PD-ABE-128

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Sugar Diversification Project (No. 517-0236)

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PROJECT ASSISTANCE COMPLETION REPORT
Sugar Diversification Project (No. 517-0236)

A. BRIEF PROJECT HISTORY

The Sugar Diversification Project was designed as a five-year, $3.5 million grant to the State Sugar Council (CEA). The Project Authorization was signed September 28, 1992, and the Project Agreement, September 29, 1987. The goal of the project was to: contribute to sustained and equitably distributed economic growth in the Dominican Republic by the rapid diversification from sugar production to alternative productive activities. As a means of achieving this goal, the project's purpose was to: strengthen the institutional capacity to plan, promote and implement a national sugar diversification program in the Dominican Republic.

The project provided assistance to DACEA -- created as a separate division within CEA to promote, strengthen and accelerate the diversification of the sugar industry -- in carrying out a sugar diversification program. Project assistance included: 1) support and financing for DACEA's diversification program activities; and 2) help in strengthening the institutional capacity of DACEA in managing and administering the diversification program through staff training and the provision of equipment and technical assistance.

The end-of-project-status for achieving the project purpose was based on the following four indicators:

- Six of the twelve CEA sugar mills terminate sugar operations.
- At least 50 percent of the land formerly used for sugar production converted to other productive uses.
- At least 20 percent of CEA's total land resources (48,000 hectares) converted to uses not related to sugar.
- Eighty percent of the CEA workers displaced by the closing of the mills find alternative employment.

Major project outputs were the following:

- Development of action plans for the diversification of lands where mills will cease operation.
- Promotion of productive and economically viable private sector diversification projects.
- Sponsoring vocational training and assistance programs to help former CEA employees in finding other gainful employment.

From the project's inception, implementation delays were experienced in meeting a condition precedent to disbursement of project funds to DACEA. The CP required DACEA to establish a system of financial management and controls adequate to manage and administer project funds. The CP was not fully met, however, until June, 1990, more than two and one half years after the Pro-

Ag was signed. In addition, there were delays in technical assistance, in particular, the arrival of the Senior Resident Advisor, which did not take place until January, 1989, approximately 16 months after project start-up.

The planned mid-term evaluation of the project was carried out in January, 1991. By that time, two Presidential Decrees had been issued (i.e. 25-90, and 53-90), both of which significantly altered the course of project implementation and had an extremely negative impact on the achievement of project objectives.

Presidential Decree 25-90 called for the expropriation of certain lands that had been leased by CEA to private investors. As a result, lands in the Esperanza area were seized and turned over to the Agrarian Reform Institute (IAD) for redistribution to campesinos in the area. Presidential Decree 25-90, issued subsequently, compounded the problem by establishing a Presidential Commission to review cases of expropriated lands and determine appropriate compensation for the private leaseholders. To date, the program has not provided the leaseholders adequate compensation, or in most cases, no compensation at all.

The mid-term evaluation confirmed and documented the above mentioned project implementation delays, and the deleterious impact the Presidential Decrees and other factors had on accomplishing project objectives. In light of the changed environment for the diversification of the sugar industry, and the government's inability to make good on a basic project assumption and covenant contained in the Grant Agreement: i.e. "that CEA agree to make land available through sale, lease and joint venture arrangements to the private sector to carry out sugar diversification activities", the GODR and USAID/DR agreed to mutually terminate the project as of March 5, 1991.

A positive aspect of the project was the success of free trade zones, developed and operated by CEA at the closed mill sites, in generating employment opportunities for displaced workers and other previously unemployed or underemployed people (a large percentage of which are women). The following summary of lessons learned, however, are the primary reasons for the project's inability to accomplish its planned objectives:

- Implementation delays resulting from DACEA's lack of responsiveness in establishing a viable financial management system, and contracting delays for technical assistance;

- Presidential Decrees which undercut the project's primary rationale, rendering ineffective some of the project's technical assistance, and weakening the credibility of DACEA;

- A project design which may have inadvertently prohibited the accomplishment of sugar diversification activities by supporting the establishment of DACEA as a division within CEA.

The GODR and CEA began the diversification of CEA lands in 1979 with the leasing of land in the Catarey area to FRUDOCA, a locally owned company involved in pineapple production. Subsequently, additional lands were leased by CEA to investors for various agricultural purposes. In the mid-1980s, the U.S. quota for Dominican imports of sugar to the U.S. was reduced drastically, and sugar prices on the world market dropped significantly. CEA, with substantial sugar cane producing lands and 12 sugar mills, instituted a program to reduce its sugar operations. It was in this context that the GODR initiated the sugar diversification strategy which, with USAID assistance for studies and other preliminary development work, evolved into the CEA Sugar Diversification Project funded by the USAID/DR Mission.

A key assumption of the Sugar Diversification project was that the private sector would be the actual implementors of, and investors in, sugar diversification activities in the Dominican Republic. A major negotiating issue leading to the signing of the Grant Agreement was to obtain CEA's concurrence with the private sector philosophy. The concurrence of CEA was received in a countersigned letter (Annex B), with a formal request for assistance issued by CEA in a subsequent letter (Annex C).

In essence, the project was designed to strengthen DACEA, and in particular work with DACEA to promote private sector investment in projects that utilize the former CEA lands in activities other than sugar cane production.

Project Implementation Strategy:

Based on a series of activities aimed at the institutional strengthening, promotion, and training within DACEA, CEA was to have promoted diversification opportunities for the two CEA sugar mills and respective lands where sugar production had ceased before the project's inception. DACEA was also to oversee the termination of sugar operations at the other CEA mills and develop plans for the diversification of the land associated with the closed mills. Additionally, DACEA was to supervise diversification projects at mills with plans for continued operation. The project provided training, technical assistance, and the provision of equipment and vehicles for DACEA to help meet its diversification objectives.

B. DELIVERY OF PROJECT INPUTS

The project contained the following elements.

1) Diversification Activities: These activities consisted of the development of action plans; international and in-country promotion and assistance to displaced workers through vocational training and technical assistance in developing business proposals and helping with business start-up activities. This element was budgeted at $1.617 million in A.I.D. grant funds, with a counterpart contribution from CEA of $500,000.

2) DACEA Strengthening: This element included short-term technical assistance (57.5 person months) for both agriculture and industrial development areas; professional staff training; and the procurement of commodities including vehicles, computers and communications equipment. A.I.D. grant funds totalled $952,000, with a counterpart contribution from CEA of approximately $1.208 million.

3) Project Management and Contingencies: Grant-funded project management was budgeted at $850,000, with contingencies of $81,000, and a counterpart contribution of $20,000.

Of the $3.5 million in grant fund obligations, a total of $1,552,245 was disbursed according to the following budget line items:

	Budget	Disbursed
Technical Assistance	2,417,601	1,304,269
Training	250,000	3,584
Commodities/Equipment	353,000	219,464
Evaluation/Audit	220,000	17,434
Operational Costs	100,000	7,494
Promotional Activities	159,399	-0-
Total	$3,500,000	$1,552,245

C. CONTERPART CONTRIBUTION

The counterpart contribution stated in the Project Agreement was for the $RD peso equivalent of $1.728 million. This amount was divided among the following categories: Equipment $500,000; Personnel $1.2 million; Training $8,000; and Contingency $20,000. It is estimated that the agreed to local currency contributions were made by the GODR.

D. PROJECT ACCOMPLISHMENTS (EOPS)

End-of-Project-Status:

The following is a listing of the originally planned end-of-project-status indicators needed to accomplish the project purpose. After each of the stated indicators an assessment is made as to the effectiveness of the project in accomplishing each respective EOPS indicator.

1. Six CEA sugar mills terminate sugar operations.

The closure of mills at Catarey and Esperanza was completed prior to the initiation of the Project Grant Agreement. To date, there have been no decisions or actions by CEA regarding the closing of additional mills. It does not appear likely that the four additional mills will cease operations in the near future.

2. At least 50 percent of the land formerly used for sugar production is converted to other productive uses.

The project was substantially behind schedule in meeting the objective of diversifying 50 percent of sugar lands associated with mills to productive uses not involving sugar. Of the 16,353 hectares of sugar lands diversified, 10,680 hectares were leased prior to the signing of the Project Agreement. Thus, since the implementation of the grant, only six percent (5,673 hectares) of sugar lands have been diversified; with the other 12 percent (10,680 hectares) of sugar lands being diversified prior to the Project Agreement.

3. At least 20 percent of CEA's total land resources (48,000 hectares) converted to uses not related to sugar.

CEA is also considerably behind schedule in meeting this objective. Out of a total of 240,000 hectares of CEA land, 16,353 hectares have now been converted to other uses. It was originally planned that by the end of the project 20 percent of such land would be transferred. However, currently only an estimated 6.8 percent of total CEA land has been transferred to non-sugar uses.

4. Eighty percent of the CEA workers displaced by the closing of the mills find alternative employment.

The objective of 80 percent of the displaced sugar workers finding other employment appears to have been achieved, considering the progress made on permanent and temporary employment in agricultural operations. Although it is difficult to determine the exact number of employees displaced from sugar related employment, many of CEA's skilled employees formerly employed in the two closed mills have been transferred by CEA to the organization's other manufacturing operations. Other non-skilled workers, many of whom worked as sugar cane harvesters, have apparently found similar work maintaining and harvesting other crops.

The primary positive outcome in accomplishing the above project indicator has been the success of the free trade zones in generating numerous new jobs. Currently over 2,000 young people aged 17 to 22 are employed in garment assembly operations in the Free Zones. However, it is doubtful that these young people, most of whom are women, derived their new employment after being displaced as workers from closed sugar mills. Most likely, these workers are recent migrants to urban population centers.

To date, two Free Zones have been developed and operated by CEA at the closed mill sites. These CEA-owned operations have generated substantial employment opportunities for young people.

E. PROGRESS TOWARDS ACHIEVEMENT OF PROJECT PURPOSE

With the exception of the employment benefits, no major progress towards achieving the project's end-of-project-status indicators was made during the course of the project.

A major output of the project was to have been the preparation of action plans for each of the six mills that were agreed to be closed. These plans have not as yet been prepared by CEA. By failing to identify any additional mills for closure, approximately three-four years after the project was initiated, the GODR and CEA exhibited a lack of desire to reduce their involvement in the sugar industry, including CEA mill operations. Though a number of studies have been undertaken regarding CEA's management, there is no evidence of intent to act upon the studies' recommendations for improving the organizational and management efficiency.

Institutional Strengthening:

A variety of CEA institutional strengthening activities to support the objectives of the diversification program were performed in accordance with the Project Agreement. These activities included:

- Studies executed and recommendations put forth for strengthening the DACEA organizational structure, its computer system, and its monitoring capacity. Although the DACEA has implemented these recommendations, further efforts are needed to strengthen the administrative capacity of the

DACEA in the areas of planning, personnel management, training, purchasing and asset control functions.

- A market study and a cost study for the CEA mills has been completed.

- A series of studies were either carried out, are currently in process, or may take place in the near future. These activities are focussed on the following tasks:

  1. Identification and mapping of CEA lands.
  2. Privatization strategy.
  3. Assessment of conditions at CEA mills. (As an established major agro-industrial operation, CEA is expected to have this data available.)
  4. Examination of twelve activities identified that would assist the DACEA or other parties involved in the diversification program, of which only two have been completed.

- An agreement with the Joint Agriculture Consultative Committee to have this organization promote sugar diversification.

The institutional strengthening of the DACEA through the development and implementation of a management information system appears to be a positive accomplishment of the project. However, basic policies for planning, personnel, training, purchasing and asset control have not been given implementation priority by DACEA.

Many of the studies and reports carried out on behalf of CEA by outside consultants have been areas in which CEA has a demonstrated capability, and thus could have been performed by CEA's own professional staff. Furthermore, a number of the reports prepared by consultants appeared to be a duplication of information and data already prepared by CEA.

<u>Action Plans</u>:

Though an action plan for the Catarey Mill was prepared by local consultants prior to the signing the Project Agreement, no action plans for the diversification of the land associated with closed mills, as called for in the project paper, have been prepared or authorized since the signing of the Project Agreement.

All reports and projections reviewed during the mid-term evaluation indicate that CEA will continue operating ten sugar mills through the year 2000.

Failure to undertake studies to explore the potential of diversification of the land associated with closed sugar mills seems to indicate an unwillingness on the part of CEA to make decisions that would result in the closing of additional mills. Failure of the GODR and CEA to address the issue/objective of closing additional sugar mills is a clear indication of a conflict which prohibited accomplishing the project's purpose.

Administration:

There were two delays in the administration of the project that significantly inhibited project progress. These were:

- The Project Agreement was signed on September 27, 1987, but the contract for technical assistance was not awarded by DACEA until October 1988. In addition, the Senior Resident Advisor to DACEA did not arrive in-country until January 1989. This delay of 16 months between the signing of the grant and the Senior Resident's arrival appears to have been an excessive delay which has detracted from the efficiency of the project.

- Compliance with a conditions precedent of the grant, in particular the condition to establish an acceptable system of financial management and control within DACEA, was not completely fulfilled by CEA until June 4, 1990. This constituted a delay of some 32 months before project funds could be disbursed directly to DACEA.

In addition, the Grant Agreement included the following two project Covenants: 1) that CEA agree to make land available through sale, lease and joint venture arrangements to the private sector to carry out sugar diversification activities; and, 2) that CEA covenant that DACEA's operating costs be fully funded from income generated by diversification projects or from other CEA budgetary resources once the Section 416 Local Currency Program allocation was expanded.

- The Condition Precedent for direct disbursement to DACEA, requiring the establishment of an adequate system of financial management and control, was not met until June, 1990, more than two and one half years after the Grant Agreement was signed. This obviously had an extremely negative impact on initiating project activities and establishing sound working relationships with GODR counterparts in DACEA.

- With respect to Covenant No. 1 described above, Presidential Decree 25-90 issued in January, 1990, provided the legal basis for seizing the land CEA had leased to private investors in the Esperanza area, and has significantly reduced confidence in the GODR's intent to promote reversion off public lands into the private sector for capital investments. No clear reason for the issuance of the decree is available.

To compound the problem created by Decree 25-90, which abrogated the leases between CEA and farmers, Presidential Decree 53-90 was issued to create a Presidential Commission to review the affected leaseholders, determine compensation, and make recommendations for compensation. The Presidential Commission reviewed the 18 largest leaseholder operations and determined compensation on the basis of inputs and other development costs without calculating future income of the business operation. Recommendations for compensation were filed on August 4, 1990, but have yet to be accepted. Therefore, no compensation payments have been received by the private investors. In addition, the small leaseholders, totalling 66, have not had their situation reviewed by the Presidential Commission.

The transfer of the seized land to the Agrarian Reform Institute (IAD) for redistribution to campesinos has now been completed. A number of leaseholders were interviewed during the mid-term evaluation, and it is clear that they do not expect the land to be returned to them. The small leaseholders are obviously not satisfied with the method used to calculate their rightful compensation.

With respect to the Covenant No. 2, which stated that income derived from the diversification projects, and/or from CEA budgetary resources would be used to cover the operational costs of DACEA, <u>there is no evidence of compliance of this Covenant by CEA</u>. Given the dearth of diversification projects, and the delays in project start-up, DACEA has not had adequate funding to continue its operations.

<u>Presidential Decrees 25-90 and 53-90</u>:

1. <u>Impact of Decree 25-90</u>

Prior to issuance of this decree, CEA had entered into 88 leases covering 1,460 hectares of agricultural land. After the decree, only four leaseholders have continued to operate on 368 hectares of land. Of the 88 leaseholders, 63 had holdings of less than 10 hectares. Twenty-one lease holders with holdings in excess of 10 hectares also lost their land to IAD as a result of the decree. It is reported that leaseholders of less than 1.57 hectares (25 tareas) were allowed to keep their holdings. There are ten leaseholders who would meet this criteria.

Of the leaseholders whose land was seized, 32 are reported to have held leases prior to the signing of the Project Agreement. These account for 203 hectares of land.

A physical inspection of the Esperanza area indicates that the land covered by the decree had been developed by the leaseholders. Campesinos were working some of the lands that had been turned over to them. Three of the four holdings that were excluded from the expropriation decree were visited. While Exportadora Japonesa and Condimex Dominicanos were found to be in operation, the Chicca plantain operation had an armed guard posted and no activity was underway. A campesino reported that his land, now planted in yucca, had been a part of the Chicca plantain operation, but the Agriculture Department had plowed it under after the expropriation decree.

The mid-term evaluation included a visit to the Esperanza area, where it was observed that much of the land identified as distributed by IAD was either not being worked, or was being used for the grazing of livestock.

During the same visit, a meeting was conducted in the Esperanza area with seven leaseholders affected by Decree 25-90. These leaseholders had held 252 hectares. All seven had their cases reviewed and compensation determined by the Presidential Commission under Decree 53-90. All responded favorably when asked if they would lease land from CEA again. Their comments on the Presidential Commission are reported in the next section.

The mid-term evaluation included an interview with the President of the Association of Agro-businessmen, whose organization is comprised of most of the leaseholders from Esperanza. Speaking for himself and the Association, the president responded favorably when asked if he would lease land from CEA. He did qualify his response, however, by saying that he would not lease land in the Esperanza area but would do so in another region of the country. Discussions were also held with a local investor whose holdings were excluded from the decree. Again, this investor expressed a willingness to lease land from CEA.

Foreign investors expressed a different viewpoint, however. Their concern was that the GODR could implement the same type of decree in the future, thereby creating the possibility that other lands and investments could be seized.

2. Impact of Decree 53-90

The Presidential Commission established by this decree issued its report on August 4, 1990. It recommended compensation be paid to 18 leaseholders who lost their holdings as a result of Decree 25-90, which had authorized the seizure of the lands. These 18 leaseholders accounted for 968 hectares of land. The total compensation recommended to be paid was RD $3,874,226. As of the date of the mid-term evaluation (January, 1991), there was no confirmation that the recommendations of the Presidential Commission had been accepted or that recommended compensation had been paid.

The findings and recommendations of the Presidential Commission for compensation appear to have been based upon the value of inputs and development of the land by the lessees. No value for the operation as an on-going concern, or of future earnings from the land, appear to have been calculated.

Two of the four remaining entities, Chicca Agro-Industrial and Juan Adriano Madera, are reported to be still operating and are scheduled to receive compensation for RD $522,918. The explanation for this is that they have long-term crops and are entitled to the harvest of those crops and are due compensation for their development costs. While this approach can be considered reasonable, the plowing up of the plantain operation adjacent to Chicca Agro-Industrial by the Agriculture Department, as reported by the campesino who now farms the land, seems to be in conflict with this reasonable approach.

All leaseholders expressed dissatisfaction with the level of compensation that had been recommended by the Presidential Commission. They were concerned that the level of compensation was less than the loans they had with credit institutions or the amount of their own money invested in the property.

Only the cases of 18 leaseholders were reviewed and recommended for compensation by the Presidential Commission. No action or compensation appears to have been paid or is planned to be paid to the other leaseholders in the Esperanza area.

3. The Decrees and OPIC

The question of Decrees 25-90 and 53-90 was raised with the Overseas Private Investment Corporation (OPIC), an agency of the U.S. Government. While OPIC had not suspended coverage for the Dominican Republic, any government action to affect contracts and investor rights would be reviewed by that organization and issuance of political risk insurance coverage in the future would consider such expropriation action.

Recently the World Bank Group created the Multilateral Investment Guaranty Association (MIGA) to insure investments against political risks such as expropriation. At this time, the convention between MIGA and the Dominican Republic has not been executed.

- With the transfer of land to IAD and subsequent passing of the land to campesinos in the Dominican Republic, returning the land to the original leaseholders appears to be no longer feasible.

- Smaller leaseholders have not had the benefit of legal recourse afforded to larger leaseholders through the

Presidential Commission. Thus, it is doubtful that any compensation will find its way to these small holders.

- Payments recommended by the Presidential Commission, calculated on the basis of inputs and other development costs, do not involve potential income (or opportunity income) to investors for having risked their own personal capital or borrowed funds.

- Addressing compensation payments by the Presidential Commission is only a partial remedy. The major issue of the abrogation of contracts by the GODR still remains. Failure of the GODR to honor its contracts and its obligation is viewed as a serious detriment to new foreign investment.

- Local investors, though not satisfied by the amount of compensation recommended by the Presidential Commission, all responded favorably to the question of whether they would lease land from CEA in the future.

- International organizations have not suspended issuance of political risk coverage, but the expropriation decree and the payment of compensation, will be reviewed prior to the issuance of any new coverage.

USAID/DR should advise both potential local and American investors in A.I.D.- funded private sector programs of the GODR actions relating to these two decrees.

F. **<u>PROJECT DESIGN ADJUSTMENTS</u>** (See Lessons Learned, Section I.)

G. **<u>REQUIREMENT FOR CONTINUED MONITORING</u>**
(See Progress Towards Achievement of Project Purpose, Section E.)

H. **<u>REQUIREMENT FOR FURTHER DATA ANALYSIS</u>**
(See Progress Towards Achievement of Project Purpose, Section E.)

I. **<u>LESSONS LEARNED</u>**

1. <u>Privatization Organizational Structure</u>

The project paper envisioned the institutional development of DACEA as a separate division within CEA responsible for the management and implementation of sugar diversification and the privatization of sugar mills (or closing of sugar mills) and lands held by the GODR.

In hindsight, the design of DACEA appears to have been a contributing factor to the implementation problems experienced under the project. By assigning DACEA the role of privatization for sugar diversification, and by locating DACEA within the overall jurisdiction of CEA, an inadvertent conflict of purpose was set in motion. The upshot of this design was essentially a reluctance at best on the part of CEA to institute and carry out a diversification process and related activities that could eventually result in the reduction of CEA personnel and management authority originally mandated to the institution.

In regard to future initiatives in the area of privatization, the Mission should carefully review the operational and organizational structures of the entity having responsibility for the promotion and administration of privatization programs.

2. Project Implementation Delays

Implementation delays resulting from DACEA's lack of responsiveness in establishing a viable financial management system, and the contracting delays for technical assistance, contributed significantly to project implementation problems.

3. Presidential Decrees

Presidential Decrees involving the expropriation and unjust compensation for project lands in effect undercut the project's primary rationale, rendering ineffective some of the project's technical assistance, and weakening the credibility of DACEA. The damaging impact of these decrees was outside the control of project management.

4. Project Rationale and Justification for Diversification

The continuing decline of CEA's sugar cane production has contributed to the alleged shortages in local markets. For some reason, sugar is not as readily available in the local markets as it once was. At times, days will pass when consumers cannot purchase sugar. Reported sugar stocks, however, are more than sufficient to meet historic and projected local market demand. The shortage of sugar is not from lack of available product, but rather due to other factors including contraband shipments to Haiti, middleman profit-taking, and hoarding of low-priced sugar by major industrial users.

The Dominican Republic can readily supply its domestic demand for sugar, export product to Haiti and meet the U.S. sugar quota -- with production in excess of this demand very possible. With the international market price of sugar remaining low, the U.S. sugar quota somewhat constant, and the potential for non-traditional agricultural products and exports high, the project rationale for the continued privatization of sugar production into diversified crops remains valid.

5. Adequacy of Project Commodity Support

The adequacy of project support for commodities was not a factor in implementation problems experienced by the project, as the equipment, vehicles, and computers provided by terms of the Grant were more than sufficient for the projected level of work envisioned under the project. (See Annex F., RIG Audit Recommendation).

6. GODR Will

Accomplishment of the project's objectives was dependent upon the GODR's willingness and commitment to the privatization of some portion of its sugar operations. Without this willingness, the project was not able to succeed.

7. Free Zone Employment Opportunities

The Free Zone activity may be the most successful aspect of the project and should be reviewed as to its potential to determine whether support for additional Free Zones is appropriate.

PROJECT ASSISTANCE COMPLETION REPORT
Sugar Diversification Project (No. 517-0236)

Clearances:

LKLaird, ANR:	[signature]	Date:	6/14/92
PWAmato, PDO:	[signature]	Date:	5/11/92
KGLeBlanc, CON:	[signature]	Date:	5/15/92
DAChiriboga, PDO:	[signature]	Date:	5/19/92

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Table 1

Diversification of Lands Associated with Sugar Mills

Mill	Ha cane 1980	Ha Diversified 1990	% Ha Diversified
Rio Haina	27016	9536	35
Barohona	9148	-	-
Consuelo	11129	1887	17
Ozame	6811	-	-
Boca Chica	7405	-	-
Porvoni	7114	16	-
Santa Fe	5455	-	-
Quisqueya	6379	-	-
Catarey	6349	2770	44
Montellano	2661	1700	64
Esperanza	2129	444	21
Amistad	723	-	-
Total	92399	16353	18%

019/D14-Misc/WP51
(1-91)

Table 2

Land Distribution by CEA

ESPERANZA

Date of Lease	Lease Holder	Hectares	Duration
6/18/88	Exportadora Japonesa	107	5 years
2/10/89	Chicca Agroindustrial	136	5 years
07/7/89	Juan Adriano Madera	50	9 years
7/10/89	Condimex Dominicanos (Craig Frederickson)	75	10 years
	Number of lease holders: 4	368 Hectares	
	CATAREY		
7/5/79	Frutes Dominicanos (Chiquita Fresh Food)	1,122	12 years
1/9/86	Citricos Dominicanos (CEA 35% J.V.)	1,522	50 years
7/31/89	F.Y.C. Agricola (James Forester)	76	9 years
	Others (11)	57	9 years
	Number of lease holders: 14	2,727 Hectares	
	RIO HAINA		
2/10/84	Induspalma Dominicana	902	50 years
02/5/88	Induspalma Dominicana	1,228	
3/26/87	Dole Doinicana (Castle & Cook)	5,258	50 years
7/31/89	Rafael Baez Perez	262	9 years
9/14/90	Progressio	1,827	in negociation
	Number of lease holders: 4	9,536 Hectares	
	CONSUELO		
1/9/86	Citricos del Norte (CEA J.V.)	1,886	50 years

Table 3

DISTRIBUTION OF LAND DIVERSIFIED BY DACEA ACCORDING TO MILLS AND TYPE OF INVESTMENT SEPTEMBER 1990 (in hectares)

Ingenios	Leases	Joint Ventures	Sales	Free Zones	Sub Total	IAD	Proj. Under Study	Total
Experanza	368.88	-	33.08 (1)	42.76	444.52	3,671.24	-	4,155.76
Catarey	1,205.35	1,522	11.01 (1)	31.28	2,769.78	2,558.22	-	5,328.00
Rio Haina	7,406.00	2,130	-	-	9,536.34	-	2,684.01	12,220.36
Consuelo		1,887	-	-	1,886.59	-	-	1,886.59
Amistad			-	-	-	-	42.24	42.24
Ozhmm			-	-	-	-	10.56	10.56
Boca Chica			-	-	-	-	7.55	7.55
Montelleno			1,700.01 (2)	-	1,700.01	-	-	1,700.01
Porvenir			.	15.72	15.72	-	-	15.72
Total	8,980.23	5,339	1,744.09	89.86	16,352.46	6,229.46	2,744.37	25,326.79

(1) Buildings
(2) Tourist Projects

019/D14-Misc./WP51
(1-91)

Table 4

Jobs Created by CEA Leaseholders

Mill	New Permanent	Temporary	Total
Esperanza	75	190	265
Catarey	1111	722	1833
Rio Haina	600	2809	3409
Consuelo	300	725	1025
TOTAL	2086	4446	6532

ANNEX A

THE DOMINICAN REPUBLIC'S SUGAR INDUSTRY: A SUMMARY OVERVIEW

BACKGROUND

Sugar has been a major agricultural crop and foreign exchange earner in the Dominican Republic since the mid-16th century Spanish colonization. During the past several centuries sugar has been a major employment provider and user of land, and has played a significant role in the development, or lack of development, of the country's agricultural sector. Throughout the 1920s and 1930s sugar was the backbone of the Dominican economy. Increased production and expanded export markets, including the United Kingdom during World War II, provided substantial impetus to the sugar industry's development.

During the period of the Trujillo regime sugar production, which effectively was a Trujillo enterprise, continued to develop albeit at the expense of agriculture, land tenure, and food production. A historically high production level of 1.21 million short tons of sugar was produced in 1960 from 145,000 hectares of land. Concurrent with this high production was U.S. suspension of Cuban sugar imports which allowed for the Dominican Republic to become a principal supplier to the U.S. With the demise of Trujillo and the ensuing civil strife, sugar production plummeted to a low of 642,466 short tons in 1965. In 1966 the Government took control of the vast sugar holdings of the former dictator and created the Consejo Estatal del Azucar (CEA) under Law No. 6 which continues as the governing legislation. Sugar production regained its former levels and from 1970 through the early 1980s annually exceeded a million metric tons. Since 1984 production levels have steadily decreased and today are at an all-time low.

Participation in the Dominican sugar industry by foreign investors is a long established precedent. In the 1860s Cuban interests began the cultivation and production of sugar. Subsequently, Puerto Rican interests established the mill at La Romana. This large, private operation was sold to U.S. interests in 1967 and is currently owned and operated by Cuban Americans who acquired the assets in the mid 1980s.

Production of sugar has long been dominated by the parastatal CEA. In recent years private sector production has increased in absolute terms and as a percentage of total production. CEA and the private mills share the local, quota, and export markets on the basis of CEA supplying 60 percent of these markets and the private sector the balance. Government policy concerning prices, wages, labor, and other issues are applied equally to both CEA and the private mills.

The significance of the industry as a foreign exchange earner has diminished in recent years. Fluctuations in the U.S. quota and depressed prices on the world sugar market are factors that have adversely effected the Dominican sugar industry. As the country struggles to produce high value export crops to offset the continuing decline in sugar production and foreign exchange earnings the sugar sector, while still a major agricultural economic activity, is experiencing a reduced role in the overall economy.

ND

STRUCTURE OF THE INDUSTRY

Since 1966 the industry has been dominated by CEA which now controls over 2 million tareas of land of which 1,248,722 tareas are in cultivation of sugar cane. Currently 10 sugar mills, with a design capacity of 42,978 short tons of cane per day, are operated by CEA. These mills process sugar cane from CEA land as well as that purchased from colonos. Colonos total 4,500 with 817,000 tareas in sugar cane production.

The Fanjul interest of the U.S. owns La Romana which has a design capacity of 18,734 short tons of cane per day. The other private interest is the Vicini group which owns three sugar mills having a daily grinding capacity of 8,155 short tons of cane. Currently, only one Vicini mill is operating. The private companies grind sugar cane from company land and colonos.

PRODUCTION

Sugar is produced for contraband shipments to Haiti and for local, U.S. quota, and other export markets. Table 1 provides 1990 figures on capacity and production.

Table 1

1990 SUGAR CANE DATA

	CEA	Private	Total
Tarea Cane Harvested	1,278,000	745,000	2,023,000
Tons of Cane/tarea	2.87	4.8	3.6
Total Cane (st)	3,663,000	3,577,000	7,246,000
Sugar Recovery (percent)	8.67	9.4	9.0
Total Sugar (st)	317,000	336,000	665,000
No. of Mills	10	2	12
Grinding Cap. (st)	45,400	22,370	67,770

Annual production of sugar by CEA and the private mills is described in Table 2.

Table 2

SUGAR PRODUCTION
(000 s/t)

	CEA	Private	Total
1983	773	558	1331
1984	806	440	1246
1985	700	480	1080
1986	484	470	904
1987	476	424	900
1988	398	457	855
1989	363	400	763
1990	317	337	754

The decline in total production is primarily attributable to CEA and its continuing downward production trend in sugar cane yield per tarea and the reduced sugar recovery in the mill extraction rate. Tables 3 and 4 report the decline in sugar cane yield per tarea by CEA and sugar recovery of CEA as compared to the private mills.

Table 3

CANE YIELD PER TAREA
Short Tons

	Colonos	CEA
1983	2.58	4.65
1984	2.96	3.95
1985	2.44	3.35
1986	2.55	3.69
1987	2.12	3.33
1988	2.27	3.30
1989	2.49	2.97
1990	2.45	3.17

Table 4

SUGAR YIELD PER TON OF CANE

	CEA	Private	Country Average
1983	10.58	--	11.0
1982	10.38	--	10.9
1985	10.72	--	10.5
1986	9.96	--	9.6
1987	9.18	12.7	10.6
1988	8.68	12.4	10.4
1989	8.35	15.5	11.1
1990	8.67	9.4	9.0

DISTRIBUTION

Distribution of sugar is to local markets, contraband shipments to Haiti, exports under the U.S. quota system, and to the world market. Table 5 reports the distribution of sugar produced in the country.

Table 5

DISTRIBUTION OF SUGAR
(000 s/t)

	Domestic Consumption	Export	Total
1983	263	1054	1317
1984	263	975	1238
1985	284	796	1080
1986	387	530	910
1987	245	647	892
1988	247	557	804
1989	255	574	829
1990	259	474	733

Illegal shipments to the lucrative Haitian market account for an estimated 55,000 to 60,000 short tons (S/T) per annum whereas exports to the U.S. quota market vary from period to period. The current 21 month quota period has allocated 509,000 st for shipment to the U.S. Table 6 records the U.S. sugar quota since 1982. The Dominican Republic is the recipient of the largest quota allocation of all countries. Excess production is sold to the world sugar market at the quoted price. Table 7 shows the world sugar price since January 1988.

Table 6

U.S. SUGAR QUOTA IMPORT ALLOCATIONS TO THE DOMINICAN REPUBLIC

1982/83 to 1989/90

(Short tons, raw value)

Quota period	Number of months	Total Allocation	Total Quota
10/1/82 9/30/83	12	492,661	2,891,783
9/26/83 9/30/84	12	535,241	3,174,293
10/1/84 11/30/85	14	446,914	2,676,244
12/1/85 12/31/86	13	301,930	1,849,531
1/1/87 12/31/87	12	160,115	1,003,144
1/1/88 12/31/88	12	176,660	1,056,377
1/1/89 9/30/90	21	508,018	3,124,021

Source: U.S. Foreign Agricultural Service

<u>Table 7</u>

NEW YORK: MONTHLY AVERAGE PRICES - RAW SUGAR

#11 (spot), #14 (nearby contract)
1988, 1989, and 1990 (January-April)

1988

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
#11	9.64	8.40	8.48	8.49	8.85	10.52	14.04	11.09	10.18	10.29	10.82	11.2
#14	21.83	22.11	22.16	21.16	22.13	22.54	23.43	21.90	21.77	21.74	21.70	21.9

1989

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
#11	9.69	10.49	11.54	12.14	11.93	12.63	14.01	13.96	14.15	14.41	15.02	13.5
#14	21.88	22.07	22.12	22.30	22.45	22.99	23.56	23.57	23.5	23.14	23.24	22.8

1990

	Jan	Feb	Mar	Apr
#11	14.38	14.63	15.38	15.24
#14	23.11	22.93	23.58	23.82

U.S. SUGAR QUOTA

Since 1960, when it replaced Cuba, the Dominican Republic has been the largest recipient of U.S. sugar quotas. However, quota fluctuations established by the U.S. vary from one period to the next and are periodically adjusted with out notice, up or down. These fluctuations prevent effective planning by the recipient countries.

Although the U.S. quota is an attractive price market, the uncertain nature of its size and future availability cause sugar producing countries great anxiety in planning their sugar industries' development. This is very evident in the Dominican Republic where the lack of a consistent quota policy by the U.S. creates several problems, including the need to warehouse excess stock and find alternative markets (e.g., Soviet Union).

PRICES

On August 8th, 1990, the wholesale domestic price for raw sugar increased to 9.4 U.S. cents per pound at the current official exchange rate of 11.15 pesos to the dollar. Shipments under the U.S. quota are at approximately 18 U.S. cents per pound. In Haiti, in recent years, the official price of sugar has been 24 U.S. cents per pound at the mill and 40 U.S. cents per pound retail.

As Table 7 indicates, world sugar prices in the period January 1988 through September 1990 have ranged from a low of 8.40 cents a pound in February 1988 to a high of 15.38 cents a pound in March 1990. The world sugar price is determined by approximately 20 percent of world production: that which is not consumed in the country of production or shipped under a preferential quota arrangement. It is a "dump" market and does not necessarily reflect the relationship between world supply and demand.

PRODUCTION COSTS

USDA reports production costs for CEA at 20 U.S. cents a pound and for the private mills at 9 U.S. cents a pound. CEA production costs quoted here are at the top end of the spectrum. Other sources indicate CEA costs are probably in the mid teens. In either case, CEA production costs are well above the subsidized local price for sugar.

It is worthy to note that the production costs of the private mills ranks among the lowest in the world. The point can be made that the Dominican Republic is capable of extremely low-cost sugar production. CEA production costs, although above the local domestic sugar price and marginally equivalent to the U.S quota price, compare favorably to other Caribbean sugar producers, i.e., Jamaica, St. Kitts, Barbados and Trinidad, all of whom enjoy the price advantage of the U.S. quota market and the Lome EEC market. Comparing Dominican production costs to those of Central American sugar producers the Dominican private mills would have similar cost, whereas CEA costs would exceed the Central American producers cost. While comparable cost figures for Haitian producers are not reliable it is estimated that production costs are in the mid-teens among those mills which continue to operate.

Studies conducted for the World Bank in recent years rank the Dominican Republic's sugar production costs slightly above the lowest cost producers in the world. This is based on data available for 1986/87 reports which compares Dominican production costs with those of six other major producers and exporters. For these producers, production costs ranged between 10.38 and 13.07 U.S. cents per pound.

If CEA was privatized, and current state owned field and mill operations approached private sector efficiency, subsidies would tend to become unnecessary, without penalizing the consumer and allowing for profitable operations.

CONSUMPTION

After adjustments for contraband shipments (55,000 short tons) to Haiti, annual per capita consumption is consistently at 26 KG. See table 8.

Table 8

DOMINICAN PER CAPITA CONSUMPTION, 1983-1990

	Population (1000)	Domestic Consumption (1000 st)	Per Capita (kg)
1983	5968	208	31.7
1984	6118	208	30.9
1985	6243	229	33.4
1986	6384	332	47.3
1987	6525	190	26.5
1988	6665	192	26.2
1989	6815	200	26.7
1990	7000	204	26.5

USDA reports that the Dominican Republic's sugar stocks were in excess of 220,400 st at the beginning of each of the past eight years. Notwithstanding the decrease in current sugar production, supplies of available sugar for the domestic market are sufficient. For most of the past decade carry over stocks were equal to, or in excess of, annual domestic consumption. Carry over stocks from year to year have been more than sufficient to provide the buffer that may have been needed to cover production short falls in any given year and still meet the domestic demand.

If per capita consumption remains the same, and the population grows at its current rate, domestic consumption should exceed 250,000 short tons. Unless the U.S. quota is dramatically increased and/or production declines, the Dominican Republic's sugar industry should have no trouble meeting its U.S. quota and supplying the domestic market.

LABOR

Estimates of employment at CEA range up to 60,000 employees during harvest. Additionally, 25,000 workers are employed by colonos during the harvest. Private companies, which are operationally more efficient than CEA, are estimated to have seasonal employment highs of 20-25,000 workers. Historically, cane cutters from Haiti have harvested 90 percent of the Dominican cane crop each year. An estimated 25,000 Haitian cane cutters are employed during harvest by private mills, CEA and colonos.

Utilization of immigrant cane cutters has emerged as a significant social issue because of alleged human rights violations and the migration of those workers to other occupations. Social pressures on those areas that continue to use immigrant cane cutters, including the sugar industry in Florida, will continue. Resolution of this issue needs to take account of the need for Haitian cane cutters and the social concerns related to their employment.

The conversion of any sugar industry from one that is 100 percent hand harvested cane to one mechanically harvested is difficult, requires substantial time to accomplish and substantial capital investment, and, in the long run, reduces sugar cane yields and sugar recovery. In an effort to resolve this issue the private mills began to utilize mechanical harvesters in the past crop.

LAND

Only five percent of the total land in the country is dedicated to sugar cane production. Of the country's arable land approximately 17 percent is sugar cane production. See tables 10 and 11.

Table 10

LAND DISTRIBUTION
(in tareas)

Total	77,000,000	
Urban	26,000,000	(34%)
Livestock	19,000,000	(25%)
Arable	22,000,000	(29%)
Cane	4,000,000	(5%)
Cane Harvested	2,000,000	(3.1%)

Table 11

FARMLAND
in tareas

	1990	2000
Arable Land	21,950,000	
Planted in Cane	3,560,000	3,650,000
Cane Harvested	2,023,000	2,650,000

BYPRODUCTS

Sugar cane and sugar offer the potential to create many byproducts, the most prominent of which is molasses. Bagasse is another valuable byproduct that, if properly managed, could substantially reduce outside fuel and power requirements. Both of these well know byproducts offer value to the sugar producer. It is reported that molasses is sold to local and Puerto Rican rum producers. Use of molasses as an animal feed is another significant market. Also, La Romana, the private mill, has produced furfural, a product used in the production of rayon for many years.

Utilization of bagasse as a feed stock for co-generated power also offers a number of opportunities. However, CEA's performance to date would lead one to concentrate on resolving the problems of sugar cane yields, harvests, transportation, and mill efficiency before undertaking any co-generating task. Potentials in the utilization of by products by the sugar sector are numerous. However the priority must be for growing sugar cane and the efficient process and production of sugar.

SUGAR DIVERSIFICATION

CEA began leasing of its lands for production of crops other than sugar cane in 1979. During the 1980s, additional CEA lands were leased; among the largest of these are developments in the Rio Haina lands for pineapple and African palm. Citrus is being developed at Catarey and Consuelo. Of the lands that CEA has leased for other agriculture production, only 6.5% is on former sugar cane land. The vast majority is from land that was not in sugar cane production and in areas not near the mills that were closed.

Two sugar mills were closed and manufacturing free zones established within the battery limits of these mills. Employees are primarily women, aged 17 to 22.

The Vicini group has shifted a portion of their sugar land to production of winter vegetables and other export crops. Only one of Vicini's three mills is now operating.

DONOR ASSISTANCE

In the past decade the World Bank approved credit for the rehabilitation of the CEA mills and these projects should be completed by 1992. At this time neither the World Bank or the International Development Bank are considering any new projects for the Dominican sugar industry.

CONCLUSION AND SUMMARY

The continuing decline of CEA's sugar cane and sugar has contributed to the alleged shortages in local markets. For some reason, sugar is not as readily available in the local markets and sometimes days will pass when consumers cannot purchase sugar. However, reported sugar stocks are more than sufficient to meet historic and projected local market demand. The shortage of sugar is not from lack of available product, but due to other factors including contraband shipments to Haiti, middleman profit-taking, and hoarding of the low priced sugar by major industrial users. The Dominican Republic can readily supply its domestic demand, exports to Haiti, and its U.S. quota and production in excess of this demand is possible.

Inefficiency in sugar cane production by the CEA agricultural operation and the colonos that supply CEA mills, combined with declining sugar mill recovery yields, continue to be a constraint to profitable operations and represents a continuing cause of the sugar subsidy and public sector deficits.

Employment in the sugar sector is significant. However, the use of immigrant labor and the social aspects of their conditions of employment will have a negative impact on the future harvesting of sugar cane. The dependence on Haitian labor to harvest the sugar cane crop needs to be resolved.

Pricing policies of the GODR have favored subsidies to middlemen, processors, black market shippers, and industrial users of sugar. Being the least efficient producer, CEA, the parastatal, bears the brunt of this policy. Ultimately, the GODR, the economy, and the Dominican population pay this subsidy.

The continuing changes in the U.S. sugar quota have also adversely affected the Dominican sugar industry. While the Dominican Republic enjoys the largest U.S. quota, the reduction in absolute tonnage in the mid-1980s caused a severe reduction in foreign exchange earnings for the country and the sugar sector. Administration of the U.S. sugar quota on a more consistent basis would make it possible for the Dominican Republic and other producers to manage, plan and budget more efficiently. Additionally, the volatile world market price does not provide an adequate or secure price market for the sale of excess sugar production.

Financial losses have been incurred by CEA for the past several years of operation. The recently completed Gomez Santos report indicates that the accumulated deficit for the decade of the 1990s will exceed 2 billion Pesos. This loss will be covered through government contributions. Again the economy will pay for the subsidy to middlemen and profiteers. Price levels established by government which are below production costs are a serious constraint for the sugar industry to operate at any level of profitability in the local market.

ISSUES

There is a need for:

- a coherent policy for production of sugar cane and sugar to meet the targeted levels of demand-- local, inter-island and U.S. quota-on the existing basis of market distribution.
- Rational pricing policy for local sugar so the inequitable burden absorbed by the sugar sector for the benefit of various special interest groups is recognized and corrected.
- Recognition of the technical improvements for the production of sugar cane and the processing of sugar cane for sugar production and other by products.
- Labor policies concerning immigrant labor should be reviewed with the eventual displacement of the source of sugar cane cutters.
- Privatization of the CEA operation by sale or lease of land and mills to experienced sugar interests, including colonos, other private mill operators, industrial users of sugar and molasses and foreign investors.

References

All statistics on CEA were provided by DACEA. Private mill figures were calculated using USDA data available in the 1989 Sugar & Sweetener Situation & Outlook Report Yearbook; World Sugar Situation & Outlook May 1990; and recent reports generated by the U.S. Agricultural Attache in Santo Domingo. Figures in the charts are not always precise. In certain cases, assumptions were necessary to attempt to correlate the DACEA statistics and the USDA data.

GODR CONCURRENCE ON PRIVATIZATION

U. S. AID MISSION TO DOMINICAN REPUBLIC
AMERICAN EMBASSY, P. O. Box 867
SANTO DOMINGO, DOMINICAN REPUBLIC

FOR U. S. CORRESPONDENTS
U. S. AID MISSION
APO MIAMI 34041

28 de agosto de 1987

Su Excelencia
Ing. Carlos Morales Troncoso
Honorable Vicepresidente de la
República Dominicana
Palacio Nacional
Ciudad

Estimado señor Vicepresidente:

El propósito de esta carta es establecer el sistema estructural que se ha elaborado para el Proyecto de Diversificación Azucarera en colaboración con el personal de la División Agroindustrial del CEA (DACEA). El financiamiento de la AID para el proyecto se ha puesto a disponibilidad en este año fiscal que finaliza el 30 de septiembre de 1987.

El propósito del Proyecto de Diversificación Azucarera es asistir al CEA, a través de la DACEA a: (a) diversificar la producción agrícola fuera del cultivo azucarero, (b) mejorar sus ingresos de producción, y (c) minimizar el impacto económico y social negativo en los empleados del CEA debido a por este cambio. Las actividades específicas a ser financiadas bajo el proyecto se esbozan más detalladamente en el borrador de la descripci n del proyecto que se anexa.

Entendemos que la función primordial de la DACEA es promocionar la inversión del sector privado en proyectos de diversificación e incorporar el sector privado en la administración de los mismos. El proyecto propuesto procura apoyar a la DACEA en el cumplimiento de esta función. La razón fundamental de enfatizar la participación del sector privado es capitalizar las fuentes de inversión privada así como la capacidad del sector privado de diseñar, organizar y administrar las actividades en apoyo a la política de diversificación azucarera del CEA.

El proyecto contempla la venta y arrendamiento de tierras del CEA así como inversiones conjuntas entre el CEA y los inversionistas privados que impliquen terrenos del CEA. Los proyectos de FRUDOCA, INDUSPALMA, DOLE y Cítricos Dominicanos son modelos que este proyecto procurará repetir. Para lograrlo, uno de los requerimientos obvios del proyecto será identificar, por

To support CEA's sugar diversification program, A.I.D. will provide a grant in the amount of US$3.5 million to finance limited technical assistance, training and equipment for DACEA, as well as finance DACEA's promotional activities with the private sector. In addition, the grant will finance technical assistance and vocational skill training for ex-CEA workers and colonos.

If you are in agreement with this project concept please indicate your approval by countersigning this letter and returning it to A.I.D. In order for us to finalize the project documentation and draft the final agreement for signature prior to the end of our current fiscal year, this letter needs to be returned to A.I.D. prior to the end of the first week of September.

Sincerely,

Thomas W. Stukel
Director

____
Eng. Carlos Morales Troncoso
Vice President of the Dominican Republic and
Executive Director, CEA

Attachment: a/s

U. S. AID MISSION TO DOMINICAN REPUBLIC

AMERICAN EMBASSY, P. O. Box 867
SANTO DOMINGO, DOMINICAN REPUBLIC

FOR U. S. CORRESPONDENTS:
U. S. AID MISSION
APO MIAMI 34041

Dear Mr. Vice-President:

The purpose of this letter is to set forth the framework that has been developed for the Sugar Diversification Project in collaboration with the staff of the Agroindustrial Division of CEA (DACEA). AID funding for the project has been made available in our current fiscal year which ends September 30, 1987.

The purpose of the Sugar Diversification Project is to assist CEA, through DACEA to: (a) diversify out of sugar cultivation, (b) improve its revenue generation, and (c) minimize the negative economic and social impact on CEA employees caused by this change. The specific activities to be financed under the project are outlined in greater detail in the attached draft project description.

As we understand, the primary function of DACEA is to promote private sector investment in diversification projects and incorporate the private sector in their management. The proposed project seeks to support DACEA in fulfillment of this role. The rationale for emphasizing private sector participation is to capitalize on private investment sources as well as the private sector's capacity to design, organize and manage sugar diversification activities in support of CEA's sugar diversification policy.

The Project anticipates the sale and lease of CEA lands as well as joint ventures between CEA and private investors involving CEA owned lands for diversification activities. The FRUDOCA, INDUSPALMA, DOLE and Cítricos Dominicanos projects are models which this Project will seek to replicate. To achieve this, one of the Project's obvious requirements will be to identify, in advance, those lands that will be made available for sale, lease or joint ventures for diversification activities.

His Excellency
Eng. Carlos Morales Troncoso
Vice President of the Dominican Republic, and
Executive Director, Consejo Estatal de Azucar
Centro Los Heroes
Santo Domingo, D.N.

adelantado, aquellas tierras que serán puestas a disponibilidad mediante la venta, arrendamiento o inversiones conjuntas para las actividades de diversificación.

En apoyo del programa de diversificación azucarera del CEA, la A.I.D. proveerá una donación de hasta unos US$3.5 millones para financiar asistencia técnica limitada, adiestramientos y equipo para la DACEA, así como financiar las actividades promocionales de la DACEA con el sector privado. Además, la donación financiará asistencia técnica y adiestramiento vocacional para los ex trabajadores y colonos del CEA.

Si usted está de acuerdo con este concepto del proyecto, le agradeceríamos indicar su aprobación firmando esta carta y devolviéndola a la A.I.D. Para nosotros poder terminar la documentación del proyecto y redactar el acuerdo final antes de finalizar nuestro año fiscal actual, esta carta deberá ser devuelta a la A.I.D. antes de terminar la primera semana de septiembre.

Acepte, señor Vicepresidente, las renovadas seguridades de mi más alta y distinguida consideración.

Muy atentamente,

Thomas W. Stukel

Thomas W. Stukel
Director

Ing. Carlos Morales Troncoso
Vicepresidente de la República Dominicana
y Director Ejecutivo del CEA

Anexo: Citado

DESPACHADO 1 6 SET. 1987

Consejo Estatal del Azúcar

APARTADOS NUMS. 1256 Y 1258 • TELEFONOS NUMS. 533—1161/64 • DIRECCION CABLEGRAFICA: "CEDAZU"
SANTO DOMINGO, REPUBLICA DOMINICANA

Septiembre 10 de 1987

Nº 00381

Señor
Thomas W. Stukel
Director
AGENCIA PARA EL DESARROLLO INTERNACIONAL (AID)
Ciudad.-

Distinguido señor Director:

Por este medio le comunicamos formalmente, el interés de este Consejo Estatal del Azúcar en el Proyecto de Diversificación Azucarera que involucra una donación de esa Agencia, ascendente a US$3.5 millones.

Según lo ya conversado, los objetivos básicos de este Programa serían, el asistir a esta empresa a través de su Dirección General de Operaciones Agroindustriales - (DACEA), a diversificar sus operaciones, explotando alternativas técnica y económicamente más rentables, mejorar los ingresos del CEA y reducir el impacto negativo que habrá de producirse en los actuales empleados, creando fuentes alternas de empleo. Un aspecto de vital importancia es nuestro interés en promover la participación del sector privado en el esfuerzo de diversificación, tanto por su capacidad de inversión como por el aprovechamiento de su capacidad de gerencia y organización.

El esquema que se plantea el CEA para la diversificación, incluye diversas modalidades de asociación con el sector privado, algunos de los cuales pueden ser ejemplarizados por los proyectos que actualmente se ejecutan y que esa Agencia conoce.

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ACTION: ARD
DATE DUE 9-28-87

DIR	—
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HRD	
CHRON	—
RF	

Consejo Estatal del Azúcar

APARTADOS NUMS. 1256 Y 1258 • TELEFONOS NUMS. 533-1161/64 • DIRECCION CABLEGRAFICA: "CEDAZU"
SANTO DOMINGO, REPUBLICA DOMINICANA

Sr. Thomas W. Stukel
Septiembre 10 de 1987
Página Nro. 2/

En tal sentido, esperamos concretizar el acuerdo de donación en el plazo requerido, de manera que su ejecución pueda cumplirse sin demoras y tropiezos innecesarios.

Sin otro particular le saluda,

Cordialmente,

Ing. Carlos A. Morales Troncoso
Vicepresidente Constitucional de
la República Dominicana
Encargado Dirección Ejecutiva

CAMT
MADC/xrb

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ANNEX D

FREE ZONES

The conversion of mill installations to Free Zones by CEA has created an infrastructure for private companies to operate in non-urban areas and has generated jobs many young and female residents in the Catarey and Esperanza areas. Visits to both of the CEA created and owned Free Zones were accomplished during the evaluation.

Employment generation at both Free Zones has been significant in number. Presently, two to three thousand workers are employed and the potential of additional job generation exists. Those hired have been mainly Dominicans who would not have been employed in the CEA sugar operations in either agriculture or mill work. The majority of the workers in the free zone are young females, ages 17 to 23.

Occupancy in the Catarey Free Zone is less than 100%. One building was posted with a judicial notice. In Esperanza, six buildings are in various stages of development, one was being built by a lease holder.

While not a part of the A.I.D. Sugar Diversification Grant, USAID/DR has assisted in the conversion and construction of the Free Zones. CEA has made an investment of approximately 13 million Pesos at Esperanza with 8,260,000 Pesos provided through a joint USAID - Technical Secretariat of the Presidency loan. A similar loan in the amount of 8 million Pesos supports the CEA activity with regards to the Catarey Free Zone.

ANNEX E

LIST OF ACRONYMS

CEA - Consejo Estatal del Azucar
DACEA - Agro-Industrial Operations Division
GODR - Government of Dominican Republic
IAD - Agrarian Reform Institute
MIGA - Multilateral Investment Guaranty Association
OPIC - Overseas Private Investment Corporation
ST.- Short ton
USDA - U.S. Department of Agriculture

RIG AUDIT RECOMMENDATION

Annex F

February 24, 1992

MEMORANDUM

TO: Martin Napper, Contracting Officer

FROM: Lou Mundy, Deputy RIG/A/T Lou Mundy

SUBJECT: Non-Federal Audit of USAID/Dominican Republic's Sugar Diversification Project, Activities Managed by the Sugar Council

This is to advise you of developments in the performance of the subject financial audit which was contracted by your office with Deloitte & Touche, Washington, D.C.

On February 14, 1992, Mr. Frank Sato, Partner, Deloitte & Touche telephoned our office and communicated a concern in performing the subject audit based on his trip to the DR to conduct the entrance conference. Basically, Mr. Sato's concern was that it did not appear that the Sugar Council received much of the $3.5 million A.I.D. dollar assistance budgeted for this Project. The bulk of the dollar assistance was paid directly by USAID/DR for technical assistance and equipment procured on behalf of the Project. As a result it appeared that only minimal funds would be subject to audit at the Sugar Council.

On February 17, 1992 I relayed Mr. Sato's concerns to Ms. Kathleen LeBlanc, Controller, USAID/Dominican Republic and requested that the Mission determine the amount of US dollar assistance provided the Sugar Council. On February 19, 1992 I received a FAX from Ms. LeBlanc showing that of $1.5 million disbursed only $64,437 had been disbursed by the Sugar Council.

The above information confirmed Mr. Sato's concern. RIG/A/T does not believe it cost effective to continue this audit and recommends that USAID/DR take the action necessary to terminate this contract for audit as soon as possible.

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