. At constant 1980 prices								
GDP at market prices	6,630.7	6,892.1	7,015.6	7,292.3	7,319.3	7,155.1	7,228.0	7,401.5
Primary production	1,688.1	1,790.6	1,734.3	1,861.8	1,885.6	1,815.2	1,724.1	--
Crops	947.4	993.9	1,031.2	1,052.7	1,043.0	988.2	939.8	--
Livestock	347.0	369.5	392.1	410.8	412.8	395.9	394.5	--
Forestry and fishing	42.0	44.5	46.4	46.7	48.5	50.1	51.7	--
Mining	351.7	382.7	264.6	351.6	381.3	381.0	338.1	--
Secondary production	1,524.8	1,551.7	1,568.0	1,629.2	1,614.8	1,510.6	1,594.4	--
Manufacturing	1,015.4	1,042.8	1,080.3	1,093.4	1,060.6	1,008.4	1,031.5	--
Construction	479.4	476.2	458.1	505.0	519.6	465.9	525.1	--
Electricity	30.0	32.7	29.6	30.8	34.6	36.4	37.8	--
Services	3,417.8	3,549.9	3,713.3	3,801.2	3,818.8	3,829.3	3,909.5	--
Commerce	1,047.8	1,094.9	1,150.8	1,156.5	1,138.0	1,084.5	1,081.2	--
Transportation and communications	362.3	381.3	403.4	407.9	403.8	393.1	400.7	--
Financial services	237.8	247.2	258.3	268.5	280.2	350.8	400.0	--
Housing	556.2	558.2	553.1	580.7	589.5	595.7	602.2	--
Public administration	551.8	591.2	614.1	631.1	651.9	657.8	648.6	--
Other	661.9	677.0	733.5	756.6	755.4	747.4	776.9	--

Source: Central Bank of the Dominican Rebublic.

Table 3. Dominican Republic: Gross Domestic Expenditure, 1980-87

(In millions of Dominican pesos)

	1980	1981	1982	1983	1984	1985	1986	Est. 1987
I. At current prices								
GDP at market prices	6,630.7	7,266.9	7,981.3	8,574.8	10,705.6	14,502.3	16,096.6	18,951.0
Foreign balance	-857.6	-598.9	-392.8	-339.0	-187.0	-797.3	-369.3	
Exports	(1,313.1)	(1,524.4)	1,141.8	1,241.8	1,369.6	4,100.7	4,068.8	
Imports	(-2,170.7)	(-2,123.3)	-1,534.6	-1,580.8	-1,556.6	-4,898.0	-4,438.2	
Consumption and investment expenditures	7,488.3	7,865.8	8,374.1	8,913.8	10,892.6	15,299.6	16,465.9	
Consumption	5,839.7	6,164.2	6,728.6	7,127.1	8,877.9	12,430.9	--	
Private	(5,335.7)	(5,466.2)	5,949.2	6,296.1	8,009.0	11,291.8	--	
Public	(504.0)	(698.0)	779.4	831.0	868.9	1,139.1	1,274.6	
Gross capital formation	1,566.8	1,640.4	1,540.9	1,705.0	1,890.3	2,700.1	--	
Private	(1,221.6)	(1,311.4)	1,227.4	1,422.2	1,515.1	2,053.1	--	
Public	(345.2)	(329.0)	313.5	282.8	375.2	647.0	561.7	
Change in inventories	81.8	61.2	104.6	81.7	124.4	168.6	--	
II. At constant 1980 prices								
GDP at market prices	6,630.7	6,892.2	7,015.6	7,292.3	7,319.3	7,155.1	7,228.0	7,401.5
Foreign balance	-857.6	-633.3	-248.8	-235.3	-45.0	-46.1	-173.4	
Exports	(1,313.1)	(1,368.8)	1,178.1	1,235.8	1,298.1	1,305.5	1,326.3	
Imports	(-2,170.7)	(-2,002.1)	-1,427.0	-1,471.2	-1,343.1	-1,351.6	-1,499.7	
Consumption and investment expenditures	7,488.3	7,525.5	7,264.5	7,527.6	7,364.3	7,201.2	7,401.4	
Consumption	5,839.7	5,896.5	5,839.6	6,021.9	6,000.1	5,799.4	--	
Private	(5,335.7)	(5,228.3)	5,164.7	5,321.5	5,411.7	5,242.8	--	
Public	(504.0)	(668.2)	674.9	700.3	508.4	556.6	566.8	
Gross capital formation	1,566.8	1,570.4	1,334.3	1,436.9	1,279.9	1,319.4	--	
Private	(1,221.6)	(1,255.5)	1,062.8	1,198.6	1,025.9	1,003.2	--	
Public	(345.2)	(315.0)	271.5	238.3	254.1	316.1	249.8	
Change in inventories	81.8	58.6	90.6	68.9	84.2	82.4	--	

Source: Central Bank of the Dominican Rebublic.

Table 4. Dominican Republic: Consumer Price Index

(May - 1976 - April 1977 = 100)

	Weights	1980	1981	1982	1983	1984	1985	1986	Est. 1987
I. End of period									
General index	100.0	143.0	153.5	164.5	177.1	244.5	306.7	330.2	351.6
Food, beverages, and tobacco	51.7	141.1	145.5	159.4	165.7	228.7	--	--	--
Housing	23.9	142.3	168.8	176.7	198.4	248.0	--	--	--
Clothing, shoes, and accessories	6.0	142.2	150.6	168.1	202.7	342.3	--	--	-
Other	18.4	149.4	157.0	161.6	173.3	253.1	--	--	-
II. Period average									
General index	100.0	136.5	146.8	158.0	169.0	210.3	289.2	317.4	365.
Food, beverages, and tobacco	51.7	139.7	140.3	151.4	161.2	196.6	--	--	-
Housing	23.9	127.8	156.0	170.7	184.7	224.5	--	--	-
Clothing, shoes, and accessories	6.0	133.9	144.9	158.8	181.7	266.8	--	--	-
Other	18.4	139.8	153.8	159.8	166.4	212.2	--	--	-

a. For May 1987

Source: Central Bank of the Dominican Republic.

Table 5. Dominican Republic: Consolidated Operations of the Public Sector
(Millions of Dominican Pesos)

	1980	1981	1982	1983	1984	1985	Est. 1986
I. Central Government							
Current revenue	880.8	909.2	745.0	916.3	1,186.2	2,197.2	2,274.8
Of which: consolidated transfers	6.8	—	11.6	20.2	30.5	26.7	—
Current expenditure	719.7	756.2	778.9	871.0	1,007.7	1,913.9	1,846.2
Of which: consolidated transfers	110.5	99.2	97.9	111.9	167.9	767.1	691.8
Current account surplus or deficit (-)	161.1	153.0	-33.9	45.3	178.5	283.3	428.6
Capital revenue	11.0	16.8	10.6	8.6	18.2	58.2	11.4
Capital expenditure	332.8	324.7	189.7	268.2	273.9	456.5	629.5
Of which: consolidated transfers	187.6	163.0	75.6	114.1	147.6	258.5	347.6
Overall surplus or deficit (-)	-160.7	-154.9	-213.0	-214.3	-77.2	-115.0	-189.5
Financing	160.7	154.9	213.0	216.3	77.2	115.0	189.5
Foreign (net)	117.6	60.2	51.3	40.5	101.3	495.2	99.0
Domestic (net)	43.1	94.7	161.7	173.8	-24.1	-380.2	90.5
II. Dominican Social Security Institute (IDSS)							
Current revenue	47.6	46.6	51.2	55.0	61.4	62.0	62.0
Of which: consolidated transfers	0.5	—	0.6	—	—	0.1	0.1
Current expenditure	43.2	46.3	48.5	53.1	57.5	65.3	65.3
Current account surplus	4.4	0.3	2.7	1.9	3.9	-3.3	-3.3
Capital revenue:	—	0.7	—	0.3	0.1	—	—
Of which: consolidated transfers	—	0.7	—	—	—	—	—
Capital expenditure	3.5	1.6	0.9	1.7	2.0	1.3	1.3
Overall surplus or deficit (-)	0.9	-0.6	1.8	0.5	2.0	-4.6	-4.6
III. Decentralized Government Agencies [a]							
Current revenue	63.7	71.9	75.6	101.0	105.5	131.3	129.5
Of which: consolidated transfers	48.9	53.9	51.2	62.0	71.1	84.6	82.8
Current expenditure	68.2	81.9	79.8	89.1	112.0	130.7	128.9
Of which: consolidated transfers	1.4	—	—	1.4	9.3	—	—
Current account surplus or deficit (-)	-4.5	-10.0	-4.2	11.9	-6.5	0.6	0.6
Capital revenue	58.7	77.2	76.9	91.1	133.4 [c]	147.0 [c]	113.2
Of which: consolidated transfers [b]	44.9	62.8	61.1	65.2	120.3 [c]	134.2 [c]	85.2
Capital expenditure	70.0	92.3	64.1	134.4	96.4	128.9	113.7
Of which: consolidated transfers	6.2	0.3	—	13.7	11.6	10.6	10.6
Capital formation	55.4	86.0	56.8	112.1	78.0	107.8	92.6
Overall surplus or deficit (-)	-15.8	-25.1	8.6	-31.4	30.5	18.7	0.1
IV. Local Governments [b]							
Current revenue	31.1	36.1	41.0	50.0	77.1	95.4	101.3
Of which: consolidated transfers	16.6	22.2	27.8	29.3	53.3	68.5	72.8
Current expenditure	27.1	33.2	39.3	47.5	72.5	92.5	96.8
Current account surplus or deficit (-)	4.0	2.9	1.7	2.5	4.6	2.9	4.5
Capital revenue	3.6	2.9	2.1	3.1	9.9	16.6	16.6
Of which: consolidated transfers	1.9	1.2	0.4	0.3	5.0	5.8	5.3
Capital expenditure	3.2	3.2	3.2	6.6	14.7	15.5	15.5
Of which: consolidated transfers	1.4	1.6	1.9	0.7	0.9	0.2	0.2
Overall surplus or deficit (-)	4.4	2.6	0.6	-1.0	-0.2	4.0	5.6
V. General Government							
Current revenue	957.2	988.7	833.2	1,031.0	1,305.8	2,232.7	2,411.9
Of which: consolidated transfers	6.8	—	11.6	20.2	30.5	26.7	—
Current expenditure	792.2	842.5	866.9	969.4	1,125.3	2,049.2	1,981.5
Of which: consolidated transfers	44.5	26.1	18.3	20.6	43.5	613.9	336.1
Current account surplus or deficit (-)	165.0	146.2	-33.7	61.6	180.5	283.5	430.4
Capital revenue	26.5	32.9	28.1	37.6	36.3	81.8	50.7
Capital expenditure	362.7	357.1	196.4	345.4	261.7	462.2	669.5
Of which: consolidated transfers	160.8	98.3	14.1	48.6	22.3	118.5	257.1
Capital formation	178.7	245.1	198.9	192.6	230.3	269.4	303.4
Overall surplus or deficit (-)	-171.2	-178.0	-202.0	-246.2	-44.9	-96.9	-188.4

(Continued)

Table 5. (Continued)

	1980	1981	1982	1983	1984	1985	Est. 1986
VI. Public Enterprises a/							
Current revenue	747.6	843.3	835.1	953.4	1,242.6	1,582.1	1,778.0
Of which: consolidated transfers	21.4	11.3	10.6	7.9	31.8	391.5	358.4
Current expenditure	816.3	953.9	909.1	982.1	1,161.2	1,540.4	1,848.7
Of which: consolidated transfers	6.8	—	6.7	7.1	9.5	14.9	14.0
Current account surplus or deficit (-)	-68.7	-110.6	-74.0	-28.7	81.4	41.7	-70.7
Capital revenue	134.5	80.5	66.3	76.0	81.2	154.8	108.2
Of which: consolidated transfers b/	134.3	80.5	48.0	70.5	63.4	139.0	99.2
Capital expenditure	272.5	210.2	161.5	156.6	237.9	472.1	325.4
Of which: consolidated transfers	—	—	14.2	31.7	22.2	20.0	20.0
Capital formation	153.5	127.4	114.6	90.2	144.9	377.6	258.3
Overall deficit	-206.7	-240.3	-169.2	-109.3	-75.3	-275.6	-290.9
VII. Consolidated Public Sector							
Current revenue	957.2	988.7	833.2	1,031.0	1,387.2	2,374.4	2,411.9
Current expenditure	860.9	953.1	940.9	998.1	1,125.3	1,779.8	2,125.4
Current account surplus or deficit (-)	96.3	35.6	-107.7	32.9	261.9	594.6	286.5
Capital revenue	26.5	32.9	46.4	43.1	55.1	97.6	59.7
Capital expenditure	500.7	486.8	309.9	431.5	437.2	795.3	898.7
Of which: capital formation	332.2	372.5	313.5	282.8	375.2	647.0	561.7
Overall surplus or deficit (-)	-377.9	-418.3	-371.2	-355.5	-120.2	-103.1	-552.5
Unidentified	-19.1	-30.1	—	—	—	—	—
Payment (-) or accumulation of arrears	—	—	—	—	—	-269.4 e/	73.2 f/
Residual surplus or deficit (-) of the nonconsolidated public sector g/	—	—	-186.6	-77.2	-294.1	-220.5	117.9
Overall surplus or deficit (-) cash basis	—	—	-557.8	-432.7	-414.3	-593.0	-361.4
Financing h/	397.0	448.4	557.8	432.7	414.3	593.0	361.4
Foreign (net) i/	297.0	105.6	174.4	77.8	331.9	1,066.6	172.2
Domestic (net) j/	100.0	342.8	383.4	282.8	117.7	-448.4	196.4
INVI bonds			—	72.1	-35.3	-25.2	-7.2

a. Includes Export Promotion Center (CEDOPEX); Population and Family council; Hotel Promotion and Tourist Trade Development; (CORDE); Red Cross; Civil Defense; National Bureau of Parks; Agrarian Institute; Sugar Institute; Welfare and Housing Institute; Housing Institute; Southwest Development Institute; Water Resources Institute; Community Development Office; Botanical Garden; National Zoo; Royal Houses Museum; Malaria Eradication Service; Superintendency of Banks; Superintendency of Insurance; the Corporations of Hatillo, Sabana Yegua, Rincon and Sabaneta; and the Institute of Welfare and Housing. It includes the Agriculture Development Fund (FEDA) since 1984 and the Northeast Development Institute since 1985.

b. Foreign financed capital transfers recorded in the central government accounts and reported by the enterprises and agencies as direct foreing borrowing were reclassified in the accounts of the former as transfers from Government and excluded from foreign financing to avoid double counting in the consolidated accounts.

c. Includes the local governments and the Municipal League.

d. Includes Port Authority; Agricultural Bank; Airport Commission; Workers Savings Bank; State Sugar Council (CEA); Water and Sewerage Commission for Santo Domingo; Water and Severage Commission for Santiago; Cooperative Development and Credit Institute; Dominican Electricity Corporation (CDE); Industrial Development Corporation; Price Stabilization Institute (INESPRE); National Water Institute (INAPA); Cotton Institute; and Dominican Radio and Television; the Corporation of State enterprises and the National Lottery.

e. Includes payments of foreign interest arrears by RD$269.4 million.

f. Includes net increase of foreign interest arrears of RD$142.8 million and repayments of domestic arrears by RD$69.6 million.

g. Includes statistical discrepancies.

h. Includes the entire nonfinancial public sector. Therefore, in addition to the autonomous and decentralized entities listed in this table and in footnotes 2, 3, and 4, the financing includes the CORDE's affiliates in which the Government is a majority shareholder, the Rosario Mining Company, and the Oil Refinery. The Central Bank, the Reserve Bank, and the National Housing Bank are considered financial public sector.

i. Taken from the changes of the external debt outstanding of the nonfinancial public sector; except for 1986 when it was taken from the BOP official capital flows. It includes U.S. capital grants in 1984 and 1985 and arrears of debt services in 1986.

j. Includes besides the net credit from the banking system, deposits with withdrawals of counterpart funds of U.S. grants in the Central Bank. It excludes transfers from these accounts to FIDE equity account in the Central Bank.

Sources: National Budget Office; Central Bank of the Dominican Republic.

Table 6. Dominican Republic: Operations of the Central Government

(Millions of Dominican pesos)

	1980	1981	1982	1983	1984	1985	1986	Est.[a] 1987	Budget 1988
Total revenue	891.8	926.0	755.6	924.9	1,204.4	2,235.4	2,286.2	2,870.0	4,190.0
Current revenue	880.8	909.2	745.0	916.3	1,186.2	2,197.2	2,274.8	2,854.0[f]	4,165.0[f]
Tax revenue	696.4	734.4	661.3	782.5	1,084.8	2,096.7	2,146.3	2,645.0	3,890.0
Taxes on income and profits	(182.1)	(186.2)	181.4	199.6	263.0	341.7	420.0	—	—
Taxes on property	(7.0)	(7.1)	8.7	9.6	12.0	14.1	18.7	—	—
Taxes on goods and services	(207.8)	(256.4)	273.9	320.4	497.6	702.6	948.5	—	—
Taxes on international trade	(285.9)	(270.8)	185.2	239.6	295.5	1,022.1	727.6	—	—
Other taxes	(13.6)	(13.9)	12.1	13.3	16.7	16.2	31.5	—	—
Nontax revenue	184.4	174.8	83.7	133.8	101.4	100.5	128.5	209.0	275.0
Capital revenue	11.0	16.8	10.6	8.6	18.2	38.2[a]	11.4	16.0	25.0
Total expenditure	1,052.5	1,080.9	968.6	1,139.2	1,281.6	2,370.4	2475.7	2,779.6	3,754.8
Current expenditure	719.7	756.2	778.9	871.0	1,007.7	1,913.9	1,846.2	1,316.1	1,865.0
Wages and salaries	375.2	402.2	427.8	448.8	499.9	609.7	720.5	—	—
Goods and services	111.7	138.7	132.1	162.9	192.3	283.3[b]	281.2	—	—
Transfers	170.5	166.7	167.4	193.5	269.3	886.7	649.4	—	—
To rest of public sector	(110.5)	(99.2)	97.9	111.9	167.9	767.1	491.8	—	—
To private sector	(58.5)	(66.5)	68.9	80.2	100.2	118.1	157.0	—	—
Abroad	(1.5)	(1.0)	0.6	1.4	1.2	1.5	0.6	—	—
Interest payments	45.6	45.9	48.3	62.2	46.2	135.2[c]	195.1	—	—
Other	16.7	2.7	3.3	3.6	0.0	0.0	0.0	—	—
Capital expenditure	332.8	324.7	189.7	268.2	273.5	456.5	629.5	1,463.5	1,889.0
Capital formation	134.9	151.8	110.7	130.7	106.3	178.8	234.1	994.2	1,400.0
Capital transfers to rest of public sector	197.5	162.9	75.6	114.1	147.6	258.5	347.6	457.5	489.0
Other	0.4	9.8	3.4	23.4	20.0	19.2	47.8	11.8	0.0
Current account surplus or deficit (-)	161.1	153.0	-33.9	45.3	178.5	283.3	428.6	1,537.9	2,299.2
Overall deficit	-160.7	-154.9	-213.0	-214.3	-77.2	-135.0	-240.2	90.4	435.2
Financing	160.7	154.9	213.0	214.3	77.2	135.0	240.2	-90.4	-435.2
External financing (net)	117.6	60.2	51.3	40.5	101.3	495.2	99.0	152.9	298.3
Drawings	127.9	75.8	94.0	97.2	130.9	240.7	173.2	179.6	641.8
Commercial borrowing	—	—	0.0	0.0	0.0	0.0	0.0	—	—
Project borrowing	—	—	94.0	97.2	130.9	240.7	173.2	—	—
U.S. Government capital grants	0.0	0.0	0.0	0.0	0.0	350.5	0.0	—	—
External debt arrears	—	—	—	—	—	—	94.3	—	—
Amortization	-10.3	-15.6	-42.7	-56.7	-29.6	-96.0[d]	-168.5	-26.7	-343.5
Domestic financing (net)	43.1	94.7	161.7	173.8	-24.1	-360.2	141.2	-243.3	-733.5
Central Bank (net)	70.0	118.2	174.7	149.8	11.7	-86.5	-35.9	—	—
Reserve Bank	32.7	13.9	0.0	0.0	0.0	0.0	0.0	—	—
Private commercial banks (net)	1.4	0.5	0.0	0.0	0.0	0.0	0.0	—	—
Use of deposits from U.S. grants (-) increase	0.0	0.0	0.0	0.0	-50.0	-182.9	187.6	—	—
Other	-61.0	-37.9	-13.0	24.0	14.2	-90.8	-10.5	—	—

a. Includes RD$20.0 million drawn on Fondo de Contrapartida and Paris Club deposits in the Central Bank to pay interest to Paris Club creditors. These deposits are not classified as a component of the Central Bank credit to the Government.

b. Includes RD$17.2 million of payment of the electricity bill of the public sector classified as a transfer to CDE in the Report on the Execution of the Budget.

c. Includes besides the payments recorded in the Execution of the Budget: RD$12 million recorded as current transfers to the Central Bank; and RD$69.8 million paid through the exchange surcharge.

d. Includes RD$48 million paid through the exchange surcharge.

e. Based on actual figures for Jan.-Sept. and estimates for Oct.-Dec.

f. Includes: (i) an estimated RD$100 million in 1987 and RD$700 million in 1988 of the proceeds of the 20 percent exchange surcharge on non-essential imports introduced in November 1987; (ii) an estimated RD$300 million in 1988 from the yield of the recently introduced exchange surcharge of 100 percent on that part of the proceeds of sugar and mining exports that exceeds the exchange rate of DR$400 per U.S. dollar; and (iii) an estimated RD$200 million from the yield of the tax package announced in November 1987. Also includes the proceeds of the exchange surcharges of 2 percent (later raised to 5 percent) on imports and 2 percent on exports that were eliminated in November 1987.

Sources: National Budget Office and Central Bank of the Dominican Rebublic.

Table 7. Financial Operations of the Agricultural Bank of the Dominican Republic, 1980 - 1987

(In Dominican Pesos)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Income	19,246,967	20,714,176	22,035,902	18,644,756	19,564,197	26,460,189	30,040,350	30,119,736
Income from Operations	15,080,028	16,961,052	18,591,917	18,644,756	19,546,197	26,445,189	30,030,350	30,119,736
Sale of Goods and Services	5,424	6,000	4,760	--	--	--	--	--
Interest	12,916,308	15,038,816	16,842,510	16,768,252	16,823,588	20,298,174	21,042,760	21,824,759
Commissions	--	--	--	--	--	--	5,152,830	5,713,712
Rent	17,900	19,850	13,830	12,060	25,400	7,990	120,465	9,035
Fees & Dividends	1,503,902	1,218,708	1,368,847	1,548,940	2,292,681	5,502,621	1,535,370	12,047
Other	636,494	677,678	361,970	315,504	404,528	636,404	2,178,925	2,560,183
Current Transfers	4,166,939	3,753,124	2,738,282	0	0	0	10,000	0
From the Central Government	3,955,211	3,514,225	2,738,282	0	0	0	10,000	0
From Non-financial Decentralized and Autonomous Institutions	211,728	238,899	0	0	0	0	0	0
Other Transfers & Current Income	0	0	705,703	0	18,000	15,000	0	0
Capital Income	153,025,611	144,287,169	138,741,128	160,511,297	150,846,586	206,408,231	197,939,800	220,410,000
Capital Income from Operations	95,705,645	90,633,050	93,853,610	116,275,496	112,589,215	154,439,867	179,644,065	182,500,000
Debt Recovery	95,698,224	90,621,730	93,815,456	116,275,496	112,589,215	154,439,867	179,644,065	182,500,000
Sale of Fixed and Financial Assets	7,421	11,320	38,154	0	0	0	0	0
Capital Transfers from the Central Government	638,140	9,461,167	15,330,740	4,000,000	4,000,000	1,480,408[a]	250,000	12,850,000
From Public Non-financial Enterprises	0	0	0	0	0	0	0	60,000
Foreign Loans	20,844,200	15,257,449	1,680,445	17,567,014	24,709,789	37,742,58[b]	18,045,735	0
In Cash	20,844,200	15,257,449	1,680,445	17,567,014	24,709,789	37,657,230	18,045,735	
In machinery & Equipment	0	0	0	0	0	85,350	0	0
Other Capital	35,837,626	28,935,503	27,876,333	22,668,787	9,547,582	12,745,376	0	25,000,000
Domestic Loans	22,859,105	22,841,997	20,935,642	20,433,787	9,547,582	12,745,376	0	15,000,000
Third-Party Funds	12,978,521	2,470,043	270,281	35,000	0	0	0	0
Other	0	3,623,463	6,670,410	2,200,000	0	0	0	10,000,000
Cash on Hand and at Banks	8,601,406	9,365,287	7,160,837	9,283,030	16,383,090[c]	9,400,788[c]	10,155,615	10,030,205
TOTAL	180,873,984	174,366,632	167,937,867	188,439,083	186,793,873	242,269,208	238,135,765	260,559,941

a. Includes RD$130,408 received from other sources, in addition to those assigned by the National Budget Office.
b. Includes RD$4,450,715 received from other sources, in addition to those assigned by the National Budget Office.
c. These balances were taken from the financial statements of the institution.

Source: National Budget Office of the Dominican Republic.

Table 7 (Continued)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Expenditures	20,955,192	20,076,482	20,126,028	18,633,842	23,300,004	22,964,303	27,208,106	27,678,895
Operating Expenses	16,758,157	11,559,188	12,561,295	11,366,188	13,606,417	19,290,313	21,790,475	20,973,628
Wages and Salaries	9,987,607	7,595,703	7,678,596	7,322,011	8,448,766	10,882,785	14,979,232	14,982,229
Other Services	4,018,433	2,974,867	3,863,370	3,073,828	4,020,848	6,899,556	5,445,365	4,667,639
Materials and Supplies	2,752,117	988,618	1,019,329	970,349	1,136,803	1,507,972	1,365,878	1,323,760
Current Transfers	927,640	4,678,622	3,600,156	985,906	1,200,187	1,811,870	3,005,040	3,996,828
To Decentralized and Autonomous Non-financial Institutions	145,861	3,797,820	2,695,844	0	116,969	119,539	90,000	0
To the Private Sector Direct Transfers to Individuals	781,779	880,802	904,312	985,906	1,083,218	1,692,331	2,915,040	3,996,828
Interest on Debt and on Deferred Payment of Expenses	3,269,395	3,838,672	3,964,577	6,281,748	8,493,400	1,862,120	2,412,591	2,708,439
Interest on Domestic Loans	2,991,885	3,663,314	3,765,816	6,138,965	8,351,235	1,750,759	2,316,246	2,628,288
Interest on Foreign Loans	277,510	175,358	155,961	135,924	125,952	110,685	96,345	80,151
Deferred Payment of Expenses	0	0	42,800	6,859	16,213	676	0	0
Administrative Debt	0	0	0	0	0	0	0	0
Capital Expenditures	150,553,505	147,129,313	136,665,327	153,620,779	154,945,375	209,149,290	200,897,454	225,977,206
Real Investment	692,974	133,926	315,505	239,347	762,069	1,262,252	3,274,200	6,000,000
Machinery and New Equipment	533,951	125,009	90,160	153,609	457,862	704,921	854,000	0
Construction	159,023	8,917	225,345	85,738	304,207	557,331	2,420,200	1,000,000
Agricultural Plantations	0	0	0	0	0	0	0	5,000,000
Capital Transfers To Decentralized & Autonomous Non-financial Institutions	5,445,359	15,410,634	12,624,924	0	0	0	0	0
Amortization of Loans	9,077,736	7,710,856	15,437,910	21,662,872	4,085,157	8,123,219	7,184,694	18,223,066
Domestic	8,207,010	6,840,180	14,567,234	21,052,195	3,474,481	7,512,543	6,574,018	17,612,390
Foreign	870,726	870,676	870,676	610,677	610,676	610,676	610,676	610,676
Other Financial Investments	135,337,436	123,873,897	108,286,988	131,718,560	150,098,149	199.763,819	190,438,560	201,754,140
Loans	135,337,436	123,873,897	108,286,988	131,718,560	150,098,149	196,425,115	190,438,560	196,000,000
Other Investments	0	0	0	0	0	3,338,704	0	754,140
Purchase of Securities	0	0	0	0	0	0	0	5,000,000
TOTAL	171,508,697	167,205,795	156,791,355	172,254,621	178,245,379	232,113,593	228,105,560	253,656,101

Source: National Budget Office of the Dominican Republic.

Table 8. Financial Operations of the Dominican Electric Corporation, 1980 - 1987

(In Dominican Pesos)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Income	157,256,288	172,819,282	222,956,971	263,386,605	283,043,596	623,376,337	485,647,904	647,068,000
Income from Operations	132,541,239	169,465,146	198,803,204	257,373,258	275,292,262	363,537,091	425,000,000	627,068,000
Sale of Goods and Services	123,402,860	163,551,737	193,552,595	252,301,254	268,438,331	363,537,091	425,000,000	627,068,000
Other	9,138,379	5,913,409	5,250,609	5,072,004	6,853,931	0	0	0
Current Transfers From the Central Government	11,177,869	0	0	0	0	242,109,246 [b]	45,647,904	0
Other Transfers & Current Income	13,537,180	3,354,136	24,153,767	6,013,347	7,751,334	17,730,000	15,000,000	20,000,000
Third-Party Funds	3,470,498	3,073,785	3,369,809	3,585,465	5,003,407	10,932,929	8,000,000	10,000,000
Other	10,066,682	280,351	20,783,958	2,427,882	2,747,927	6,797,071	7,000,000	10,000,000
Capital Income	142,365,967	113,214,930	103,801,874	65,647,717	35,396,502	221,631,676	102,713,614	96,149,100
Capital Transfers From the Central Government	57,211,267	12,324,401	7,665,334	13,041,667	5,531,026	23,792,872	0	30,950,000
Foreign Loans	41,842,260	46,828,895	62,238,247	38,206,050	14,993,151	186,459,338 [c]	52,653,614	53,080,000
In Cash	26,242,714	10,069,148	2,554,746	13,558,437	11,209,886	186,459,338	52,653,614	53,080,000
In Machinery and Equipment	0	30,972,097	59,683,501	24,647,613	3,783,265	0	0	0
Other	15,599,546	5,787,650	0	0	0	0	0	0
Other Capital	43,312,440	54,061,634	33,898,293	14,400,000	14,872,325	11,379,466	50,060,000	12,119,100
Donations of Capital in Cash	0	3,261,461	0	0	14,872,325	0	0	0
Domestic Loans	4,500,000	50,800,173	29,277,969	14,400,000	0	7,363,333	50,060,000	12,119,100
Other	38,812,440	0	4,620,324	0	0	4,016,133	0	0
Cash on Hand and at Banks	2,909,626	10,301,639	4,301,061 [a]	6,742,643	9,689,375	8,619,357	1,534,877	1,195,457
TOTAL	302,531,891	296,335,851	331,059,906	335,776,965	328,129,473	853,627,370	589,896,395	744,412,557

a. This balance is adjusted to agree with the figures contained in CDE's December 31, 1981 financial statements.
b. Includes RD$219,746,155 not received through the National Budget Office.
c. Includes RD$143,656,605 received from other sources, in addition to those assigned by the National Budget Office.
NOTE: Not included as part of current transfers is RD$51,024,000 paid by the central government to CDE for energy use on behalf of various public firms; it is included in the "Sale of goods and services" item.

Source: National Budget Offcie of the Dominican Republic.

(Continued)

Table 8. (Continued)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Expenditures	206,213.294	218,480,235	230,719,778	261,672,204	272,717,567	543,301,439	413,338,618	440,352,600
Operating Expenses	176,737,312	189,509,510	205,746,510	229,035,851	262,478,051	524,281,754	397,842,904	421,802,600
Wages and Salaries	30,336,852	36,316,271	41,099,315	40,413,477	45,928,637	50,793,582	56,200,000	55,747,600
Other Services	11,991,527	20,735,671	14,239,670	13,824,576	25,564,859	37,236,415	33,475,587	20,045,500
Materials and Supplies	134,408,933	132,457,568	150,407,525	174,797,798	190,984,555	436,251,757	308,167,317	346,009,500
Current Transfers	6,699,138	2,200,954	1,868,712	4,435,502	1,192,761	1,681,537	1,495,714	2,550,000
To Municipalities	6,077,099	1,641,107	0	0	0	0	0	0
To the Private Sector	621,544	557,612	1,865,230	4,435,502	1,192,501	1,681,287	1,495,287	2,550,000
Subsidies	0	0	1,865,230	20,962	39,801	11,510	0	0
Direct Transfers to Individuals	621,544	557,612	0	4,414,540	1,152,700	1,669,777	1,495,714	2,550,000
Overseas	495	2,235	3,482	0	260	250	0	0
Interest on Debt and on Deferred Payment of Expenses	22,776,844	26,769,771	23,104,556	28,200,851	9,046,755	17,338,148	14,000,000	16,000,000
Interest on Domestic Loans	2,187,077	5,354,181	11,877,085	10,999,129	3,253,701	10,895,415	5,000,000	5,000,000
Interest on Foreign Loans	8,184,160	18,094,207	7,975,336	12,929,642	2,398,606	3,072,006	5,000,000	5,000,000
Commissions to Domestic Institutions	457,540	15,536	0	0	3,379,231	3,370,727	0	0
Commissions to Foreign Institutions	0	97,508	1,088,938	489,198	0	0	4,000,000	6,000,000
Deferred Payment of Expenses	10,948,067	3,208,339	2,163,197	3,782,882	15,217	0	0	0
Capital Expenditures	86,016,958	75,040,564	93,597,485	64,415,386	46,792,549	311,860,808	175,362,320	304,059,957
Real Investment	79,830,363	60,408,423	83,490,876	52,871,662	35,791,541	270,675,528	132,983,997	283,059,957
Machinery and New Equipment	49,427,437	31,193,112	54,410,033	29,583,790	18,456,040	205,544,839	101,097,634	183,059,957
Construction	30,402,926	29,215,311	29,080,843	23,287,872	17,335,501	0	31,886,363	100,000,000
Agricultural Plantations	0	0	0	0	0	190,936	0	0
Expenses Related to Donated Equipment	0	0	0	0	0	64,939,763	0	0
Acquistion of Fixed Assets	395,904	85,713	126,868	0	53,232	255,887	103,937	0
Land	358,426	85,713	126,868	0	34,245	167,387	0	0
Buildings & Existing Works	37,478	0	0	0	18,987	88,500	103,937	0
Capital Transfers To Public Non-financial Enterprises	0	0	0	0	0	3[illegible],000	274,386	0
Amortization of Loans	5,787,927	14,488,466	9,972,700	10,942,038	9,800,021	39,022,[illegible]	40,000,000	20,000,000
Domestic	2,791,161	10,497,929	7,074,000	7,521,000	8,119,323	21,354,[illegible]	35,000,000	10,000,000
Foreign	2,996,766	3,990,537	2,898,700	3,421,038	1,680,698	17,667,209	5,000,000	10,000,000
Other Financial Investments	2,764	57,962	7,041	601,686	1,147,755	1,877,262	2,000,000	1,000,000
Loans	2,764	57,962	7,041	85,692	223,841	676,177	500,000	500,000
Other	0	0	0	515,994	923,914	1,201,085	1,500,000	500,000
TOTAL	292,230,252	293,520,799	324,317,263	326,087,590	319,510,116	855,162,247	588,700,938	744,412,557

Source: National Budget Offcie of the Dominican Republic.

Table 9. Financial Operations of the Dominican Corporation of State Enterprises, 1980 - 1987

(In Dominican Pesos)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Income	3,040,620	4,764,723	11,167,048	3,951,869	18,370,003	18,640,503	5,930,489	6,816,027
Income from Operations	2,990,620	4,340,649	3,718,473	2,975,769	16,821,203	4,191,473	4,415,356	5,682,027
Sale of Goods and Services	292,391	483,630	412,547	757,960	1,209,615	976,227	1,251,835	1,590,060
Interest	52,135	86,979	1,146,462	17,177	305,926	5,541	0	0
Rent	10,700	4,015	8,290	13,069	9,296	16,471	8,765	10,000
Fees & Dividends	2,525,719	3,534,540	2,119,578	2,155,906	15,166,677[a]	3,092,795	3,044,468	3,991,967
Other	109,675	231,485	31,596	31,657	129,689	100,439	110,288	90,000
Current Transfers from the Central Government	50,000	424,074	300,000	0	0	10,818,730[b]	0	0
Other Transfers & Current Income	0	0	7,148,575	976,100	1,548,800	3,630,300	1,515,133	1,134,000
Foreign Donations	0	0	0	0	0	225,000	0	0
Third Party Funds	0	0	7,148,575	976,100	1,548,800	3,285,300	1,515,133	1,134,000
Other	0	0	0	0	0	120,000	0	0
Capital	12,175,510	7,485,789	10,817,344	12,543,497	47,492,505	13,183,493	7,629,747	6,991,786
Capital Income	3,038,808	4,339,030	8,726,344	1,566,812	2,373,487	4,100,261	6,999,597	6,991,786
Loan Recovery	3,022,432	4,339,030	8,226,344	1,511,062	2,373,487	4,100,261	6,999,597	6,991,786
Other	16,376	0	0	55,750	0	0	0	0
Capital Transfers from the Central Government	5,150,625	0	2,500,000	0	11,355,300[c]	0	0	0
Other Capital	3,986,077	3,146,759	91,000	10,976,685	33,763,718	9,083,232	630,150	0
Donations of Capital in Cash	0	0	91,000	10,976,685	15,000	0	0	0
Domestic Loans	3,986,077	3,146,759	0	0	0	0	0	0
Third-Party Funds	0	0	0	0	33,748,718[d]	9,083,232[d]	630,150	0
Cash on Hand and at Banks	826,914	160,647	352,579	1,293,882	1,300,390	3,718,646[e]	8,202,128	3,163,339
TOTAL	16,043,044	12,411,159	22,336,971	17,789,248	67,162,898	35,542,642	21,762,364	16,971,152

a. Includes past due dividends that were capitalized.
b. Includes RD$458,819 paid by the central government to CDE for energy use.
c. Corresponds to donation made by the government to CORDE of CDA stock certificates to capitalize its debt with the state.
d. Corresponds to funds of the various firms for acquiring currency used for the purchase of imported inputs.
e. This balance was taken from the financial statements of CORDE.

Source: National Budget Office of the Dominican Republic.

(Continued)

Table 9. (Continued)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Expenditures	2,908,073	2,419,390	3,554,022	3,102,586	3,740,158	4,880,417	6,227,043	4,501,059
Operating Expenses	2,548,018	2,079,723	2,220,340	2,154,238	3,132,785	4,020,250	4,056,282	4,200,402
Wages and Salaries	1,979,153	1,762,757	1,692,938	1,632,119	1,739,642	2,303,631	2,694,589	3,014,273
Other Services	366,968	181,494	343,522	314,858	1,083,967	1,278,017	882,408	844,749
Materials and Supplies	201,897	135,472	183,880	207,261	309,176	438,602	479,285	341,380
Current Transfers	161,462	45,467	51,727	366,851	73,663	375,664	733,874	94,480
To the Central Government	0	0	0	0	13,336	0	0	0
To Municipalities	0	0	0	0	10,864	0	0	0
To Non-financial Decentralized & Autonomous Institutions	50,000	0	0	338,499	17,800	0	0	0
To Non-financial Public Enterprises	0	0	0	0	0	304,597	0	0
To the Private Sector	111,462	45,467	51,727	28,352	24,716	65,125	729,741	94,480
Subsidies	29,661	18,984	20,750	0	14,275	22,281	366,168	10,000
Direct Transfers to Individuals	81,801	26,483	30,977	28,352	10,441	42,844	363,573	84,480
Overseas	0	0	0	0	6,947	5,942	4,133	0
Interest on Loans and on Deferred Payment of Expenses	198,593	294,200	1,281,955	581,497	533,710	484,503	1,436,887	206,177
Interest on Domestic Loans	24,712	68,291	128,452	430,707	277,629	244,191	1,158,055	46,177
Interest on Foreign Loans	0	0	450,200	0	0	0	0	0
Administrative Loans	0	0	0	0	0	0	278,832	160,000
Deferred Payment of Expenses	173,881	225,909	703,303	150,790	256,081	260,312	0	0
Capital Expenditures	12,974,324	9,639,190	17,489,067	13,386,272	61,456,852	22,460,097	12,371,982	7,270,484
Real Investment	40,738	9,869	19,900	44,432	246,220	113,049	67,367	64,420
Machinery and New Equipment	40,738	9,869	17,413	30,730	213,100	71,239	38,048	64,420
Construction	0	0	2,487	13,702	33,120	41,810	29,319	0
Capital Transfers to Public Non-financial Firms	0	0	0	0	31,658,371	11,120,973[a]	0	0
Amortization of Loans	6,770,356	226,540	2,625,375	91,680	1,426,094	1,109,362	65,333	1,156,064
Domestic	1,619,731	226,540	575,575	91,680	1,426,094	1,109,362	65,333	1,156,064
Foreign	5,150,625	0	2,049,800	0	0	0	0	0
Other Financial Investments	6,163,230	9,402,781	14,843,792	13,250,160	28,126,167	10,116,713	12,239,282	6,050,000
Loans	5,290,680	6,832,231	6,043,355	11,982,560	3,356,203	6,887,838	11,536,327	6,000,000
Purchase of Securities	872,550	2,570,550	8,800,437	1,276,600	24,769,964	3,228,875	702,955	50,000
TOTAL	15,882,397	12,058,580	21,043,089	16,488,858	65,197,010	27,340,514	18,599,025	11,771,543

a. This amount corresponds to reimbursements used by CORDE Enterprises for the purchase of currency.

Source: National Budget Office of the Dominican Republic.

Table 10. Financial Operations of the Price Stabilization Institute, 1980 - 1987

(In Dominican Pesos)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Income	325,638,397	310,976,089	317,142,953	333,945,458	450,144,036	523,717,333	691,613,885	210,507,928
Income from Operations	296,353,353	310,976,089	317,142,953	333,945,458	450,144,036	475,848,660	587,613,885	210,507,928
Sale of Goods and Services	230,236,799	285,352,262	294,682,378	322,175,948	432,334,684	475,183,986	586,248,798	210,507,928
Interest	764,224	1,419,119	6,747,134	2,516,415	1,087,067[a]	80,340	268,051	-
Other	65,352,330	24,204,708	15,713,441	9,253,095	16,722,285	584,334	1,097,036	-
Central Government Transfers	0	0	0	0	0	47,868,673[b]	104,000,000	-
Other Transfers & Current Income	29,285,044	0	0	0	0	0	0	-
Third Party Funds	6,787,657	0	0	0	0	0	0	-
Other	22,497,387	0	0	0	0	0	0	-
Capital Income	57,321,899	109,215,333	110,054,752	100,978,008	52,085,175	115,219,835	58,880,000	-
Foreign Loans in Cash	57,321,899	39,746,533	50,728,740	51,079,674	52,085,175	3,000,000	0	-
Domestic Loans	0	69,468,800	59,326,012	48,898,334	0	112,219,835	58,880,000	-
Cash on Hand and at Banks	9,695,369	19,074,944	14,956,021	11,812,913	10,741,539	4,067,822	1,855,391	3,875,852
TOTAL	392,655,665	439,266,366	442,153,726	446,736,379	512,970,750	643,004,990	752,349,276	214,383,780

a. This figure includes RD$ 10,109,728 collected from sales in prior years.
b. Excludes RD$ 1,007,994 allocated but not disbursed.

Source: National Budget Office of the Dominican Republic.

(Continued)

Table 10. (Continued)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Expenditures	310,324,684	366,655,694	309,687,141	341,351,773	478,331,860	543,642,645	663,459,030	189,875,664
Operating Expenses	298,526,536	353,437,544	294,199,465	330,544,278	465,241,299	532,286,760	640,772,729	179,703,076
Wages and Salaries	12,984,557	15,439,185	15,874,688	17,133,932	19,805,668	24,259,484	30,014,082	6,609,418
Other Services	11,629,733	18,161,822	16,749,359	16,153,050	20,578,965	33,307,744	31,603,709	7,518,108
Materials and Supplies	273,912,246	319,836,537	261,575,418	297,257,296	424,856,666	474,719,532	579,154,938	165,575,550
Current Transfers	9,403,687	1,460,406	1,389,461	1,707,126	3,260,241	3,253,507	2,653,518	5,493,078
To the Central Government	6,787,657	0	0	0	186,060	0	0	0
To Non-financial Public Enterprises	0	0	0	0	724,903	0	0	0
To Decentralized Financial Institutions	2,336,405	0	0	0	0	0	0	0
To the Private Sector	279,625	1,460,406	1,389,461	1,707,126	2,349,278	3,253,507	2,653,518	5,493,078
Subsidies	0	0	0	0	462,973	3,992	0	0
Direct Transfers to Individuals	279,625	1,460,406	1,389,461	1,707,126	1,886,305	3,249,515	2,653,518	5,493,078
Interest on Loans and on Deferred Payment of Expenses	2,394,461	11,757,744	14,098,215	9,100,369	9,830,320	8,102,378	20,032,783	4,679,510
Interest on Domestic Loans	575,740	4,609,300	5,693,595	6,554,944	4,363,298	4,361,099	5,914,443	3,738,000
Interest on Foreign Loans	1,818,721	7,148,444	8,404,620	2,545,425	5,467,022	3,741,279	14,118,340	941,510
Capital Expenditures	63,256,037	57,654,651	120,653,673	94,643,067	30,571,069	97,506,954	85,014,394	19,572,198
Real Investment	2,927,944	3,133,530	6,342,293	3,079,537	5,635,198	9,100,072	1,970,598	3,662,429
Machinery and New Equipment	1,634,003	2,337,818	3,380,453	2,279,844	2,098,216	3,120,209	1,244,627	355,829
Construction	1,293,941	795,712	2,961,840	799,693	3,484,681	5,979,863	725,971	3,306,600
Agricultural Plantations	0	0	0	0	52,301	0	0	0
Acquisition of Existing Assets	114,718	181,175	39,076	31,776	1,242,455	700	0	0
Land	114,718	2,175	39,076	31,776	716,825	700	0	0
Buildings & Existing Works	0	179,000	0	0	525,630	0	0	0
Amortization of Loans	44,490,873	54,339,946	114,272,304	91,531,754	15,570,793	86,486,587	82,304,559	15,909,769
Domestic	10,214,628	25,375,551	70,867,572	52,692,745	5,245,514	73,245,070	60,297,505	0
Foreign	34,276,245	28,964,395	43,404,732	38,839,009	10,325,279	13,241,517	22,007,054	15,909,769
Other Financial Investments	15,722,502	0	0	0	8,092,623	1,919,595	739,237	0
TOTAL	373,580,721	424,310,345	430,340,814	435,994,840	508,902,929	641,149,599	748,473,424	209,447,862

Source: National Budget Office of the Dominican Republic.

Table 11. Financial Operations of the State Sugar Council, 1980 - 1987

(In Dominican Pesos)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Income	208,599,340	295,075,572	188,956,665	225,444,490	351,295,069	309,466,537	311,371,240	310,877,000
Income from Operations	208,599,340	295,075,572	188,956,665	225,444,490	351,295,069	283,154,449	224,436,000	310,877,000
Sale of Goods and Services	202,955,361	294,991,973	186,613,233	218,350,575	348,961,240	281,158,288	219,436,000	304,877,000
Interest	562,548	0	56,667	0	0	0	0	0
Other	5,081,431	83,599	2,286,765	7,093,915	2,333,829	1,996,161	5,000,000	6,000,000
Central Government Transfers	0	0	0	0	0	26,312,088[a]	86,935,240	0
Capital Income	213,483,234	380,934,338	193,834,326	132,148,387	4,358,458	39,005,223	112,084,000	34,200,000
Transfer of Capital from the Central Government	0	0	250,000	1,700,000	0	27,612,719	0	11,400,000
Foreign Loans in Cash	207,483,234	276,634,338	91,984,326	68,098,387	1,807,000	0	584,000	22,800,000
Other Capital	6,000,000	104,300,000	101,600,000	62,350,000	2,551,458	11,392,504	111,500,000	0
Donations of Capital in Cash	0	0	0	0	2,551,458	0	0	0
Domestic Loans	6,000,000	104,300,000	101,600,000	62,350,000	0	11,392,504	111,500,000	0
Cash on Hand and at Banks	10,621,666	9,641,361	5,821,648	854,935	832,795	(22,862,845)	0	0
TOTAL	432,704,240	685,651,271	388,612,639	358,447,812	356,486,322	325,608,915	423,455,240	345,077,000

a. Excludes RD$ 17,612,719 assigned as current by the National Budget Office and used as capital by the Institution. In addition, excludes RD$ 635,360 assigned but not disbursed and includes RD$ 8,842,081 paid by the central government to CDE for energy consumption.

NOTE: The "Cash on Hand and at Banks" item cannot be reconciled with the financial statement of CEA since the reporting period differs from the calendar year.

Source: National Budget Office of the Dominican Republic.

(Continued)

Table 11. (Continued)

	1980	1981	1982	1983	1984	1985	Est. 1986	Budget 1987
Current Expenditures	242,878,390	307,265,453	262,268,195	266,166,804	299,053,577	289,581,159	365,625,520	306,806,000
Operating Expenses	214,899,789	285,164,420	206,260,633	244,555,573	279,227,782	262,294,842	350,100,000	281,071,950
Wages and Salaries	90,804,101	114,062,813	115,401,086	112,956,959	132,201,388	134,232,025	162,141,000	143,113,964
Other Services	41,705,261	63,161,104	33,152,720	32,969,893	52,462,537	37,919,471	30,424,000	20,987,490
Materials and Supplies	82,390,427	107,940,503	57,706,827	98,628,721	94,563,857	90,143,346	157,535,000	116,970,496
Current Transfers	3,653,731	4,583,085	25,184,363	856,839	2,712,472	847,385	1,942,430	1,234,050
To the Central Government	0	0	1,746,975	0	0	0	0	0
To Decentralized and Autonomous Non-financial Institutions	276,772	238,360	617,862	856,839	805,370	0	127,430	0
To Public Non-financial Enterprises	0	0	150,002	0	0	590,508	0	0
To the Private Sector	3,376,959	4,344,725	22,669,524	0	1,907,102	256,877	1,815,000	1,234,050
Subsidies	180,000	115,800	3,865,725	0	0	0	0	0
Direct Transfers to Individuals	3,196,959	4,228,925	18,803,799	0	1,907,102	256,877	1,815,000	1,234,050
Interest on Debt and on Deferred Payment of Expenses	24,324,870	17,517,948	30,823,199	20,754,392	17,113,323	26,438,932	13,583,090	24,500,000
Interest on Domestic Loans	7,244,502	3,310,421	7,944,693	9,167,682	9,409,164	16,297,873	9,873,275	11,767,000
Interest on Foreign Loans	13,657,360	12,063,156	16,603,773	8,677,903	6,809,707	9,157,498	1,408,330	10,233,000
Commissions to Domestic Institutions	3,423,008	2,144,371	2,441,241	2,908,807	0	0	2,301,485	2,500,000
Commissions to Foreign Institutions	0	0	3,833,492	0	894,452	983,561	0	0
Capital Expenditures	180,184,489	372,564,170	125,489,509	91,448,213	80,295,590	80,377,942	57,829,720	38,271,000
Real Investment	29,626,849	18,348,470	10,193,161	10,156,852	75,559,468	72,316,247	56,904,214	29,594,000
Machinery and New Equipment	26,893,753	15,066,139	9,131,109	8,175,917	58,735,231	56,657,569	44,437,000	10,263,000
Construction	2,733,096	2,630,625	0	0	16,446,582	15,357,456	12,267,214	19,290,000
Agricultural Diversification	0	651,706	1,062,052	0	0	0	0	0
Agricultural Plantations	0	0	0	1,980,935	377,655	301,222	200,000	41,000
Transfers to Decentralized and Autonomous Non-financial Institutions	0	0	0	439,822	0	0	0	0
Acquisition of Land	0	62,019	0	0	0	0	337,084	0
Amortization of Loans	120,157,790	329,137,656	90,658,551	55,121,521	4,000,440	7,472,590	450,000	8,677,000
Domestic	211,114,062	116,702,076	12,000,004	13,891,175	4,000,000	3,240,134	450,000	2,185,000
Foreign	99,043,728	212,435,580	78,658,547	41,230,346	440	4,232,456	0	6,492,000
Other Financial Investments	30,399,850	25,016,035	24,637,797	25,730,018	735,682	589,105	138,422	0
TOTAL	423,062,879	679,829,623	387,757,704	357,615,017	379,349,167	369,959,101	423,455,240	345,077,000

Source: National Budget Office of the Dominican Republic.

Table 12. Dominican Republic: Summary Accounts of the Consolidated Banking System

(Millions of Dominican pesos)

	1980	1981	1982	1983	1984	1985	Prel. 1986
Net international reserves of the banking system	-240.2	-391.2	-700.7	-479.2[b]	-362.5	-475.6	-187.4
Assets	300.4	302.1	210.3	247.0[b]	327.0[b]	1,409.6	1,699.6
Liabilities	-540.6	-693.3	-911.0	-726.2[b]	-689.5[b]	-1,885.2	-1,887.0
Net domestic assets	1,991.5	2,371.9	2,904.1	3,420.5	3,857.5	3,319.3	5,048.6
Net Claims on the public sector	852.8	995.6	1,379.1	1,662.0	1,829.7	1,569.8	1,687.6
Central government (net)	(404.1)	(536.7)	716.7	779.2	867.5	761.2	728.3
Claims	458.2	575.5	775.1	875.6	954.4	946.3	1,152.5
Deposits	-54.1	-38.8	-58.4	-96.4	-86.9	-185.1	-424.2
Other central government (net) (89.5)	(99.6)	118.3	146.4	177.7	197.5	236.9	
Counterpart funds of foreign aid	(-10.2)	(-6.4)	-7.7	-30.5	-2.1	-67.6	-50.5
State and local governments (net)	(13.0)	(16.7)	13.5	15.3	11.2	8.8	5.4
Public financial institutions (net)	(144.9)	(184.0)	186.5	202.6	198.4	191.8	292.1
Rest of public sector	(11.5)	(167.1)	331.8	549.0	577.0	478.1	475.4
Official capital and surplus	-107.8	-105.8	-109.8	-156.7	81.5	90.6	195.3
Credit to rest of the financial system	166.8	175.5	197.8	243.3	274.7	333.3	442.7
Credit to private sector	1,044.5	1,019.9	1,113.5	1,261.3	1,413.0	1,739.3	2,657.3
Nonmonetary international organizations	16.3	18.6	20.1	19.0	20.8	58.2	58.9
Deposits of U.S. grants (Plan Reagan 1984-85)	0.0	0.0	0.0	0.0	-50.0[c]	-351.0	-143.4
Net unclassified assets	263.6	287.1	312.9	290.1	246.7	-206.2	93.2
Net interbank float	-44.7	-19.0	-9.5	101.5	41.1	85.3	57.0
Revaluation account	0.0	0.0	0.0	0.0	0.0	3,016.0	3,387.6
Counterpart unrequited foreign exchange	94.9	81.9	80.5	78.7	81.6	149.0	31.7
Of which: revaluation of gold	62.6	43.4	43.1	36.5	33.2	34.1	35.4
Medium- and long-term foreign liabilities	188.2	259.0	359.1	808.2[b]	868.8	2,464.7	2,408.5
Refinancing with foreign commercial banks	0.0	0.0	0.0	454.1[b]	497.5	1,464.2	2,269.9
Other	188.2	259.0	359.1	353.9	372.3	1,299.5	1,138.6
Liabilities to the rest of the financial system	36.9	52.1	81.8	108.6	156.2	130.3	320.0
Liabilities to the private sector	1,429.3	1,587.7	1,688.8	1,946.2	2,388.8	2,914.0	4,488.6
Currency in circulation	[illegible]	323.8	357.9	414.7	592.8	677.2	937.4
Demand deposits	280.1	302.5	345.8	340.6	547.9	618.3	899.1
Time and savings deposits	498.7	553.1	662.7	719.2	779.9	916.6	1,889.4
Other liabilities (net)	253.5	273.2	184.9	311.2	286.0	447.8	381.9
Other liabilities[a]	(304.2)	(339.9)	370.9	389.4	399.1	643.1	505.6
Arrears	(-50.7)	(-66.7)	-186.0	-78.2	-113.1	-195.3	-123.7
Private capital and surplus	[illegible]	135.1	137.5	160.6	182.2	254.1	380.8

a. Includes deposits corresponding to arrears and to letters of credit subject to prepayment.

b. After rearrangement of liabilities due to refinancing with foreign commercial banks. In accordance with this refinancing, a total of US$309.7 million of central bank foreign reserve liabilities was converted into a medium-term loan on December 21, 1983.

c. This balance was revalued at the exchange rate of RD$3.25 per U.S. dollar in March 1985.

Source: Central Bank of the Dominican Republic.

Table 13. Dominican Republic: Summary Accounts of the Reserve Bank

(Millions of Dominican pesos)

	1980	1981	1982	1983	1984	1985	Prel. 1986
Net international reserves	-7.2	-12.5	-0.2	-38.6	-22.7	48.9	8.5
Assets [a]	12.3	51.6	52.4	17.1	17.8	125.9	72.8
Liabilities	-19.5	-64.1	-52.6	-55.7	-40.5	-77.0	-64.3
Monetary reserves and currency holdings	66.3	21.1	[illegible]	59.4	98.0	240.4	298.8
Cash in vaults	29.0	26.9	[illegible]	21.1	26.1	30.7	38.7
Reserve deposits [b]	41.6	27.8	6.0	-58.6	-7.4	120.9	279.5
Special deposits	6.7	19.8	54.0	111.7[d]	100.0	84.8	78.7
Arrears and letters of credit in arrears	-11.0	-53.4	-70.5	-14.8	-20.7	-35.0	-28.1
Stabilization bonds	0.0	0.0	0.0	0.0	0.0	39.0	30.0
Net domestic assets	488.0	685.8	747.1	739.7	850.7	705.6	764.8
Net claims on the public sector	124.1	302.4	410.4	412.1	469.0	303.3	403.9
Central government (net)	(69.0)	(83.0)	86.4	48.0	92.8	-10.2	-32.7
Claims	123.1	121.6	143.9	144.3	177.7	170.2	380.0
Deposits	-54.1	-38.6	-57.5	-96.3	-84.9	-180.4	-412.7
State and local governments (net)	(13.2)	(14.9)	13.7	15.4	11.4	8.7	6.6
Public financial institutions (net)	(27.0)	(44.0)	46.8	49.2	51.1	44.6	136.0
Rest of public sector	(14.9)	(160.5)	263.5	299.5	313.7	260.2	294.0
Official capital and surplus	-60.7	-76.7	-81.2	-91.1	-99.1	-116.8	-123.0
Credit to rest of the financial system	8.1	8.1	9.9	15.0	11.3	12.0	12.1
Credit to private sector	373.0	380.6	365.9	390.2	428.0	490.3	494.1
Net unclassified assets	46.6	71.7	42.1	13.5	44.0	16.7	-22.3
Net interbank float	-3.1	-0.3	0.0	0.0	-7.5	0.1	0.0
Revaluation account	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities to monetary authorities	257.8	364.4	446.4	421.3	472.9	453.5	555.3
Liabilities to the rest of the financial system	11.3	23.8	33.4	35.3	49.5	15.3	41.9
Liabilities to the private sector	278.0	306.2	280.3	303.9	403.6	526.1	574.9
Demand deposits	70.2	61.3	50.6	14.2	72.0	100.7	139.0
Time and savings deposits	105.3	116.6	131.7	132.5	168.1	174.7	227.8
Other liabilities (net)	102.5	128.3	98.0	157.2	163.5	250.7	208.1
Other liabilities [c]	(109.8)	(133.6)	131.8	172.0	184.2	285.8	236.2
Arrears	(-7.3)	(-5.3)	-33.8	-14.8	-20.7	-35.1	-28.1

a. Includes foreign exchange claims on the Central Bank to reimburse head office or correspondent banks for payments on commercial letters of credit made by them abroad.

b. Deposits for overdue drafts, collections, and direct payments awaiting delivery of foreign exchange by the Central Bank; plus deposits corresponding to letters of credit subject to prepayment (including letters of credit not yet matured and letters of credit in arrears to local banks).

c. Includes deposits corresponding to arrears and to letters of credit subject to prepayment.

d. Balance sheet data adjusted downward by RD $54 million of liabilities included in refinancing with foreign commercial banks.

Source: Central Bank of the Dominican Republic.

Table 14. Dominican Republic: Summary Accounts of Private Commercial Banks

(Millions of Dominican pesos)

	1980	1981	1982	1983	1984	1985	Prel. 1986
Net international reserves	-20.3	-56.3	-21.9	-12.5	-3.9	198.1	272.4
Assets[a]	115.0	220.9	239.5	25.6	40.7	236.0	453.2
Liabilities	-135.3	-277.2	-261.4	-38.1[d]	-44.6	-37.9	-180.8
Monetary reserves and currency holdings	201.9	366.8	317.2	389.0	430.5	473.4	962.3
Cash in vaults	44.4	46.0	56.8	51.4	73.4	93.0	138.4
Reserve deposits	210.8	429.3	304.3	297.3	299.9	321.9	739.2
Special deposits[b]	85.3	154.4	325.8	109.6[d]	155.0	218.7	115.3
Arrears and letters of credit in arrears	-138.6	-262.9	-369.7	-68.5	-97.8	-160.2	-95.6
Stabilization bonds	0.0	0.0	0.0	0.0	0.0	0.0	65.0
Net domestic assets	785.7	757.5	883.5	1,012.4	1,118.9	1,267.4	2,135.9
Net claims on the public sector	3.4	5.2	-1.8	26.1	18.9	15.1	84.8
Central government (net)	(10.4)	(10.7)	8.9	11.0	15.0	15.4	56.7
Claims	10.4	10.9	9.8	11.1	17.0	20.1	68.2
Deposits	0.0	-0.2	-0.9	-0.1	-2.0	-4.7	-11.5
State and local governments (net)	(-0.2)	(-0.2)	-0.2	-0.1	-0.2	0.1	-1.2
Public financial institutions (net)	(-6.1)	(-6.5)	-11.5	3.8	-0.9	-8.9	-1.0
Rest of public sector	(-0.7)	(1.2)	1.0	11.4	5.0	8.5	30.3
Credit to rest of the financial system	43.3	34.4	30.0	37.6	48.1	63.9	118.8
Credit to private sector	671.5	639.3	747.8	871.1	985.0	1,249.0	2,163.2
Net unclassified assets	89.1	94.4	110.5	79.2	83.0	-24.5	-204.1
Net interbank float	-22.6	-15.8	-3.0	-1.6	-16.1	-36.1	-26.0
Revaluation account	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities to monetary authorities	69.6	83.1	85.6	97.1	96.5	133.4	127.2
Liabilities to the rest of the financial system	25.6	29.3	48.4	73.3	106.7	115.0	276.1

(continued)

Table 14. (Continued)

	1980	1981	1982	1983	1984	1985	Prel. 1986
Liabilities to the private sector	872.1	956.6	1,044.8	1,219.3	1,342.3	1,690.5	2,965.2
Demand deposits	205.7	240.1	289.3	318.1	425.8	497.4	749.0
Time and savings deposits	393.4	436.5	531.1	586.7	611.8	741.9	1,661.6
Other liabilities, net	150.9	114.9	86.9	154.0	122.5	197.1	173.9
Other liabilities[c]	(194.3)	(206.3)	239.1	217.4	214.9	357.3	269.4
Arrears	(-43.4)	(-61.4)	-152.2	-63.4	-92.4	-160.2	-95.6
Private capital and surplus	122.1	135.1	137.5	160.5	182.2	254.1	380.8

a. Includes foreign exchange claims on the Central Bank to reimburse head offices or correspondent banks for payments on commercial letters of credit made by them abroad.

b. Deposits for overdue drafts, collections, and direct payments awaiting delivery of foreign exchange by the Central Bank; plus deposits corresonding to letters of credit subject to prepayment (including letters of credit not yet matured and letters of credit in arrears to local banks).

c. Includes deposits corresponding to arrears and to letters of credit subject to prepayment.

d. Balance sheet data adjusted downward by RD $8.2 million of liabilities included in refinancing with foreign commercial banks.

Source: Central Bank of the Dominican Republic.

Table 15. Dominican Republic: Summary Accounts of the Investment Fund for Economic Development (FIDE)[a]

(Millions of Dominican pesos)

	December 31						Prel.	Estimated
	1980	1981	1982	1983	1984	1985	1986	1987
Domestic credit (net)	151.0	179.8	184.8	224.5	235.7	319.5	386.9	--
Agricultural Bank	16.5	27.2	27.6	33.0	34.9	38.5	36.1	--
Industrial Development Corporation	19.9	25.8	25.8	26.1	28.4	30.5	31.8	--
Banco de Reservas	22.7	27.4	24.0	30.4	30.0	37.7	39.9	--
Banco Popular Dominicano	4.8	4.6	4.6	4.4	4.0	8.1	6.7	--
Other financial institutions	87.1	94.8	102.8	130.6	138.4	205.2	271.9	
Long-term external liabilities	30.6	33.1	34.9	34.8	44.7	67.2	86.1	--
U.S. AID	11.9	11.6	11.3	11.1	10.6	10.0	17.9	--
IDB	11.7	14.2	15.6	16.5	23.3	46.5	57.6	--
IDA	5.2	5.0	5.0	4.9	4.9	4.6	4.7	--
Other	1.8	2.3	3.0	2.3	5.9	5.9	5.9	--
Other long-term liabilities	13.5	14.9	12.2	24.0	31.3	54.0	69.9	--
Net liabilities to Central Bank	106.9	131.8	137.7	165.7	159.6	198.3	238.4	--
Central bank contribution	104.6	111.6	165.2	172.2	175.2	197.6	198.4	--
Central bank short-term advances	7.6	16.1	7.5	15.2	16.0	15.5	15.5	--
Liquid assets (-)	-19.8	-15.3	-50.1	-56.5	-66.9	-111.2	-193.0	--
Unclassified	14.5	19.4	23.1	34.8	35.3	96.4	217.5	--

a. These funds are managed in a trust fund, by the Central Bank.

Source: Central Bank of the Dominican Republic.

Table 16. Dominican Republic: Commercial Bank Credit to the Private Sector by Economic Activity[a]

	December 31						Prel.
	1980	1981	1982	1983	1984	1985	1986
	Millions of Dominican pesos						
Total	1,044.5	1,019.9	1,113.5	1,261.3	1,413.0	1,739.3	2,535.7
Productive sectors[b]	667.6	658.1	700.9	814.4	937.5	1,131.3	1,655.2
Agriculture	89.0	91.1	102.3	138.4	159.7	197.1	269.8
Manufacturing	407.0	404.1	415.2	457.0	513.8	638.6	916.4
Exports	51.7	57.0	67.7	100.0	132.2	145.5	233.7
Construction	72.3	58.3	62.3	68.1	79.4	83.8	143.8
Service industries[c]	47.6	47.6	53.4	50.9	52.4	66.3	91.5
Other	376.9	361.8	412.6	446.9	475.5	608.8	880.5
Trade	254.7	244.9	283.9	286.5	290.6	321.1	452.8
Installment credit	42.9	44.3	55.1	65.1	67.6	78.4	122.6
Miscellaneous	79.3	72.6	73.6	95.3	117.3	208.5	305.1
	Percent						
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Productive sectors[b]	63.9	64.5	62.9	64.6	66.3	66.0	65.3
Agriculture	8.5	8.9	9.2	11.0	11.3	11.3	10.6
Manufacturing	39.0	39.7	.3	36.2	36.4	36.7	36.1
Exports	4.9	5.5	6.1	7.9	9.4	8.4	9.2
Construction	6.9	5.7	5.6	5.4	5.6	4.8	5.7
Service industries[c]	4.6	4.7	4.8	4.1	3.7	3.8	3.6
Other	36.1	35.5	37.1	35.4	33.8	35.0	34.7
Trade	24.4	24.0	25.5	22.7	20.6	18.5	17.9
Installment credit	4.1	4.3	5.0	5.2	4.8	4.5	4.8
Miscellaneous	7.6	7.2	6.6	7.5	8.3	12.0	12.0

a. Includes Banco de Reservas.
b. As defined in the regulation on legal reserve requirements.
c. Includes tourism and non-classified loans made by FIDE.

Source: Central Bank of the Dominican Republic.

Table 17. Dominican Republic: Portfolio and Reserve Requirements of Financial Institutions [a]

(As percent of corresponding liability category)

I. Commercial Banks

	Old System: Demand Deposits [b] Basic	Old System: Demand Deposits [b] Marginal	Old System: Time and Savings Deposits [b] Basic	Old System: Time and Savings Deposits [b] Marginal	Old System: Financial Certificates [b] Basic	Old System: Financial Certificates [b] Marginal	New Unified System [c]: Demand Deposits and Other Nondeposit Liabilities	New Unified System [c]: Time, savings and special Deposits and Financial Certificates
Loans to commerce	25	5	25	5	25	5	15	20
Loans to production	25	45	45	45	55	65	35	50
Of which: up to 1 year	20	—	35	—	45	—	—	—
over one year	5	—	10	—	10	—	—	—
industry	—	15	—	15	—	15	10	15
handicrafts and small industry	—	—	—	—	—	—	1	1
exports	—	25[d]	—	25[d]	—	45[d]	5	5
agroindustry	—		—		—		5	5
agricultural livestock	—		—	5[d]	—	5	10	20
other	—	5[d]	—		—		4	4
Total loan limit	50	50	70	50	80	70	50	70
Interest bearing reserves [e]	25	—	15	—	10	—	15	10
Noninterest bearing reserves	25	50	15	50	10	30	35	20
Total effective reserve requirement	50	50	30	50	20	30	50[f]	30[f]
Total reserve requirement	100	100	100	100	100	100	100	100

II. Mortgage Banks

	Mortgage Certificates	Time Deposits	Financial Certificates
Required reserves	—	20	10

III. Development Banks

	Short- and Medium Term Bonds	Long-Term Bonds	Financial Certificates
Required reserves	20	10	10

IV. Savings and Loan Associations

	Mortgage Certificates	Time and Savings Deposits	Financial Certificates
Required reserves	—	10	10

V. Financieras

	Administered Funds	Financial Certificates
Required reserves (over 1 year)	7[g h]	7[g h]

a. Under the old commercial bank system, a 100 percent reserve requirement is imposed on deposits involving foreign currency operations.
b. Effective on all increases as of 1-7-87 until 12-31-87 or when individual bank adopts the new unified system.
c. To be implemented no later than 12-31-87.
d. A minimum of 15 percent must be loaned to agriculture and 1 percent to handicrafts and small industry. Investment in secruities issued by the Agricultural Bank and by the Industrial Development Corporation may be used to satisfy lending requirements for agriculture and handicrafts and small industry, respectively.
e. Interest-bearing reserve deposits in the Central Bank earn 2 percent per annum.
f. Up to 45 percent of the reserve requirement may be satisfied with public sector bonds issued for development purposes provided that not more than 50 percent of a bank's total holding of such bonds are used to meet the requirement. Up to 50 percent of the reserve requirement may be met with currency and coin. Prior credits to the State Sugar Council may also be used to satisfy the reserve requirement until December 31, 1988.
g. Effective 1-8-87. The percentage will be raised gradually to 10 percent.
h. Half of the required reserve deposits with the Central Bank will earn 2 percent; the remaining portion may be invested in public sector bonds held by the Central Bank.

Source: Central Bank of the Dominican Republic.

Table 18. Dominican Republic: Legal Reserves of the Commercial Banks[a]

(Millions of Dominican pesos)

	Liabilities subject to reserves						Required reserves			
	Demand deposits	Time and savings deposits	Financial certificates	Sub-total	Foreign exchange claims[b]	Total	Reserves on deposits	Deductions[d]	Foreign exchange claims	Total
December 1980	598.3	667.5	0.0	1,265.9	153.6	1,419.5	345.9	0.0	153.6	499.5
Banco de Reservas[e]	284.4	249.2	0.0	533.7	40.2	573.9	68.0	0.0	40.2	108.2
Private banks	313.9	418.3	0.0	732.2	113.4	845.6	277.9	0.0	113.4	391.3
December 1981	495.7	642.3	0.0	1,138.0	442.0	1,580.0	371.1	0.0	442.0	813.1
Banco de Reservas[e]	208.7	182.6	0.0	391.3	102.6	493.9	89.7	0.0	102.6	192.3
Private banks	287.0	459.7	0.0	746.7	339.4	1,086.1	281.4	0.0	339.4	620.8
December 1982	525.8	753.3	8.5	1,287.6	405.1	1,692.7	423.3	-9.0	405.1	819.4
Banco de Reservas[c]	129.7	140.9	0.0	270.6	26.2	296.8	107.1	0.0	26.2	133.3
Private banks	299.0	550.0	8.5	857.5	378.9	1,236.4	316.2	-9.0	378.9	686.1
December 1983	551.6	826.8	12.4	1,390.8	244.6	1,635.4	447.4	-18.7	244.6	673.3
Banco de Reservas[c]	92.6	138.9	2.3	233.8	106.8	340.6	88.5	0.0	106.8	195.3
Private banks	355.3	597.5	10.1	962.9	137.8	1,100.7	358.9	-18.7	137.8	478.0
December 1984	857.2	1,034.1	23.1	1,915.4	191.5	2,106.9	534.8	-25.2	187.5	697.1
Banco de Reservas[c]	267.4	251.3	15.3	535.0	21.6	556.6	116.9	0.0	21.6	138.5
Private banks	433.5	680.4	7.8	1,121.7	169.9	1,291.6	417.9	-25.2	165.9	558.6
December 1985	702.8	1,017.5	121.0	1,841.3	136.3	1,977.6	692.1	-70.3	136.3	758.1
Banco de Reservas[c]	299.3	331.6	15.3	646.2	-4.3	641.9	255.5	0.0	-4.2	251.5
Private banks	403.5	686.0	105.7	1,195.2	140.5	1,335.7	436.6	-70.3	140.5	506.6
December 1986	1,168.5	1,469.9	529.9	3,168.3	107.4	3,275.7	1,131.2	-181.3	107.4	1,057.3
Banco de Reservas[c]	299.3	331.5	15.3	646.1	43.7	689.8	252.2	0.0	43.7	295.9
Private banks	869.2	1,138.4	514.6	2,522.2	63.7	2,858.9	879.0	-181.3	63.7	761.4

(Continued)

Table 18. Continued

	Actual reserves						
	Cash and deposits in central bank	Other	Subtotal	Special deposits	Total	Excess or deficiency(-)	Ratio of cash to liabilities subject to reserves
December 1980	350.0	20.5	370.5	90.1	460.6	-38.9	24.7
Banco de Reservas	50.3	0.2	50.5	17.1	67.6	-40.6	28.1
Private banks	299.7	20.3	320.0	73.0	393.0	1.7	40.9
December 1981	559.5	21.6	581.1	151.6	732.7	-80.4	35.4
Banco de Reservas	47.8	1.2	49.0	25.9	74.9	-117.4	21.1
Private banks	511.7	20.4	532.1	125.7	657.8	37.0	68.5
December 1982	387.9	23.9	411.8	370.4	782.2	-37.2	30.1
Banco de Reservas	27.1	1.2	28.3	57.8	86.1	-47.2	10.0
Private banks	360.8	22.7	383.5	312.6	696.1	10.0	42.1
December 1983	270.4	31.8	302.2	265.8	568.0	-150.3	19.4
Banco de Reservas	-66.3	1.2	-65.1	157.0	91.9	-103.4	-28.4
Private banks	336.7	30.6	367.3	108.8	476.1	-1.9	35.0
December 1984	369.9	33.8	403.7	226.8	630.5	-66.6	22.3
Banco de Reservas	-17.5	1.2	-16.3	77.7	61.4	-77.1	-3.3
Private banks	387.5	32.6	420.0	149.1	569.1	10.5	34.5
December 1985	262.0	177.4	439.4	152.0	591.4	-166.7	14.2
Banco de Reservas	60.4	56.9	117.3	0.0	117.3	-134.1	9.3
Private banks	201.6	120.4	322.0	152.0	474.0	-32.6	16.9
December 1986	883.2	60.6	943.8	73.4	1,017.2	-40.1	27.9
Banco de Reservas	66.5	1.2	67.7	23.1	90.8	-205.1	10.3
Private banks	816.7	59.4	876.1	50.3	926.4	165.0	32.4

a. Average last five days of period.

b. Bank claims arising from operations in foreign exchange (with the private sector or the public sector) were made subject to 100 percent reserve requirements on September 1, 1980.

(Continued)

Table 18. Continued

c. Data in this column comprise the effective reserves on deposit liabilities excluding that portion which is satisfied through lending to specific sectors. In 1985 and 1986, the data include both the unitary and marginal reserve requirements.

d. Starting September 1981, export financing loans to nontraditional exporters exceeding the level reached at that date can be deducted from legal reserve requirements, up to an amount not in excess of 5 percent of time and saving deposits. Other deductions are also compared in this column.

e. Data for years 1982-84 exclude public sector deposits which were not subject to reserve requirements; data for 1985 and 1986 include public sector deposits.

Source: Central Bank of the Dominican Republic.

Table 19. Dominican Republic: Liability Interest Rates by Institutions and Instruments

Institutions/Instruments	Minimum amount in pesos	Maximum interest allowed 7/10/85	Minimum amount in pesos	Maximum interest allowed 12/31/86
<u>Central Bank</u>[a]				
Stabilization bonds (up to 1 year)		16.0	100,000	7-14.0
<u>Commercial banks, except Workers Savings Bank</u>				
Sight deposits				
Savings deposits	5	5.0	5	5.0
Nonfixed term deposits	5,000	6.5	5,000	6.5
Fixed term deposits				
From 30 to 180 days[b]	1,000	7.5	1,000	7.5
180 days and over[c]	1,000	9.5	1,000	9.5
Financial certificates (180 days to 3 years)	10,000	9.5-18.0[e]	10,000	9.5-16.0[d]
<u>Mortgage banks</u>				
Fixed term deposits				
From 30 to 180 days[b]	1,000	7.5	1,000	7.5
180 days and over[c]	1,000	9.5	1,000	9.5
Security certificates				
up to 1 year			500	9.0
From 1 to 3 years			500	11.0
Bonds (over 5 years)			100	12.0
Mortgage certificates (10 years and over)	1,000	9.5	1,000	8.0-11.0
Financial certificates (180 days to 3 years)	10,000	9.5-18.0[e]	10,000	9.5-16.0[d]
<u>Private development banks</u>				
Trust funds	5,000	8.5	5,000	8.5
Securities certificates				
Up to 360 days	500	9.0	500	9.0
From 1 to 3 years	500	11.0	500	11.0
Bonds (5 years and over)	100	12.0	100	12.0
Financial certificates (180 days to 3 years)	10,000	9.5-18.0[e]	10,000	9.5-16.0[d]

(Continued)

Table 19. (Continued)

Institutions/Instruments	Minimum amount in pesos	Maximum interest allowed 7/10/85	Minimum amount in pesos	Maximum interest allowed 12/31/86
<u>Agricultural Bank</u>				
Savings deposits		6.0	5	6.0
Security certificates (1 to 3 years)		12.0	500	11.0
Bonds (5 years and over)			100	12.0
Financial certificates (180 days to 3 years)			10,000	9.5-16.0[d]
<u>Workers Savings Bank</u>				
Sight deposits				
Savings deposits	5	6.0	5	6.0
Nonfixed term deposits	5,000	6.5	5,000	6.5
Fixed term deposits				
From 30 to 180 days[b]	500	8.0	500	8.0
180 days and over[c]	500	10.0	500	10.0
Trust funds	5,000	8.5		8.5
Security certificates				
(Up to 360 days)			500	9.0
(5 years and over)			500	11.0
Bonds (5 years and over)			100	11.5
Mortgage certificates (10 years and over)	100	11.5	100	8.0-11.0
Financial certificates (180 days to 3 years)	10,000	9.5-18.0[e]	100	16.0
<u>Savings and loan system</u>				
Savings deposits	3	6.0		
Fixed term deposits				
From 30 to 180 days[b]	500	8.0		
180 days and over[c]	500	10.0		
Mortgage certificates (10 years and over)	100	11.5		
Participation contracts in insured mortgages	100	11.5		
Financial certificates (6 months and over)	10,000	9.5-18.0[d]		

(Continued)

Table 19. (Continued)

Institutions/Instruments	Minimum amount in pesos	Maximum interest allowed 7/10/85	Minimum amount in pesos	Maximum interest allowed 12/31/86
<u>Industrial Development Corporation</u>				
Securities certificates (1-3 years)		12.0	500	11.0
Bonds (5 years and over)			100	12.0
<u>Cooperative Development and Credit Institute</u>				
Securities certificates (1-3 years)		12.0	500	11.0
Bonds (5 years and over)			100	12.0

a. On January 23, 1985 the Central Bank increased the discount rates from a range of 6.5 to 9 percent to a level of 12 percent. It also increased the rate charged on the Investment Fund for Economic Development (FIDE) operations with the financial intermediaries to 12 percent in Santo Domingo and Santiago, 10 percent in the rest of the country, and 7 percent in frontier zones. INFRATUR charges 9.5 percent to financial intermediation for hotel projects and 3 percent for handicraft projects.

b. If withdrawn before 30 days, the interest rate on savings deposits of commercial banks becomes applicable.

c. If withdrawn after 30 days, the interest rate on fixed term deposits from 30 to 180 days offered by each institution becomes applicable.

d. According to the resolution of the Monetary Board of January 23, 1985.

e. According to Monetary Board Resolution of January 23, 1985; modified on September 23, 1986.

Source: Central Bank of the Dominican Republic.

Table 20. Dominican Republic: Balance of Payments
(Millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	Prel. 1986	Est. 1987
Current Account	-669.8	-405.9	-442.6	-421.1	-259.7	-237.7	-189.0	-231.7
Merchandise and Services	-857.6	-598.9	-647.6	-636.1	-524.7	-594	-460.0	-611.2
Merchandise, f.o.b.	-557.8	-263.7	-489.6	-497	-389	-547.4	-544.3	-726.9
Services	-299.8	-335.2	-158	-139.1	-135.7	-46.6	34.3	115.7
Freight and Insurance	-149.5	-123.9	6113.5	-124.5	-101.3	-114.8	--	-148.8
Other transport	0.7	1.2	-2.9	1.8	3.5	9.7	--	6.4
Tourism	6.8	78.5	179.1	232.6	281.5	367.5	506.4	472.7
Investment income	-210.2	-293.1	-254.8	-297.1	-337.7	-336.8	-267.4	-304.6
Government, n.i.e.	0.8	2.1	1.4	-1.1	-3	-0.1	-1.0	-1
Other services	51.6	-	32.7	49.2	21.3	27.9	73.0	91
Transfers	187.8	193	205	215	265	356.3	271.0	379.5
Private	183.1	176.3	190	195	205	242	242.0	260
Public	4.7	16.7	15	20	60	114.3	29.0	119.5
Capital Account	531.5	303.8	182.1	116.9	44.3	-103.8	66.8	1[illegible].2
Private capital	166	129.7	-44.3	45.1	25.5	3.2	247.6	
Direct investment	62.7	79.7	-1.4	48.2	68.5	36.6	40.0	
Medium and long term loans	-9.6	-58.9	-21.8	7.7	-45.2			
Other	112.9	108.9	-21.1	-10.8	2.2	-0.5	207.6	
Official capital	365.5	174.1	226.3	71.8	18.8	-107	-180.8	
Nonfinancial public sector	169.6	147.1	196.5	-5.3	20.3	34.8	-133.0	
Central Government	79.9	119.7	132.6	76.2	83.1			
Other nonfinancial	89.7	27.4	63.9	-81.5	-62.8			
Public financial institutions	92.7	65.4	60	36.7	48.8	-139.4	--	
Short-term	103.2	-38.4	-30.2	40.4	-50.3	-2.4	-47.8	
SDR allocation	7.3	6.6	0.0	0.0	0.0	0.0	0.0	
Gold monetization	-	5.1	-15.4	-14.6	-22.1			
Gold revaluation	23.7	-19.2	1.4	0	-1.3			
Valuation change (reserve liabilities)			11.3	11.8	16	-32	-30.0	
Errors and omissions			-47.5	-58.7	84.3	289.5	186.4	
Overall balance	-107.3	-109.6	-310.7	-365.7	-138.5	-84	-152.2	
Financing			310.7	365.7	138.5	84	152.2	
Extraordinary finance			0	596.6	246.9	282.6	254.0 [a]	
Rescheduled debt			0	454	0	629.6	160.7 [b]	
Arrears (excluding Central Bank)			0	142.6	246.9	-347	93.3	
Net foreign assets (increase -)			310.7	-230.9	-108.4	-198.6	-101.8	
Central Bank	107.3	109.6	357.3	-251.5	-92.2	-87.9	-94.5	
Gross reserves	(7.0)	(-8.3)	111.1	-31.9	-63.7	-87.4	-28.1	
Use of Fund credit	(-75.8)	(-25.5)	48.6	174.6	-25	75.8	7.3	
Arrears	(106.2)	(166.8)	119.9	-358.1	34.3	-46.3	-25.8	
Other liabilities	(69.9)	(-23.4)	77.7	-36.1	-37.8	-30	-47.9	
Commercial banks			-46.6	20.6	-16.[illegible]	-110.7	-7.3	
Assest			-19.4	249.1	-15.7	-64.6	-48.8	
Liabilities			-27.2	-228.5	-0.5	-46.1	41.0	

[a] 1986 estimate includes rescheduling of some first-quarter obligations to Paris Club, most principal obligations to commercial banks, and some obligations to Venezuela and suppliers.

[b] 1986 estimate includes substantial accumulation of arrears with bilateral creditors.

Source: Central Bank of the Dominican Republic.

Table 21. Dominican Republic: Exports by Principal Commodity Group

(Value in millions of U.S. dollars; volume in thousand of metric tons or troy ounces; and unit value in U.S. Dollars per voulme unit, as indicated)

	1980	1981	1982	1983	1984	1985	1986	Est. 1987
Total exports, f.o.b.	961.9	1,188.0	767.7	785.2	868.1	738.5	722.1	747.5
Major agricultural exports	498.9	753.6	487.3	460.3	522.3	386.8	373.7	0.0
Raw sugar								
Value	290.2	513.2	265.5	263.5	271.9	158.5	133.8	145.1
Volume	802.0	847.5	833.3	917.7	828.4	655.2	449.2	625.1
Unit value (100 lbs.)	16.4	27.5	14.4	13.0	14.9	11.0	13.4	10.4
Refined sugar and byproducts								
Value	40.5	47.2	43.1	35.4	48.1	49.6	37.9	—
Unprocessed coffee								
Value	51.8	62.2	90.6	76.3	95.1	86.1	112.9	69.0
Volume	19.7	26.6	34.0	29.7	34.6	30.2	30.4	30.0
Unit value	119.6	105.2	120.7	116.3	126.5	129.1	168.0	104.3
Processed coffee								
Value	25.0	13.6	5.0	0.1	0.0	4.5	3.0	—
Raw cocoa								
Value	51.1	44.8	52.9	55.5	70.1	58.1	58.8	61.9
Volume	23.5	27.2	38.7	34.4	32.3	31.3	36.1	36.0
Unit value (100 lbs.)	98.7	74.6	61.9	73.0	98.3	84.1	73.6	78.0
Processed cocoa								
Value	4.7	5.3	6.1	5.4	6.7	7.0	9.3	—
Tobacco leaf								
Value	34.8	65.6	21.4	21.8	24.2	17.6	12.6	24.1
Volume	21.8	39.2	12.1	13.5	16.2	13.9	13.6	—
Unit value (100 lbs.)	72.4	76.0	80.5	73.2	67.8	57.5	54.3	—
Tobacco products								
Value	0.8	1.7	2.6	2.2	6.2	5.3	5.8	—
Major mineral products	379.4	334.1	193.1	248.0	240.3	330.3	189.8	—
Bauxite								
Value	18.5	15.7	5.3	0.0	0.0	0.0	0.0	4.4
Volume	605.8	457.2	140.6	0.0	0.0	0.0	0.0	280.0
Unit value (in tons)	30.6	34.3	37.4	0.0	0.0	0.0	0.0	15.8
Ferronickel								
Value	101.3	110.5	24.2	83.5	108.5	120.7	77.8	106.1
Volume	46.6	49.1	14.2	53.8	62.4	67.9	[illegible]	80.0
Unit value (in tons)	2,176.2	2,250.5	1,709.6	1,550.8	1,740.2	1778.0	1,445.8	1,328.5
Gold alloy								
Value	225.5	186.4	146.6	139.5	123.1	104.0	104.5	—
Volume (troy ounces)	369.6	607.8	366.0	354.0	338.3	328.0	285.5	—
Silver alloy								
Value	34.0	21.5	17.0	15.0	9.7	.6	7.3	—
Volume	1,622.5	2033.6	2,197.0	1,328.1	1,204.5	1,381.3	1,336.2	—
Other exports	83.7	100.3	87.4	76.9	105.5	117.5	151.7	160.0

Sources: Central Bank of the Dominican Republic.

Table 22. Dominican Republic: Imports by Product Category and Economic Classification

	1980	1981	1982	1983	1984	1985	Prel. 1986	Est. 1987
(In million of U.S. dollars)								
By product category [a]								
Total imports f.o.b.	—	—	1,257.3	1,282.2	1,257.1	1,2[illegible].9	1,266.2	1,474.7
Petroleum and products	—	—	449.5	461.6	506.0	426.8	256.3	399.8
INESPRE commodities	—	—	54.1	63.8	78.3	48.1	44.5	30.3
Other	—	—	753.7	756.8	672.8	811.0	965.4	1,044.6
(In percent of total)								
Total imports f.o.b.	—	—	100.0	100.0	100.0	100.0	100.0	100.0
Petroleum and products	—	—	35.8	36.0	40.3	33.2	20.8	27.2
INESPRE commodities	—	—	4.3	5.0	6.2	3.7	3.5	2.0
Other	—	—	59.9	59.0	53.5	63.0	75.6	70.8
(In millions of U.S. dollars)								
By economic classification [b]								
Total imports f.o.b.	1,498.4	1,450.2	1,255.8	1,279.0	1,457.1	921.9	—	—
Consumer goods	339.0	325.8	247.6	267.9	216.6	127.4	—	—
Foodstuffs	(123.1)	131.8)	77.0	85.4	83.4	53.7	—	—
Beverages	(2.2)	(2.4)	2.1	0.9	1.6	0.9	—	—
Durable Goods	(57.9)	(42.4)	41.5	38.4	36.2	26.5	—	—
Other	(155.8)	(149.2)	127.0	143.2	95.4	46.3	—	—
Fuels (petroleum and derivatives)	448.8	497.4	449.5	461.3	504.7	332.8	—	—
Intermediate goods	469.0	397.5	379.6	397.0	394.5	315.3	—	—
Capital goods	241.6	229.5	179.1	152.7	141.3	146.4	—	—
(In percent of total)								
Total imports f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0	—	—
Consumer goods	22.6	22.5	19.7	20.9	17.2	13.8	—	—
Foodstuffs	(8.2)	(9.1)	6.1	6.7	6.6	5.8	—	—
Beverages	(0.1)	(0.2)	0.2	0.1	0.1	0.1	—	—
Durable Goods	(3.9)	(2.9)	3.3	3.0	2.9	2.9	—	—
Other	(10.4)	(10.3)	10.1	11.2	7.6	5.0	—	—
Fuels (petroleum and derivatives)	30.0	34.3	35.8	36.1	40.1	36.1	—	—
Intermediate goods	31.3	27.4	30.2	31.0	31.4	34.2	—	—
Capital goods	16.1	15.8	14.3	11.9	11.2	15.9	—	—

a. Based on balance of payments data.
b. Based on customs data, without balance of payments adjustment.

Source: Central Bank of the Dominican Republic.

Table 23. Dominican Republic: Summary of External Debt, by Debtor

(Millions of U.S. dollars)

	1982	1983	1984	1985	Prel. 1986
Debt outstanding (end of period)	1,935.7	2,531.1	2,798.9	3,034.6	3,309.4
Nonfinancial public sector	1,338.5	1,416.3	1,748.2	1,920.8	2,106.6
Medium- and long-term	1,267.7	1,305.1	1,679.3	1,852.8	2,086.4
Short-term	70.8	111.2	68.9	68.0	20.2
Financial public sector (medium- and long-term)	326.5	849.5	873.8	921.7	1,064.1
Central Bank	311.1	836.4	864.8	912.5	1,057.3
National Housing Bank	15.4	13.1	9.0	9.1	6.8
Private sector, public guarantee	31.5	26.5	30.0	47.1	0.0
Private nonguaranteed	239.2	238.8	146.9	145.1	138.9
Medium- and long-term	213.3	223.7	144.5	142.7	136.5
Short-term	25.9	15.1	2.4	2.4	2.4
Net movements	182.7	595.4	267.8	235.7	275.0
Nonfinancial public sector	174.4	77.8	331.9	172.6	185.8
Medium- and long-term (net)	204.6	37.4	374.2	173.5	233.6
Disbursements	316.4	174.0	198.3	177.5	110.7
Amortization	-117.6	-176.6	-178.5	-117.1	-146.1
Adjustment [b]	5.8	40.0	354.3	113.1	269.0
Short-term (net)	-30.2	40.4	-42.3	-0.9	-47.8
Financial public sector[a]	52.4	523.0	24.3	47.8	142.5
Central Bank	53.6	525.3	28.4	47.7	144.8
Disbursements	86.2	80.6	80.7	52.9	71.1
Amortization	-25.0	-42.7	-31.4	-191.5	-168.7
Adjustment [b] [c]	-7.6	487.4	-20.9	186.3	242.4
National Housing Bank	-1.2	-2.3	-4.1	0.1	-2.3
Disbursements	0.0	0.0	0.0	0.0	0.0
Amortization	-1.1	-1.2	-0.5	-0.8	-1.2
Adjustment [b]	-0.1	-1.1	-3.6	0.9	-1.1
Publicly guaranteed					
Private Sector	-2.9	-5.0	3.5	17.1	-47.1
Disbursements	1.4	0.2	3.3	1.1	0.0
Amortization	-3.6	-2.9	-2.8	-26.7	-4.3
Adjustment [b]	-0.7	-2.3	3.0	42.6	-42.8
Private nonguaranteed	-42.2	-0.4	-91.9	-1.8	-6.1
Medium- and long-term (net)	-20.1	10.4	-79.2	-1.8	-6.1
Disbursements	2.7	35.6	3.3	6.1	0.0
Amortization	-24.5	-27.9	-48.5	-39.0	0.0
Adjustment [b]	1.7	2.7	-34.0	31.1	0.0
Short-term (net)	-22.1	-10.8	-12.7	0.0	0.0

a. For purposes of consistency with the fiscal accounts, only the Central Bank and the National Housing Bank are considered part of the financial public sector in this table.

b. Changes in stocks that are not the result of the disbursements. Includes changes in stocks reflecting reclassifications among categories, as well as valuation effects of exchange rate changes, and net impacts of accumulation/decumulation of arrears and rescheduling.

c. Central Bank figure for 1983 includes both refinancing of medium-term obligations and refinancing of US$290 million of reserve liabilities as medium-term debt. Figure for 1985 includes refinancing of payments arrears of both the financial and non-financial public sector to commercial banks, as well as 1985 payments due, and rescheduling of arrears and payments due to Venezuela and some suppliers. The 1986 estimates include rescheduling of some first-quarter obligations to Paris Club creditors, plus additional rescheduling with Venezuela and some suppliers, as well as nearly all principal obligations to commercial banks; plus substantial accumulation of new arrears to bilateral creditors.

Source: Central Bank of the Dominican Republic.

Table 24. Dominican Republic: Medium- and Long-Term External Debt By Creditor

(In millions of U.S. dollars)

		1982 1/	1983 1/	1984	1985	1986
Total medium- and long-term debt		1,625.8	2,181.2	2,705.0	2,979.0	3,214.7
Multilateral		347.3	414.1	554.6	643.0	689.3
Of which:	IBRD	115.7	139.1	150.5	156.1	150.1
	IDB	190.1	232.5	356.8	437.5	487.0
	IDA	21.9	21.7	21.5	21.3	21.1
	IFAD	1.8	3.2	4.8	6.8	8.8
	IFC	--	--	3.4	3.7	5.2
	OPEC fund	17.8	17.6	17.6	17.6	17.1
Paris Club creditors		642.6	685.2	859.7	1,023.4	1,171.7
Of which:	Brazil	16.9	13.6	13.3	10.2	9.3
	Canada	8.8	8.6	11.4	9.6	9.6
	France	3.3	2.7	9.3	14.1	17.8
	Germany	10.6	15.6	16.8	22.1	28.7
	Japan	10.7	12.0	14.6	29.2	38.6
	Spain	114.7	137.6	150.5	182.4	228.8
	United States	477.6	495.1	643.8	755.8	838.8
Other bilateral		302.3	328.2	340.9	391.9	426
Of which:	Argentina	0.0	0.0	17.6	24.1	24.1
	China	0.0	0.0	2.0	2.0	2.6
	Mexico	61.4	83.0	95.4	95.4	98.3
	Venezuela	240.9	245.2	225.9	270.4	301.6
Commercial banks		330.9	752.6	843.9	814.4	818.7
Suppliers, etc.		2.7	1.1	105.9	106.3	108.4

Sources: Central Bank of the Dominican Republic; IBRD Debt Reporting System.

1/ Data for 1982-83 are taken from the IBRD debt reporting system, and thus include only public-sector obligations. Subsequent data are based on information provided by the Dominican Republic authorities, and include some non-guaranteed private sector debt.

Table 25. External Public Debt Summary - Scheduled Debt Service Payments, 1987, by Creditor and by Debtor[a]

(In US$ Millions)

By Creditor	BY DEBTOR: Central Government	Central Bank (Incl. FIDE)[a]	CDE	Reserve Bank	CEA	Other Public Enterprises	Total	Principal	Interest
Multilateral	74.3	93.0	18.6	-	4.8	8.6	199.3	120.7	78.6
IMF	-	81.8	-	-	-	-	81.8	58.7	23.1
World Bank-IDA	24.6	5.8	0.4	-	4.8	-	35.6	18.1	17.5
IDB	21.3	5.4	1.6	-	-	0.2	28.5	9.9	18.6
IFAD	0.8	-	-	-	-	-	0.8	0.3	0.5
Paris Club	23.3	-	16.6	-	-	8.4	48.3	31.6	16.7
OPEC	4.3	-	-	-	-	-	4.3	2.1	2.2
Bilateral Official	36.2	145.9	10.6	-	-	9.0	201.7	162.1	39.6
USAID	11.3	-	-	-	-	-	11.3	5.0	6.3
PL-480 and C.C.C.	9.9	-	-	-	-	7.9	17.8	12.6	5.2
Ex-Im Bank	-	-	9.8	-	-	-	9.8	6.1	3.7
FIV (Venezuela Oil Facility)	8.4	111.8	-	-	-	-	120.2	103.9	16.3
Bank of Mexico (Oil Facility)	-	33.8	-	-	-	-	33.8	28.7	5.1
Other[b]	6.6	0.3	0.8	-	-	1.1	8.8	5.8	3.0
Banks[c]	22.2	47.6	19.6	19.1	4.5	-	113.0[c]	33.7	79.3[c]
Suppliers	2.7	4.9	9.7	-	16.4	5.3	39.0	27.0	12.0
TOTAL	135.4	291.4	58.5	19.1	25.7	22.9	553.0	343.5	209.5
Principal	72.4	191.8	29.6	17.5	18.1	14.1	343.5	-	-
Interest	63.0	99.6	28.9	1.6	7.6	8.8	209.5	-	-

Source: Central Bank.

a. Excludes foreign reserve liabilities of the Central Bank, other than liabilities to the IMF.

b. Includes Governments of Venezuela (Central Bank of Venezuela), Canada, China, Brazil (Banco de Brasil), Spain (Instituto de Credito Oficial), Germany (KFW), and Japan (OECF).

c. Includes Grupo de Bancos (Central Government - debt rescheduling - interest payments only - $11.3 million) and Reestructuracion Bancos Comerciales (Central bank - interest payments only - $45.9 million.)

Table 26. Dominican Republic: External Debt, International Reserve Liabilities, and Debt Service Payments

	1982	1983	1984	1985	Prel. 1986	Est. 1987	Net payments after debt relief 1985	Net payments after debt relief Prel. 1986
	---Millions of U.S. dollars; at end of year---							
Total external liabilities	2,788	3,164	3,403	3,638	3,874			
External debt	1,936	2,531	2,799	3,035	3,340			
Public and publicly guaranteed	1,697	2,292	2,652	2,890	3,201			
Private	239	239	147	145	139			
International reserve liabilities of the Central Bank	852	632	604	603	535			
Scheduled debt service payments	436	489	592	669	636	403.9	383	477
Public and publicly guaranteed	356	423	509	615	625	361.5	329	465
Amortization[a]	178	223	256	337	368	155.6	110	209
Interest[b]	178	200	253	278	257	205.9	220	257
Private	80	66	83	54	11	42.4	54	11
Amortization[a]	46	39	61	39	0	18.3	39	0
Interest	35	28	21	15	11	24.1	15	11
	---(Percent of GDP)---							
Total external liabilities	40.5	46.1	63.6	77.0	69.4			
External debt	28.1	36.9	52.3	64.9	59.9			
Public and publicly guaranteed	24.7	33.4	49.5	61.8	57.4			
Private	3.5	3.5	2.7	3.1	2.5			
Central Bank reserve liabilities	12.4	9.2	11.3	12.9	9.6			
	---Percent of exports of goods and nonfactor services, plus net private transfers---							
Scheduled debt service payments	32.8	34.0	37.6	42.8	38.5	24.5	28.9	
Public and publicly guranteed	26.7	29.4	32.3	39.3	37.9	21.0	28.2	
Private	6.0	4.6	5.3	3.5	0.7	3.5	0.7	

(Continued)

Table 26. (Continued)

	1982	1983	1984	1985	Prel. 1986	Est. 1987	Net payments after debt relief 1985	Net payments after debt relief Prel. 1986
	--Millions of U.S. dollars--							
Memorandum items								
Repurchases from the IMF			2.5	8.6	9.7	32.7	46.0	
IMF charges (including interest)			7.3	15.4	21.1	21.4	23.3	
GDP at market prices[c]			6,880	6,860	5,353	4,678	5,579	
Export of goods and nonfactor services, plus net private transfers			1,332	1,437	1,575	1,565	1,650	

a. Amortization of medium- and long-term debt plus net amortization of short-term debt. Does not include repurchases to the IMF or amortization of other reserve liabilities.

b. Includes interest on reserve liabilities, including IMF charges.

c. Implicit rates applied to convert GDP in Dominican pesos to U.S. dollar. 1982: RD$2.0 per U.S. dollar; 1985: RD$3.1 per U.S. dollar; and 1986: RD$2.89 per U.S. dollar.

Source: Central Bank of the Dominican Republic.

Table 27. Dominican Republic: External Payment Arrears

(Millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986
Total arrears	149.3	316.4	436.4	220.8	527.3	134.0	216.3
Central Bank							
Reserve liabilities	149.3	316.4	436.4	78.2	112.5	66.2	40.4[f]
Letters of credit[a]	102.1	253.7	254.1	0.0	5.3	0.0	0.0
Other[b]	47.4	62.7	182.3	78.2	107.2	66.2	40.4
Other arrears:	0.0	0.0	0.0	142.6	414.8	67.8	175.9
Central Bank, short-term Not included in reserve liabilities[c]	0.0	0.0	0.0	0.0	33.5	5.7	5.7
Paris Club, total	0.0	0.0	0.0	81.8	178.5	30.1	68.0
On previously rescheduled debt	0.0	0.0	0.0	0.0	0.0	30.1	70.1
On debt not previously rescheduled	0.0	0.0	0.0	81.8	178.5	0.0	68.0
Other official bilateral creditors	0.0	0.0	0.0	0.0	10.6	3.7	25.0[g]
Commercial banks	0.0	0.0	0.0	60.8	167.2	0.0	0.3
Multilateral creditors	0.0	0.0	0.0	0.0	1.0	4.3	6.6
OPEC fund	0.0	0.0	0.0	0.0	1.0	3.8	6.6
IBRD	0.0	0.0	0.0	0.0	0.0	0.5	0.0
IDB	0.0	0.0	0.0	0.0	0.0	0.0	[illegible]
Suppliers, etc.	0.0	0.0	0.0	0.0	24.0	26.0	0.2

a. Letters of credit accepted by the local importer, with counterpart deposit in commercial bank.

b. Includes sight collections for which the importer has provided peso counterpart to the Central Bank (cobranzas); requests for exchange transfers for which no counterpart deposit is required (giros y transferencias); and pending transactions which will be settled with funds provided by USAID.

c. Primarily letters of credit.

d. Reduction in arrears included in Central Bank reserve liabilities reflects medium-term rescheduling of US$290 million of such liabilities during 1983.

e. Reduction in arrears during 1985 included the following:

	Cash Payment	Rescheduled	New Arrears
Central Bank reserve liabilities	46.3	0.0	0.0
Other Central Bank nonreserve liabilities	27.8	0.0	0.0
Paris Club	24.1	154.4	30.1
Other official creditors	1.3	7.9	1.0
Commercial banks	26.1	41.1	0.0
Multilateral creditor	0.0	0.0	0.3
Total	125.6	303.4	34.4

f. In addition, the Central Bank had arrears in payments due on reserve liabilities of about US$18 million with the Santo Domingo Accord and US$109 million with the Central Bank of Venezuela. The Santo Domingo liabilities were restructured, while obligations with Venezuela were under renegotiation in early 1987.

g. Assumes that arrears to Venezuela under San Jose accord have been restructured. Restructuring has not been finalized but is being implemented.

Source: Central Bank of the Dominican Republic.

Table 20. Dominican Republic: Net International Reserves

(Millions of U.S. dollars)

	December 31							
	1980	1981	1982	1983[a]	1983[b]	1984	1985	1986
Total	-240.2	-391.1	-701.8	-780.6	-470.9	-362.5	-164.0	-61.3
Central Bank	-212.7	-322.3	-679.6	-737.8	-428.1	-335.9	-248.0	-153.1
Assets	275.2	83.5	172.4	204.3	204.3	268.0	355.4	383.5
Gold	72.8	58.7	43.7	31.3	31.3	7.9	5.9	7.2
Sight deposits and currency	157.7	142.4	103.5	60.5	60.5	176.1	246.9	334.8
Time deposits	16.2	49.0	4.0	72.6	72.6	62.1	51.4	26.9
IDB bonds	1.8	1.0	1.8	1.8	1.8	1.8	1.8	0.9
USAID letters of credit	1.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Items in transit	24.5	28.5	17.7	26.0	26.0	17.9	17.8	13.0
SDR holdings	0.0	1.9	0.6	0.2	0.2	0.4	31.6	0.0
IMF reserve tranche	0.0	0.0	0.0	7.7	7.7	0.0	0.0	0.0
Bilateral agreements	0.6	0.6	1.1	4.2	4.2	1.8	0.0	0.7
Liabilities	-487.9	-605.8	-852.0	-942.1	-632.4	-603.9	-603.4	-536.6
Arrears	-47.5	-62.7	-182.2	-78.2	-78.2	-107.2	-66.2	-40.4
Letters of credit[c]	-102.1	-253.7	-254.1	-290.7	0.0	-5.3	0.0	0.0
Bilateral agreements	-105.7	-89.8	-110.8	-119.3	-119.3	-83.6	-77.6	-34.3
Santo Domingo agreement	0.0	-26.8	-31.6	-31.6	-31.6	-31.6	-23.2	-17.8
Use of IMF resources	-48.5	-23.0	-71.6	-246.2	-246.2	-221.2	-297.0	-306.0
IDB deposit[d]	-15.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central banks	-64.2	-61.0	-51.7	-47.7	-47.7	-46.7	-30.1	-23.9
Foreign commercial banks	-104.1	-88.8	-65.0	-53.8	-34.8	-4.8	-4.8	-4.8
Central Bank of Venezuela	0.0	0.0	-85.0	-59.6	-59.6	-93.9	-103.2	-109.4
Venezuelan Investment Fund	0.0	0.0	9.0	-15.0	-15.0	0.0	0.0	0.0
Banco de Mexico, SA	0.0	0.0	0.0	0.0	0.0	-9.6	0.0	0.0
Bank of Nova Scotia	0.0	0.0	0.0	0.0	0.0	0.0	-1.3	0.0

(Continued)

Table 28. (Continued)

	December 31							
	1980	1981	1982	1983[a]	1983[b]	1984	1985	1986
Commercial banks	-27.5	-68.8	-22.2	-42.8	-42.8	-26.6	84.0	91.8
Assets[e]	127.3	272.5	291.9	333.5	42.8	58.5	123.1	171.9
Liabilities	-154.8	-341.3	-314.1	-376.3	-85.6	-85.1	-39.0	80.1

a. Without rearrangement of liabilities due to commercial bank refinancing.
b. With rearrangement of liabilities due to commercial bank refinancing.
c. Amounts owed to local commercial banks by the Central Bank for letters of credit which have been paid by head offices or correspondent banks abroad.
d. Advance deposit made from the Venezuelan Investment Fund.
e. Includes amounts due to banks from the Central Bank.
Source: Central Bank of the Dominican Republic.

Table 29. United States Economic Assistance to Dominican Republic, in dollars

FY1975-FY1988
In millions US$; obligations

Year	D.A.	PL480 I	PL480 II	AA416 D.	AA416 S.	ESF	Total
FY'75	5.6	0	5.5	0	0	0	11.1
FY'76[a]	16.1	0	11.4	0	0	0	27.5
FY'77	.9	0	9.4	0	0	0	10.3
FY'78	1.3	0	3.9	0	0	0	5.2
FY'79	26.4	13.9	6.8	0	0	0	47.1
FY'80	34.6	15.0	4.7	0	0	0	54.3
FY'81	17.4	14.2	4.4	0	0	0	36.0
FY'82	19.0	17.5	3.1	0	0	41.0	80.6
FY'83	26.5	23.0	2.3	0	0	8.0	59.8
FY'84	30.3	26.0	2.8	2.8	0	34.0	95.9
FY'85	30.1	40.5	1.7	3.6	0	95.0	170.9
FY'86	26.5	30.0	1.7	1.6	0	40.0	99.8
FY'87	19.5	12.9	1.6	0	70.8	0d	104.8
FY'88[b]	20.0	20.0	1.3	0	c	35.0	76.3
Totals	274.2	213.0	60.6	8.0	70.8	253.0	879.6

a. FY'76 plus Interim Quarter
b. Planning figures
c. Estimate $12-15 million
d. An allocation of $13.8 million was approved early in 1988, see Chapter IV.B

Source: USAID Mission

Table 30. U.S. Economic Assistance to Dominican Republic, in local currency (Million of Pesos)

	Programmed[a]	Percent of Total	Authorized[b]	Percent of Total	Released[c]	Percent of Total
FY 82-84 ESF						
1. Economic Stabilization	166	0.20	166	0.20	166	0.21
2. Private Sector Expansion	43,420	52.44	43,420	52.44	43,403	55.55
3. Agricultural Diversification	3,055	3.69	3,055	3.69	3,055	3.91
4. Supporting Infrastructure	36,157	43.67	36,157	43.67	31,508	40.33
5. Other	0	0.00	0	0.00	0	0.00
Total	82,798		82,798		78,132	
FY 85 ESF 12/84						
1. Economic Stabilization	25,058	16.28	25,058	16.34	25,058	16.90
2. Private Sector Expansion	51,910	33.73	51,660	33.68	50,224	33.87
3. Agricultural Diversification	4,000	2.60	4,000	2.61	4,000	2.70
4. Supporting Infrastructure	42,932	27.90	42,682	27.82	39,024	26.31
5 Other	30,000	19.49	30,000	19.56	30,000	20.23
Total	153,900		153,400		148,306	
FY 85 ESF 4/85						
1. Economic Stabilization	7,800	5.40	7,800	6.14	7,800	6.42
2. Private Sector Expansion	81,350	56.36	64,989	51.18	63,535	52.27
3. Agricultural Diversification	5,500	3.81	5,500	4.33	4,258	3.50
4. Supporting Infrastructure	49,700	34.43	48,700	38.35	45,956	37.81
5. Other	0	0.00	0	0.00	0	0.00
Total	144,350		126,989		121,549	

a. Amounts jointly programmed by USAID and GODR.
b. Amounts authorized for release by USAID.
c. Amounts released by GODR.

Table 30 (continued)

	Programmed[a]	Percent of Total	Authorized[b]	Percent of Total	Released[c]	Percent of Total
FY 86 ESF 12/85						
1. Economic Stabilization	13,940	12.40	12,044	19.29	10,595	21.15
2. Private Sector Expansion	35,022	31.14	1,822	2.92	1,108	2.21
3. Agricultural Diversification	4,650	4.13	3,000	4.81	2,180	4.35
4. Supporting Infrastructure	50,072	44.52	40,564	64.98	31,214	62.31
5. Other	8,780	7.81	5,000	8.01	5,000	9.98
Total	112,464		62,430		50,097	
ESF Total (FY82-86)						
1. Economic Stabilization	46,946	9.52			43,619	10.96
2. Private Sector Expansion	211,702	42.90			158,270	39.76
3. Agricultural Diversification	17,205	3.49			13,493	3.39
4. Supporting Infrastructure	178,861	36.24			147,702	37.10
5. Other	38,780	7.86			35,000	8.79
Total	493,512				398,084	

a. Amounts jointly programmed by USAID and GODR.
b. Amounts authorized for release by USAID.
c. Amounts released by GODR.

Table 30 (continued)

	Programmed[a]	Percent of Total	Authorized[b]	Percent of Total	Released[c]	Percent of Total
PL-480 1984						
1. Economic Stabilization	5,792	8.16	5,792	8.69	5,550	8.99
2. Private Sector Expansion	1,000	1.41	1,000	1.50	1,000	1.62
3. Agricultural Diversification	5,490	7.73	4,472	6.71	3,850	6.24
4. Supporting Infrastructure	44,817	63.12	41,492	62.25	37,424	60.63
5. Other	13,899	19.58	13,899	20.85	13,899	22.52
Total	70,998		66,655		61,723	
PL-480 1985						
1. Economic Stabilization	35,600	31.74	35,600	32.52	35,600	38.06
2. Private Sector Expansion	4,000	3.57	4,000	3.65	4,000	4.28
3. Agricultural Diversification	7,246	6.48	4,589	4.19	3,438	3.68
4. Supporting Infrastructure	51,137	45.59	51,137	46.71	36,449	38.97
5. Other	14,159	12.62	14,159	12.93	14,046	15.02
Total	112,160		109,485		93,533	
PL-480 1986						
1. Economic Stabilization	41,300	35.42	33,500	93.26	0	0.00
2. Private Sector Expansion	33,500	28.73	0	0.00	0	0.00
3. Agricultural Diversification	13,000	11.15	0	0.00	0	0.00
4. Supporting Infrastructure	24,300	20.84	0	0.00	0	0.00
5. Other	4,500	3.86	2,423	6.74	2,423	100.00
Total	116,600		35,923		2,423	

a. Amounts jointly programmed by USAID and GODR.
b. Amounts authorized for release by USAID.
c. Amounts released by GODR.

Table 30 (Continued)

	Programmed[a]	Percent of Total	Authorized[b]	Percent of Total	Released[c]	Percent of Total
<u>PL-480 Total (FY84-86)</u>						
1. Economic Stabilization	82,692	27.59			41,[illegible]50	26.10
2. Private Sector Expansion	38,500	12.84			5,000	3.17
3. Agricultural Diversification	25,754	8.59			7,288	4.62
4. Supporting Infrastructure	120,254	40.12			73,873	46.85
5. Other	32,558	10.68			30,368	19.26
Total	299,758				157,679	

	Programmed[a]	Percent of Total	Authorized[b]	Percent of Total	Released[c]	Percent of Total
<u>Combined ESF and PL-480</u>						
1. Economic Stabilization	129,656	16.34			84,769	15.25
2. Private Sector Expansion	250,202	31.54			163,270	29.38
3. Agricultural Diversification	42,959	5.42			20,781	3.74
4. Supporting Infrastructure	299,115	37.71			221,575	39.87
5. Other	71,338	8.99			65,368	11.76
Total	793,270				555,763	

a. Amounts jointly programmed by USAID and GODR.
b. Amounts authorized for release by USAID.
c. Amounts released by GODR.

Source: USAID/DR.

Table 31. USAID/DR PROGRAM OBLIGATIONS

SUMMARY TABLE
(In $000)

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Planned FY 1988
A. Development Assistance						
AGRICULTURE	20,633	16,830	17,010	9,097	10,093	8,000
Loans	18,300	13,800	12,370	7,540	3,000	6,150
Grants	2,353	3,030	4,640	1,557	7,093	1,850
HEALTH AND POPULATION	897	4,974	1,711	3,698	6,180	3,500
Loans	-	4,000	-	-	-	-
Grants	897	974	1,711	3,698	6,180	3,500
EDUCATION	2,500	7,140	7,438	6,531	2,400	2,850
Loans	1,550	4,964	1,036	-	-	-
Grants	950	2,176	6,402	6,531	2,400	2,850
SPECIAL DEV. ACTIVITIES, INCLUDING PRIVATE SECTOR	2,498	1,402	3,919	7,175	799	5,650
Loans	1,500	-	540	3,700	-	-
Grants	998	1,402	3,379	3,475	799	5,650
TOTAL	26,528	30,346	30,078	26,501	19,472	20,000
Loans	21,350	22,764	13,946	11,240	3,000	6,150
Grants	5,178	7,582	16,132	15,261	16,472	13,850
B. ESF - TOTAL	8,000	34,000	95,000	40,000	-	35,000
Loans	8,000	34,000	-	-	-	-
Grants	-	-	95,000	40,000	-	35,000
C. Pl-480 - TOTAL	25,293	28,805	42,181	31,733	14,510	21,294
Loans	23,000	26,000	40,500	30,000	12,900	20,000
Grants	2,293	2,805	1,681	1,733	1,610	1,294
D. Section 416	-	2,755	3,578	1,573	70,800	-
GRAND TOTAL	59,821	95,906	170,837	99,807	104,782	76,294

Source: USAID/DR--PRG

Table 32a. USAID/DR Program, Classified by Project
Projects Supporting Objective of Increased Agricultural Production

Title	Number	New (N) Ongoing (O)	Type of Funding	LOP ($000)	L/G/ LC	Obligations Cum. thru FY-86	FY-1987	FY-1988	FY-1989
On-Farm Water Management	517-0159	O - 83	DA	12,000	L	12,000	-	-	-
			ESF	(1,133)	LC	(1,133)	-	-	-
			PL-480	(5,930)	LC	(233)	(2,500)	(2,000)	(1,197)
Rural Savings Mobiliza- tion	517-0179	O - 83	DA	950	G	950	-	-	-
			ESF	(320)	LC	(320)	-	-	-
			PL-480	(183)	LC	(183)	-	-	-
Agr. Policy Analysis	517-0156	O - 84	DA	500	G	500	-	-	-
			ESF	(460)	LC	(460)	-	-	-
			PL-480	(233)	LC	(233)	-	-	-
Sugar Diversification	517-0236	N - 87	DA	5,000	G	-	5,000	-	-
			S-416	(70,800)	LC	-	(70,800)	-	-
			ESF	(833)	LC	-	(833)	-	-
Dairy Development	517-0241	N - 87	DA	2,000	G	-	2,000	-	-
			S-416	(5,000)	LC	-	(1,000)	(2,000)	(2,000)
Commercial Farming Systems	517-0214	N - 87	DA	4,000	G	-	1,775	625	1,600
				10,000	L	-	3,000	7,000	-
			ESF	(10,000)	LC	-	(3,333)	(3,333)	(3,334)
			PL-480	(6,500)	LC	-	(1,500)	(3,333)	(1,667)
(Agribusiness Promotion	517-0188	O - 85)	DA	(2,500)	G	(2,500)	-	-	-
				(17,300)	L	(17,300)	-	-	-
			ESF	(31,103)	LC	(20,560)	(7,900)	(2,643)	-
			PL-480	(10,000)	LC	-	(5,000)	-	(5,000)
(Rural Dev. Mgt.	517-0125	O - 81)	DA	(1,600)	G	(1,600)	-	-	-
			PL-480	(1,000)	LC	(500)	(500)	-	-
(Agr. Sector Training	517-0160	O - 83)	DA	(5,000)	L	(5,000)	-	-	-
			PL-480	(48)	LC	(8)	(5)	(35)	-
Agr. Production Credit	517-LC-01		ESF	(14,787)	LC	(14,787)	-	-	-
			PL-480	(19,884)	LC	(14,884)	-	(1,000)	(4,000)
Agr. Production Diversification	517-LC-02		ESF	(618)	LC	(618)	-	-	-
			PL-480	(3,885)	LC	(2,218)	(1,667)	-	-
Assistant to PVOs	517-LC-03		ESF	(2,021)	LC	(1,354)	-	(667)	-
			PL-480	(3,600)	LC	(833)	(667)	(433)	(1,667)

Source: FY - 1988-89 USAID/Dominican Republic Action Plan

Table 32b. USAID/DR Program, Classified by Project
Project Supporting Objective of Strengthening the Private Sector

Title	Number	New (N) Ongoing (O)	Type of Funding	LOP ($000)	L/G/ LC	Obligations: Cum. thru FY-86	FY-1987	FY-1988	FY-1989
Small Industry	517-0150	0 - 82	DA	850	G	850	-	-	-
				5,000	L	5,000	-	-	-
Micro-Business Dev. (OPG)	0208	0 - 84	DA	499	G	499	-	-	-
		0	ESF	(1,083)	LC	(450)	(333)	(300)	-
			PL-480	(667)	LC	-	(333)	-	(334)
Privatization/Debt Convers.	0237	N - 88	DA	5,000	G	-	-	5,000	-
			ESF	(10,000)	LC	-	-	(4,000)	(6,000)
Industrial Prod. Tech.	0238	N - 89	DA	3,000	G	-	-	-	3,000
				6,000	L	-	-	-	6,000
			ESF	(7,000)	LC	-	-	-	(7,000)
Artisanal Promotion (OPG)	0240	N - 87	DA	700	G	-	700	-	-
(Graduate Management Training	0157	0 - 83)	DA	(6,500)	G	(6,500)	-	-	-
			ESF	(2,733)	LC	(1,330)	(70)	(1,333)	-
(Agribusiness Promotion	0188	0 - 85)	DA	(2,500)	G	(2,500)	-	-	-
				(17,300)	L	(17,300)	-	-	-
			ESF	(31,103)	LC	(20,560)	(7,900)	(2,643)	-
			PL-480	(10,000)	LC	-	(5,000)	-	(5,000)
(Development Training	0216	0 - 86)	DA	(7,000)	G	(4,500)	(500)	(1,200)	(800)
(Sugar Diversification	0236	N - 87)	DA	(5,000)	G	-	(5,000)	-	-
			S-416	(70,800)	LC	-	(70,800)	-	-
			ESF	(833)	LC	-	(833)	-	-
Assistance to PVOs	517-LC-03	0 - 83	ESF	(3,088)	LC	(1,138)	(283)	(667)	(1,000)
			PL-480	(1,087)	LC	(420)	(667)	-	-
Private Sector Studies	517-LC-04	0 - 84	ESF	(230)	LC	(230)	-	-	-
			PL-480	(245)	LC	(245)	-	-	-
Strengthen Private Sector	517-LC-15	0 - 84	ESF	(9,953)	LC	(4,400)	(220)	(2,000)	(3,333)

Source: FY - 1988-89 USAID/Dominican Republic Action Plan

Table 32c. USAID/DR Program, Classified by Project
Projects Supporting Objective of Export Promotion

Title	Number	New (N) Ongoing (O)	Type of Funding	LOP ($000)	L/G/ LC	Obligations: Cum. thru FY-86	FY-1987	FY-1988	FY-1989
Agribusiness Promotion	517-0188	O - 85	DA	2,500	G	2,500	-	-	-
				17,300	L	17,300	-	-	-
			ESF	(31,103)	LC	(20,560)	(7,900)	(2,643)	-
			PL-480	(10,000)	LC	-	(5,000)	-	(5,000)
Export/Investment Promotion	517-0190	O - 85	DA	6,000	G	4,800	820	380	-
			ESF	(2,422)	LC	(2,006)	(166)	(250)	-
			PL-480	(600)	LC	-	(267)	-	(333)
(Commercial Farming Systems)	517-0214	N - 87)	DA	(4,000)	G	-	(1,775)	(625)	(1,600)
				(10,000)	L	-	(3,000)	(7,000)	-
			ESF	(10,000)	LC	-	(3,333)	(3,333)	(3,334)
			PL-480	(6,500)	LC	-	(1,500)	(3,333)	(1,667)
(Artisanal Promotion)	517-0240	N - 88)	DA	(700)	G	-	-	(700)	-
Free Zone Development	517-LC-05	O - 84	ESF	(21,910)	LC	(10,660)	(2,667)	(5,250)	(3,333)
Tourism Infrast./OPIC	517-LC-06	O - 86	ESF	(10,000)	LC	(10,000)	-	-	-

Source: FY - 1988-89 USAID/Dominican Republic Action Plan

Table 33. Timeliness of LC Deposits Made by GODR under ESF Program

ESF Disbursement	Date of Dollar Cash Transfers	Date Local Currency Deposited	Amount of RD Pesos Deposited	Compliance with Covenant
1st tranche ($50,000,000) 1985 ESF Agreement	12/26/84	12/26/84	1,000,000	Timely
		03/29/85	126,000,000	2 mos. late
		01/31/86	8,000,000	12 mos. late
		Pending	18,500,000	34 mos. late as of 11/16/87
2nd Tranche ($45,000,000) 1985 ESF Agreement Amendment No. 1	4/26/85	02/20/86	142,650,000	9 mos. late
		02/18/87	1,800,000	21 mos. late
		Pending	900,000	30 mos. late as of 11/16/87
3rd Tranche ($40,000,000) 1986 ESF Agreement	12/27/87	04/01/86	35,800,000	Timely
		04/30/86	74,200,000	Timely
		02/18/87	4,400,000	9 mos. late

Source: USAID/DR Audit Report

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Annex 1. Macroeconomic Developments by Policy Areas

Public Finance

The Dominican public sector consists of the Central Government and public enterprises, the largest of which are the Dominican Electricity Corporation (CDE), the National Institute of Price Stabilization (INESPRE), the State Sugar Council (CEA), and the Corporation of State Enterprises (CORDE), a holding company for enterprises that are partly or wholly owned by the state.

From 1980 to 1986, public sector deficits have averaged roughly 4.6 percent of GDP. This figure excludes the BCRD's quasi-fiscal deficit, which since 1982 has arisen from losses incurred by the bank in assuming the external debt service payments of the public sector. In 1985, the quasi-fiscal deficit fell to 1.4 percent of GDP from the 1984 level of 2.5 percent, because of government transfers to the BCRD. However, in the absence of such transfers in 1986, the deficit rose to 2.3 percent of GDP.

The deficits of the Central Government over the past seven years have followed a certain rhythm, with modest increases in revenue being offset by larger increases in expenditures. Following a 12 percent decline in 1981, from 2.4 to 2.1 percent of GDP, the deficit climbed to 2.8 percent of GDP in 1982. Modest improvement in 1983 and significant improvement in 1984 (from 2.5 to 0.7 percent of GDP) were due to an increase in revenues and a decrease in expenditures relative to GDP. The principal boost in 1984 revenues came from a 60 percent increase in petroleum product prices. But in 1985 and 1986, increases in capital expenditures outpaced revenue growth, leading to deficits of 0.7 and 1.2 percent of GDP, respectively.

Since 1980, taxes have provided an average of 86 percent of Central Government revenue, the remainder coming mostly from dividend payments of the state-owned Rosario Gold Mining Company. Some key revenue measures were incorporated in the January 1985 adjustments: (1) an exchange surcharge of 36 percent was levied on traditional exports and 5 percent on non-traditional exports;[11] (2) prices of refined petroleum products were raised, reflecting an increase in oil taxes; and (3) the taxable value of imports reflected the market exchange rate rather than the 1984 rate of 2 pesos per U.S. dollar. These revenue measures resulted in a near doubling of tax revenues in 1985, the majority of which (RD$ 550 million) came from the export surcharge. Total Central Government revenue rose from 11.2 percent of GDP in 1984 to 15.6 percent of GDP in 1985. Revenues were down in 1986 despite the fact that excise tax receipts on petroleum products rose, even though oil prices fell; only part of the decrease in oil prices was passed on to consumers. From January through June of 1987, Central Government revenue performance had eclipsed revenue performance for the same period in 1986. The 13 percent increase is due largely to higher dividend payments from the Rosario Gold Mining Company resulting from the rise in gold prices, and to the collection of corporate income tax arrears.

Between 1980 and 1984, Central Government expenditures had a downward trend relative to GDP, from 16 percent in 1980 to less than 12 percent in 1984, attributable to declines in current expenditures. From a 1982-83 average of 10 percent of GDP, current expenditures fell to 9 percent in 1984, because of a reduction (relative to GDP) in wages and salaries as well as a suspension of interest payments on debt. The peso depreciation that followed the unification of the exchange market in 1985 was responsible for

11. The 36 percent surcharge on traditional exports was reduced to 18 percent in January 1986 and eliminated in June 1986; the 5 percent surcharge on non-traditional exports was abolished in January 1986.

the increase in Central Government expenditures in 1985 to 16.4 percent of GDP from 12 percent in 1984. A 25 percent reduction in current transfers to public enterprises and a suspension of transfers to some state enterprises resulted in a decline in total expenditures, to 15.5 percent of 1986 GDP. The first six months of 1987 saw a marked improvement in Central Government operations. While revenues increased by more than 13 percent in nominal terms, expenditures increased by less than 3 percent, even though capital expenditures nearly doubled.

The primary sources of revenue for public enterprises are income from operations and Central Government transfers. Purchases of goods and services represent the biggest drain on revenues. From 1981 to 1984, the combined deficits of the four major parastatals declined. In particular, CDE's current deficit fell between 1980 and 1982 and registered surpluses in 1983-84.

But because of high operating costs and tariffs, which do not accurately reflect production costs, as well as problems with payments and collections, the four parastatals incurred increasingly large deficits in 1985 and 1986. Their combined deficits in 1985 reached 3.9 percent GDP before Central Government transfers and 1.4 percent after transfers. The situation deteriorated further in 1986, when the deficit climbed to 4.1 percent of GDP before government transfers and 1.8 percent after transfers. Furthermore, the unification of the exchange rate in January 1985 necessitated significantly larger outlays for imported inputs, but no commensurate adjustment to tariffs was made. From 1984 to 1986, combined expenditures increased from 14 to 16 percent of GDP, yet combined revenues were only 11 percent of GDP in 1986, up from 10 percent in 1984.

Monetary Policy

The principal tools of monetary policy are reserve requirements and government-regulated interest rates.[12] Given the sophistication of financial

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12. In a recent monetary development, the Monetary Board announced in November 1987 the introduction of a 10 percent exchange deposit on exports. Under the measure, designed to contract liquidity temporarily, 10 percent of the peso value of exports will be deposited in a special account at the BCRD

institutions and the variety of financial instruments in the DR, the evolution of the financial system seems to have reached a level where the BCRD may be able to use open market operations as an efficient instrument of monetary control.

There is an inherent problem with the use of interest rates as a mechanism for monetary policy — an archaic usury law that places a 12 percent ceiling on loan rates; lending institutions are, however, permitted to add a few points for fees and commissions. The formal financial sector is thus hamstrung in its ability to attract deposits, however, the burgeoning informal financial sector, which until very recently had been unregulated, has offered rates well above the government interest rate ceiling.[13]

In an effort to adjust interest rates in 1982, the authorities raised the interest rate ceiling on time, savings, and demand deposits, and also gave approval to financial institutions to issue high-yield financial certificates. The range of interest rates on time, savings, and demand deposits was raised from 6.5 to 9.5 percent; however, the rate was not readjusted, as it should have been, when the value of the peso began to decline. The financial certificates have returns linked to international money market rates, but the minimum denomination was quite high — RD$ 200,000 for commercial banks and RD$ 100,000 for development banks. In January 1985, the Monetary Board changed the completion of these securities by (1) reducing the minimum denomination to RD$ 10,000; (2) reducing the minimum maturity to 180 days from one year; and (3) raising the maximum interest rate from 16 to 18 percent. In September 1986, the maximum rate was lowered to 16 percent.

Reserve requirement policy has been used for quantitative, and unfortunately, selective credit control. As such, it is riddled with loopholes, which reduce both the effective reserve requirement and any impact that monetary policy is intended to have. As an example, the Monetary Board adopted measures in January 1987 to phase out marginal reserve requirements

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for 90 days at 1 percent per month.

13. In January 1987, the monetary authorities set interest rate ceilings on permissible deposits, imposed reserve requirements, and stipulated that 25 percent of lending must go to productive sectors.

by December 1987 and install a unitary system of reserve requirements of 30 percent on financial certificates and on time and savings deposits. However, up to 45 percent of reserve requirements may be satisfied with government securities issued to finance development. Requirements may also be fulfilled using loans granted to CEA.

Further evidence of the use of the reserve requirement mechanism as a selective rather than a quantitative tool of monetary policy is government concessions granted in 1986. In three specific instances, banks were allowed to reduce their reserves in order to supply credit to finance (1) the planting of rice and beans, (2) INESPRE's purchase of the 1985 rice crop, and (3) the State Sugar Council. Moreover, the BCRD's stringent policy on rediscounts and advances was loosened to enable the Reserve Bank to rediscount RD$ 115 million in loans to the Agricultural Bank.

The efficacy of reserve requirements as a means of restricting the flow of credit has been seriously hampered by the Banco de Reservas, the government-owned commercial bank. Over the years, the bank has increasingly relied on reserve requirement deficiencies to service public sector credit needs. The deficiencies reached RD$ 100 million at end 1983 and RD$ 77 million at end 1984. The bank has at times even resorted to the use of overdrafts to provide for public sector credit needs that the BCRD refused to provide. At end 1983, overdrafts climbed to RD$ 60 million but they fell to RD$ 7 million at end 1984.

Balance of Payments

During 1980-84, the Dominican Republic experienced large current account deficits, averaging 5.6 percent of GDP, financed primarily through the accumulation of external arrears. The overall balance-of-payments deficit improved significantly in 1984, from $366 million to $138 million, driven by major improvements in the current account deficit and a more than doubling of the capital account. The current account deficit fell 38 percent in 1984, to roughly $260 million, resulting from an 11 percent surge in exports and a 20 percent increase in tourism receipts

Merchandise exports declined 15 percent in 1985. However, a 65 percent improvement in the services deficit, from $136 million to $47 million, contributed to a slight improvement in the current account deficit of 8 percent; the current account deficit relative to GDP, however, rose slightly to 5.1 percent. Huge positive errors and omissions (from $41 million in 1984 to $256 in 1985) contributed to the 40 percent improvement in the overall deficit (to $84 million). The reduction of the overall deficit, coupled with debt relief from official creditors and commercial banks amounting to almost $630 million, facilitated a $347 million reduction in external payment arrears.

The fall in both oil prices and international interest rates facilitated a reduction in the current account deficit relative to GDP, from 5.1 percent in 1985 to 3.1 percent in 1986. Lower sugar earnings were offset by the increase in coffee export receipts owing to higher world coffee prices. The improvement was attributed to a strong performance in the nontraditional export sector as well as increased earnings from tourism. Nonetheless, a 73 percent reduction in the capital account, because of a surge in net outflows from the public sector and a reduction in net capital inflows from the private sector, resulted in an increase in the overall deficit to $154 million from $84 million in 1985. Financing of the deficit was provided by $165 million in debt relief representing rescheduling of principal obligations under the MYRA and a $108 million accumulation of external payment arrears.

Estimates for 1987 suggest a further reduction in the current account deficit, to roughly $152 million, representing a 16 percent improvement over 1986. Because of the diminished U.S. sugar quota and a slump in coffee prices, the trade account is expected to worsen. Nevertheless, the continued growth of tourism receipts is expected to bolster the current account.

Large positive errors and omissions, believed to have resulted from deposits in the informal financial sector by Dominicans living abroad, contributed to the financing of the current account deficits in 1985-86. The fact that receipts from private remittances and tourism are estimated by indirect methods might also account for the size of this item. It is believed that the large inflow of capital to the informal financial sector in 1985-86 was triggered by the depreciation of the peso. Considering the indirect methods for calculating tourism receipts and capital repatriation, and also lingering doubts about the continuation of capital inflows in magnitudes equivalent to those of 1985-86, net errors and omissions are estimated to equal roughly $50 million in 1987. This will result in an overall deficit increase from around $40 million to $195 million. Implicitly, a larger positive errors and omissions figure would mean a smaller financing need.

From 1982 to 1985, roughly 59 percent of export earnings have come from traditional exports (sugar, coffee, cocoa, tobacco), with ferronickel, gold, and silver accounting for another 30 percent. Sugar exports remain the largest source of foreign exchange, despite the fact that sugar receipts have been erratic because of fluctuations in world prices. Moreover, progressive reductions in the U.S. import quota of Dominican sugar makes continued dependence on sugar exports as the source of foreign exchange less and less viable.

The three other main exports, coffee, cocoa, and tobacco, together constituted 28 percent of 1986 export earnings. Receipts from all three fell in 1985 because of quota limitations or declining world prices or some combination thereof.

Prospects for nontraditional exports such as pineapples, melons, cotton, textiles, and plastics are good. They are permitted duty-free entry into the United States, to which more than 70 percent of Dominican exports are destined, under the CBI.

The total value of imports has been fairly stagnant from 1982 to 1986, ranging between $1.25 and $1.29 billion per year. The notable exceptions have been petroleum and petroleum-based products which fluctuate in response to gyrations in world prices.

The Dominican Republic still maintains a system of import and export controls, which serve as disincentives to the trade sector and thus impede the efficient flow of trade. Laws granting exemptions on import duties and income taxes are intended to promote domestic industry. They are discriminatory, however, because their application is selective. Furthermore, the exemptions are fiscally imprudent since many of them were established prior to the 1985 exchange rate unification, when the official peso rate was on a par with the U.S. dollar and imports were undervalued.

The Monetary Board issued a resolution in November 1987 i imposing a 20 percent exchange surcharge on nonessential imports; however, the surcharge will not be levied, on public sector imports or on imports of essential items such as food, medicines, and petroleum. Although not explicitly stated, this measure is expected to be temporary.

Brief mention has been made of the wrong signal sent to the exchange market by the Monetary Board resolutions of February 19, 1987. A somewhat detailed analysis of Resolutions 9 and 10 of February 19, 1987 is given below.

1. Resolution No. 9 of February 19, 1987 amends Resolution No. 13 of January 23, 1985, regarding the submission of documentation to BCCRD for foreign exchange payments. Resolution 13 of January 23, 1985:

    a. Covered payments for imports of goods and service, with the exception of payments effected through special dollar accounts with commercial banks;

    b. Required that these payments be made through the domestic banking system;

    c. Required verification by the BCRD Foreign Exchange Department that the import is properly documented (with sanctions and penalties for delay in submitting or failure to submit the documents, and for irregularities).

2. In contrast, Resolution 9 of February 19, 1987:

    a. Covers foreign exchange payments in general, including payments effected through special dollar accounts with commercial banks;

    b. Requires that these payments be made through the domestic banking system;

    c. Requires prior verification and approval of the documentation by the Foreign Exchange Department. The importer would have to show such approval for the clearance of goods from the Customs.

3. For the time being, the intention of Resolution 10 of February 19, 1987 seems to be to find a market-related method of determining an appropriate exchange rate for possible BCRD intervention in the exchange market — a rate that would closely follow the "underlying" trends in the exchange market but would avoid the excessive day-to-day fluctuations. However, this resolution does empower BCRD to fix an "official" exchange rate which may differ significantly from the market rate.

The following is a summary of the measures concerning the exchange system contained in five Resolutions adopted by the Monetary Board on November 12, 1987.

First Resolution: This is the most important resolution.

- An international payments system based on a unified and flexible exchange rate is established.

- The international payments system will consist of an official market and a free market, each with its own coverage of transactions ("segmentados").

- The unified exchange rate will be determined in the free market. The BCRD will make daily announcements of the unified exchange rate based on a weighted calculation of the previous day's operations of commercial and exchange banks in the free market. As explained in the BCRD press release at the time of publication of these resolutions, the calculation will be a weighted average of the selling rates of the previous day.

- The official market will receive foreign exchange from exports of goods and specified services; free industrial zones; foreign grants, loans, and investments; credit cards; and net profits from free trade zones.

- The official market will provide foreign exchange for petroleum imports; public sector imports of goods and priority services; external public debt service; pending private sector imports in the priority list specified in the second resolution of the Monetary Board of July 13, 1987, under letters of credit or suppliers' credits (collections, drafts, transfers); and pending imports of foreign direct investment firms.

- The free market will receive foreign exchange from private remittance, tourism, casinos, and private holdings.

- The free market will provide foreign exchange for private sector imports of goods and services, nonpriority services of the public sector, tourism, private sector external debt services, profit remittance, and capital repatriation.

- Prior BCRD approval will be required for all international payments made through the official market and for some international payments made through the free market, such as technical services, royalties, profit remittance, and capital repatriation.

- BCRD approval will not be required for imports of goods and services channeled through the free market, other than those mentioned above.

Second Resolution:

- A 20 percent exchange surcharge (Comision de Cambio) is levied on the FOB value of nonessential private imports in pesos at the unified exchange rate prevailing on the day the tax is paid. The sixth resolution of January 8, 1987 (with its subsequent amendments), which levied a 2 percent exchange surcharge on imports (raised to 5 percent in May 1987), is modified accordingly.

- Attached to the resolution is the operative mechanism for collecting the 20 percent exchange surcharge.

Third Resolution:

- The authorization system for opening dollar accounts in commercial banks to pay for imports of goods and services is reestablished, subject to the required submission of documentation to the BCRD within five days of undertaking the operation.

- These dollar accounts may also be used, with prior BCRD approval, for capital repatriation, technical services, royalties, and profit remittances.

Fourth Resolution:

- The 2 percent exchange surcharge (Comision de Cambio) on exports, established under the sixth resolution of January 8, 1987, is abolished.

Fifth Resolution:

- This resolution creates an exchange deposit (deposito cambiario) in the BCRD, equal to 10 percent of the local currency value (at the unified exchange rate prevailing at the time) of exports (except free industrial zone exports) for 90 days at 12 percent annual interest.

Several observations may be made about these measures.

1. The BCRD's "messing around" with the exchange system between February and October 1987 had disastrous consequences (weakened private sector confidence, reduced inflow and increased outflow of foreign exchange, and hence rapid exchange depreciation), the reverse of what was intended. In sharp contrast, the first resolution establishes a market-determined, flexible exchange rate — a "clean" float. In moving immediately to a unified exchange rate, the authorities have performed better than was envisioned in the July 1987 report of A.I.D. consultants[14] on the exchange system. This is a courageous and giant step (given the background of the past few months) towards monetary stabilization and economic recovery, and deserves encouragement and tangible support. However, if the benefits of this policy measure are to prove lasting, adequate fiscal and monetary measures must accompany it.

2. It must be emphasized that the new exchange system represents a dual exchange market with a single ("unified") exchange rate — not a dual exchange rate. The two markets are separate ("segmentados") in the sense that each has its own sources of supply of foreign exchange and caters to specified categories of demand for foreign exchange. The transactions assigned to each market closely follow the recommendations of the July 1987 report of A.I.D. consultants on the exchange system. The dual market arrangement has proved workable in the DR in 1985-86, and will remain workable as long as the foreign exchange inflow into the official market is adequate to satisfy the demand in that market. If the inflow is inadequate for any length of time, strains will appear and the survival of the free exchange system will depend on the authorities' commitment to adopt market-oriented policy responses and to refrain from exchange controls.

3. As further evidence of their adherence to such a commitment, the authorities have announced that the BCRD will sell foreign exchange to the free market, when its holdings exceed a certain "strategic" level. In fact, the Central Bank sold $16.3 million for pending private imports on the priority list (see first resolution), thus "demonetizing" RD$ 72.3 million. The BCRD has also reiterated that commercial and exchange banks may henceforth buy and sell exchange freely (Listin Diario, November 17, 1987).

4. As indicated in the BCRD press release at the time of publication of these resolutions, the 20 percent exchange surcharge on nonessential private imports (second resolution) is a fiscal measure expected to yield some RD$ 700 million annually. The proceeds are to be deposited in the BCRD and are destined for external debt service payments of the Central Government and the public enterprises. This tax is similar to an import surcharge, and, as such, is expected to be temporary, even though the resolution does not describe it as temporary.

5. The reestablishment of the authorization for opening dollar accounts in commercial banks to pay for imports (third resolution), although not necessary for the functioning of the free exchange system, represents a signal

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14. Including M. Haris Jafri as one of the team members.

that the exchange system has returned to the "normal" state that prevailed in 1985-86.

6. The abolition of the 2 percent exchange surcharge on exports (fourth resolution) is a welcome move to encourage exports.

7. The 10 percent exchange deposit on exports (fifth resolution) is a monetary measure, similar to advance import deposits, designed to bring about temporary contraction of liquidity. Assuming stable exports and no change in percentage and duration of the deposit requirement, the following propositions can be stated (as in the case of advance import deposits):

- There will be a contractionary impact during the first 90 days as the deposits build up.
- Thereafter, the monetary impact will be neutral, since new accretions of deposits would be offset by refund of deposits received earlier.
- Finally, when the system is abolished, there will be an expansionary impact as the deposits of the last 90 days are refunded.
- Hence, the contractionary impact will continue after the first 90 days, only if (1) exports increase; (2) the percentage of the deposit is raised; (3 the duration of the deposit is increased; and/or (4) some combination of these three events takes place.

ANNEX 2. SCOPE OF WORK

The contractor will undertake an evaluation of the cash transfer programs that have been provided by AID (since 1980) in Jamaica and Costa Rica. This will include work in Washington and in each country.

A. The General Strategy of the Evaluation Study

A series of case studies will be conducted ultimately covering the range of A.I.D.'s cash transfer programs. The case studies will assess the achievement of program objectives and to the extent possible, the development effects the programs have had. Individual country cash transfer programs differ in regard to the types of reform measures they support and their provision of foreign exchange to the private sector for the import of industrial inputs, spare parts, and other items. However, several generic issues apply to all such programs and will be examined by each case study so that findings can be summarized or synthesized -- i.e., so that the cases are comparable and identify common patterns or results across the set of programs studied.

The generic issues to be examined are: a) macroeconomic trends, b) the national stabilization and structural adjustment agenda supported by donor agencies, c) A.I.D.'s contribution to stabilization and structural adjustment, d) the development effects of the implementation mechanism (e.g., local currency uses), and e) design, implementation management issues. These issues are discussed below in more detail, describing the types of questions which should be considered. The content of the programs selected will, of course, determine the exact scope of work for each case study to be developed prior to field work (discussed in Section 6 - Procedures and Requirements).

The study will begin with programs in the Latin American and Caribbean (LAC) Region where cash transfers have been used extensively. The LAC Region's approach has been to develop a program with an initial set of conditions and reforms which is then amended or succeeded by follow-up programs in subsequent years, usually adding to or extending program conditionally. In short, these are multi-year programs with considerable flexibility in modifying program conditionality. LAC's programs have also been underway long enough to have produced development effects, as well as to provide insight into the design, implementation and management requirements of cash transfer programs.

B. Study Content and Issues

The contractor will accomplish the following tasks:

1. Macroeconomic Trends

Based on available studies and reports, the contractor will summarize macroeconomic trends in the host country over the past decade. This discussion should include

- Public sector revenues and expenditures disaggregated by major source and use, including parastatals
- Monetary policy including controls on interest rates, exchange rates and commodity prices
- Balance-of-payments trends including terms of trade, financing of deficits, and the country's repayment history (i.e., has it remained current)
- Major characteristics of the country's foreign trade regime (principal import and export commodities, tariffs, quotas, and other trade regulation)

2. Other Donor Stabilization and Structural Adjustment Program

The contractor will summarize recently completed and/or ongoing major programs of other donors, particularly the IMF and the World Bank, directed toward economic stabilization and structural adjustment. This discussion should include

- Funding levels, major objectives, conditions, and the degree of complementarity among the major programs

- Host country compliance with program conditions, including the enactment of reforms supported by the program

- Whether major implementation problems occurred, resulting in delaying disbursement of funds, cancellation of the program or modification of program conditions

- Results of the program regarding debt rescheduling or new lending by commercial banks and/or other donor agencies

3. A.I.D.'s Stabilization/Structural Adjustment Programs

The contractor will do the following

A. A.I.D.'s Overall Support for Stabilization and Structural Adjustment

In countries where A.I.D. is funding more than one program which affects economic stabilization and structural adjustment (e.g., PL-480, CIPs), the contractor will first describe A.I.D.'s overall program as was done for the other donors. This should include

- Funding levels, major objectives, conditions, and the degree of complementarity with other donor programs and with the A.I.D. cash transfer program

B. The Cash Transfer Based Policy Reform Program - Conditions and Reforms Where Progress Has Been Made

The contractor will do a thorough assessment of the cash transfer program which will include the following:

- Funding levels, major objectives, conditions, and the degree of complementarity with other donor programs

- Conditions which have been met and reforms enacted, either partially or fully; time required; and factors (external and internal) which have contributed to this progress

- The significance of these reforms vis-a-vis other donor programs -- e.g., did A.I.D.'s program add to or expand the overall stabilization and structural adjustment agenda, facilitate implementation of reforms, etc.

- The effects of reforms enacted (or what is the potential effect of reforms partially enacted when fully enacted) in the following areas: exchange rate, fiscal deficit and government revenues, privatization, deregulation, tax reform, export promotion and trade policy

- If appropriate, sector-specific changes which are at least partially attributable to the reform measures, such as the structure of the sector, factors of production, labor supply or demand, wages, savings, investment, distribution of land and capital, supplies of imports of commodities or substitutes, the organization and performance of markets and access to markets by produces, demand and consumption of major products, price changes in official and free markets, consumer and producer prices, price stability/instability, sectoral production increases, and others as relevant

- Segments of the population that appear to have benefitted or lost -- financially or non-financially (food consumption, nutrition, living standards) -- from the reform measures, and those who have been unaffected either negatively or positively, as well as an assessment of how permanent or temporary such effects are likely to be

- Indication that during the course of A.I.D.'s program, the country's balance-of-payments performance has improved (or worsened), such as timeliness of payments, levels of payments, levels of foreign debt, level of foreign exchange reserves, export and import trends, economic growth rates and the extend to which A.I.D.'s program contributed to these changes

- Evidence that the program increased A.I.D.'s influence or negotiating in discussions concerning management of balance of payments, foreign exchange or debt problems and/or expanded A.I.D.'s role in the host country's policy development process

C. Conditions Not Complied With

Regarding program conditions and reforms not complied with, the contractor's analysis and report will discuss the following topics:

- Factors affecting non-compliance with program conditions (e.g., unrealistic time frame lack of host country commitment, changes in external or domestic economic and political conditions which made action difficult or impractical)

- The significance of not taking these actions vis-a-vis overall program objectives (i.e., how does this affect stabilization and structural adjustment objectives)

- As a result of non-compliance, sanctions imposed until conditions were met, or revisions made to the program

- The effects of broader U.S. foreign policy objectives on compliance with conditionality

- Suggestions/recommendations concerning possible courses of action in the future to assist the host country to meet program conditions

D. Implementation Mechanisms

In policy reform programs using a cash transfer mechanism, program implementation often requires the host country to provide the local currency equivalent of the dollar funding of the program for loans to the private sector, or to support specific development projects. In addition, there may be a requirement to make foreign exchange available to the private sector for importation of raw materials, spare parts, equipment, etc.

- Discuss the advantages and disadvantages of cash transfer versus other resource transfer mechanism

- Describe briefly the program's local currency and foreign exchange mechanisms, the extent to which they were implemented successfully, the significance (if any) these mechanisms have had for the local economy (e.g., allowed key industries to operate at a higher level), and who benefited most from the funds made available

- Discuss the administrative or management requirements these mechanisms imposed on the host country and A.I.D., assess whether these demands were manageable and recommend how the mechanisms could be improved and/or possible alternatives which might lessen program management demands or expedite implementation

E. Long-Run Development Impact

To assess the extent to which the policy reform programs contribute to long-run improvements in output, employment, and living standards, the case studies will look for evidence that

- The structural reforms implemented to date have improved export performance or the prospects for increased exports

- The structural reforms are leading to a more labor-intensive pattern of economic growth

- The domestic food production and rural incomes are beginning to increase at a faster rate

- More resources will be available to finance programs in health, education and other dimensions of socio-economic development through
  - higher rates of economic growth
  - improved tax administration
  - improved efficiency of public sector expenditures, including cost recovery measures; reduction or elimination of subsidies, especially those benefitting the more wealthy; and privatization of government-run commercial firms

F. Design, Implementation and Management Issues

To improve future policy reform programs using a cash transfer mechanism, the contractor will consider the following issues:

- The relative emphasis given to stabilization versus structural adjustment in the design of the program, and in retrospect, whether a different emphasis would have improved the effectiveness of the program

- The soundness of the reforms supported by the program from a practical point of view — i.e., the accuracy of assumptions about host country commitment, the political costs of compliance, host country administrative capabilities and other pertinent local factors which influenced program implementation

- The adequacy of funding levels in light of the conditions stipulated in the program

- The timeliness of program disbursement — i.e., whether disbursements were made in accordance with the host country's foreign exchange demands

- How program implementation was monitored by A.I.D. and whether the information requirements for this monitoring were within host country and mission capabilities

- Administrative and management demands on the host country by A.I.D.

- Coordination of program conditionality with World Bank and IMF programs

- The relationship of the program to other economic assistance in the mission's portfolio including possible changes in the pattern of local currency uses

- Recommendations concerning improving the design of similar programs in the future based on the preceding topics

ANNEX 3. CONDITIONS INCLUDED IN ESF LOANS AND GRANTS

I. FY-1982 - $41 Million Private Enterprise Sector Development Cash Transfer Loan, Agreement of September 30, 1982.

Cash transfer for BOP relief, with local currency proceeds to be held in special accounts, to be used for high priority private sector development needs: a) $25 million equivalent for private sector export promotion and agribusiness projects; b) $6 million for training programs and institutional strengthening of private sector development organizations; and c) $10 million for GODR investment in productive infrastructure necessary for expansion of private sector. Examples given for (c) were facilities necessary for agricultural exports, transportation networks, and irrigation. Mainly for counterpart funding or projects supported by international loans (IBRD financed irrigation and highway projects; IDB highway and other projects). <u>Source</u>: September 17, 1982 PAAD.

Self-help measures cited on pages 12-14 of the PAAD are similar to IBRD short- and long-term recommendations of June 1982 for narrowing the consolidated fiscal deficit, including deficits of major autonomous enterprises for export promotion, including moving some exports to the parallel market; and for realistic interest rates.

Loan agreement #517-K-039 of September 30, 1982 calls for regular consultations on economic recovery and the PAAD on page 14 refers to a

letter the GODR would send requesting the ESF and outlining the DR's intended courses of action along the lines of state 251685 para 6.
Source: ESF PAAD

II. FY-1983 - $8 Million Increase in FY-1982 Loan (First Amendment) signed on September 30, 1983.

In January 1983, the GODR reached a $450 million three year IMF/EFF agreement. It satisfied all conditions of the EFF agreement in the first six months of 1983.

In the light of these circumstances, $8 million additional requested for BOP, with local currency to go for counterpart funding (1) a highway project funded by the World Bank and Rural Roads projects funded by AID and IDB, and (2) expansion of the free zone facility at Puerto Plata.

Source: ESF PAAD and Action Memorandum of September 29, 1983 to the Acting Administrator based on the PAAD.

III. $34 Million 1984 Loan (Second Amendment to FY-1982 Loan) Disbursed: $20 Million August 28, 1984; $14 Million September 1984

In April 1984 the AID ADministrator authorized a second amendment to the FY-1982 loan for $3 million with two new substantive conditions in a side letter:

1. Prior to the disbursement of the first $20 million, the GODR had to shift certain imports, other than petroleum, to the parallel market (as described by President Blanco in his speech of April 17, 1984).
2. The remaining $14 million was to be disbursed upon acceptance by the IMF of a Letter of Intent signed by the GODR and the IMF concerning targets for the second year of the EFF agreement.

The amended agreement and the side letter were signed on May 2, 1984.

The GODR met condition 1 on April 17, 1984, and $20 million was disbursed on August 28, 1984.

As for Condition 2, it was envisaged that, because of the politically sensitive issues, it may become necessary to substitute a more general condition that AID and GODR conclude that "satisfactory progress is being made towards GODR economic stabilization goals." In the event no new agreement was reached with the IMF, and Condition 2 was modified to cover only movement of petroleum to the intermediate market. The remaining $14 million was disbursed in September 1984.

The local currency uses were:

a) To provide credit for private sector export promotion
b) To finance private sector development studies
c) To support PVO's
d) To develop free zone facilities
e) To finance a productive infrastructure fund, principally to accelerate AID and other donor projects.

<u>Source:</u> ESF PAAD and Armstrong memo to Schwalb of September 5, 1984.

IV. FY-1985 - Grant of $50 Million - Disbursed December 26, 1984

December 26, 1984 agreement calls for $50 million grant. A side letter of the same date confirms the GODR's intent to:

1. Establish a unified, market-determined exchange rate in January 1985, with a temporary 36% tax on traditional exports.
2. Corresponding adjustment of petroleum prices.
3. Increase electric power rates by 33% for most consumers.
4. Improve fiscal performance.
5. Establish more realistic interest rates.
6. Rationalizing the reserve position of the Bank of Reserves.

This confirmation was parallel to a draft IMF letter of intent of November 18, 1984.

Source: PAAD approval action memorandum from AA/LAC to Administrator of December 24, 1984.

V. FY-1985 - Amendment #1 of April 25, 1985 to December 26, 1984 Grant Agreement. Adds $45 million. Disbursed April 26, 1985.

The IMF approved a one year standby on April 25, 1985 to support a stabilization program including moving all exchange transactions to a single floating rate; substantially raising domestic prices on petroleum products and electricity, limiting domestic credit expansion, and placing ceilings on non-concessional external public and publicly-guaranteed debt.

The GODR rescheduled official debts to the Paris Club in 1985 and successfully rescheduled its commercial bank debt in 1983 and 1985.

The GODR also pledged to decrease net public sector financing requirements from 2.5% of GDP in 1984 to 4.9% in 1985; request approval for new taxes; increase prices of services of public enterprises to reflect current costs and gradually to achieve an adequate return on investment; raise nominal interest rates for financial institutions; maintain wage restraint; improve operations and reduce the deficit of the Price Stabilization Institute; and lower the generation costs of the Electric Company by substitution of coal for oil. Source: ESF PAAD approval of April 24, 1985.

VI. FY-1986 - December 27, 1985 Amendment #2 to December 26, 1984 Agreement adds $40 Million. Disbursed December 27, 1985.

The GOD fulfilled the targets (and overperformed in some areas) under the April standby agreement with the IMF but needed external resources to avoid shortfall on the target for net foreign assets, in order to complete commercial bank rescheduling.

In a letter of December 27, 1985 the GODR Technical Secretary agreed to:

1. Eliminate the 5% exchange tax on non-traditional exports by the end of the first quarter of 1986.
2. Reduce substantially the 36% exchange tax on traditional exports in the same period.
3. Continue to adhere to the economic adjustment measures detailed in the letter of December 26, 1984.
4. Jointly program use of local currency and not restrict use in agreements with third parties.
5. Publish regulations for designation of restricted export products.
6. Provide better access for private sector to CEA lands.
7. Study means of diversification on sugar lands.

<u>Source:</u> ESF PAAD of November 18, 1985.

141

ANNEX 4. PROGRAMMED USES OF LOCAL CURRENCY

The programmed uses of the local currency counterpart of dollar cash transfers are summarized below:

. Economic Stabilization
- Rural saving mobilization
- Policy analysis
- Credit for working capital through the Agricultural Bank
- Credit for small producers

. Private Sector Expansion
- Agribusiness credit through FIDE
- Free zone development
- Agro-industrial development

. Agricultural Diversification
- Management of natural resources
- Water management at farm level
- Technical assistance for sugar diversification

. Infrastructure Support
- Ports, roads, and highways
- Irrigation
- CDE rehabilitation, etc.