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

DOMINICAN REPUBLIC

PROJECT PAPER

ECONOMIC SUPPORT FUND
(PAAD)

AID/LAC/P-757

PROJECT NUMBER: 517-0263
GRANT NUMBER : 517-K-605

UNCLASSIFIED

AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: 517-0263 517K-605

2. COUNTRY: Dominican Republic

3. CATEGORY: Cash Transfer

4. DATE:

5. TO: AA/LAC, James H. Michel

6. OYB CHANGE NO.:

7. FROM: LAC/DR, Peter Bloom

8. OYB INCREASE:

9. APPROVAL REQUESTED FOR COMMITMENT OF: $

TO BE TAKEN FROM: Economic Support Funds

10. APPROPRIATION: 72-111/21037 LES1-92-35517-KG31

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: N/A

14. TRANSACTION ELIGIBILITY DATE: N/A

15. COMMODITIES FINANCED:

16. PERMITTED SOURCE

U.S. only:

Limited F.W.:

Free World:

Cash: 5,000,000

17. ESTIMATED SOURCE

U.S.: 5,000,000

Industrialized Countries:

Local:

Other:

18. SUMMARY DESCRIPTION

The purpose of the program is to provide U.S. $5.0 million to the Government of the Dominican Republic (GODR) to support the sustained implementation of the Dominican Republic's comprehensive economic reform program, aimed at economic stabilization, and to address critical sectoral bottlenecks that constrain the country's development. Theses resources will be provided in the form of a cash transfer and will be utilized to finance U.S. source-origin productive inputs from the U.S. for the Dominican private sector. Local currency generations under the program will be used to retire domestic debt owed by the public electric utility (CDE) to the GODR. Conditions Precedent to disbursement of funds include: sustained implementation of the GODR's economic reform program and the current stand-by arrangement with the IMF, actions taken to facilitate private sector investment in electric power projects, and continued adherence to Dominican initiatives to improve workers rights.

19. CLEARANCES

	DATE
LAC/DR/C/CAR:JHradsky	8/27/92
LAC/DPP:EZallman	8/31/92
LAC/CAR:CTyson	8/31/92
LAC/TI:MKeenan-Wood	
GC/LAC:GWinter	8/31/92
FA/B:KMilow	9/1/92
FA/FM/A:RBonnafon	

20. ACTION

☒ APPROVED ☐ DISAPPROVED

James H. Michel — 9/9/92

AUTHORIZED SIGNATURE — DATE

AA/LAC

TITLE

CLASSIFICATION:

-I concur with the Direct Payment method of payment and method of implementation and that adequate audit coverage is available from GODR and Mission resources which provide audit coverage for all local currency generating programs funded by USAID/DR.

J. Wayne Butler
USAID Controller

ADDITIONAL CLEARANCES

ARA/ECP:VMorris _____ Date 9/1/92
DAA/LAC:AWilliams _____ Date _____

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I. SUMMARY AND RECOMMENDATIONS

Based on the analysis and proposed conditionality and implementing procedures set forth in this Program Assistance Approval Document (PAAD), the Mission recommends authorization of a $5 million ESF Cash Transfer Program for the Dominican Republic in FY 1992. Following authorization, the Mission will obligate the funds by negotiating and signing an ESF Agreement with the Technical Secretariat of the Presidency and the Central Bank by September 30, 1992.

A. Overview

The Mission's overall strategy links expanded U.S. assistance to the Dominican Republic to continued adherence by the GODR to an internationally sanctioned economic reform program. In August, 1991, the GODR entered into a Standby Arrangement with the IMF. The depth and breadth of the reforms undertaken in conjunction with the IMF agreement merit substantial recognition and support. The associated short-term costs of the related adjustments suggest the need for continuing assistance to encourage the GODR to stay the course.

As the key element in this effort to signal U.S. Government support for the economic reforms, while providing an incentive to the GODR to sustain their implementation, the Mission is proposing the use of $15 million in ESF over the next three fiscal years. This PAAD describes the purpose and sets out the procedures for the first $5 million ESF cash transfer to be authorized in FY 1992. Authorization of ESF cash transfers in FY 1993 and 1994 will be addressed either through amendments to this PAAD or through new authorization documents.

B. Economic Policy Environment

In the face of declining demand for primary exports, stagnating economic growth and mounting unemployment, beginning in 1986 the GODR embarked on a major public works program accompanied by expansionary monetary policies. However, this produced an increased fiscal deficit, mounting inflation and a widening of the external current account deficit, which in turn led to substantial losses of international reserves and massive increases of international debt payment arrears.

After repeated ad hoc attempts to deal with the deteriorating policy environment, the GODR initiated in August 1990 a comprehensive economic reform program that has produced dramatic results. Domestic financing of the public sector deficit has been virtually eliminated through a combination of capital and operating expenditure reductions, tariff reform, and significant price increases for petroleum, electricity and other products

produced or controlled by the government. This has been accompanied by tight monetary policy, including reductions in the net domestic credit of the Central Bank, stringently enforced reserve requirements, and positive real interest rates facilitated by the decontrol of all financial system interest rates. Coupled with the adoption of a unified market-determined exchange rate, the new policy framework has produced price and exchange rate stability, increased net international reserves, and facilitated the elimination of arrears to the international financial institutions (IFIs).

While continued implementation of the program is projected to result in positive and accelerating growth beginning in 1992, the short-term costs in terms of economic decline (-5.4 percent in 1990 and -0.5 percent in 1991) and increasing unemployment are serious constraints to sustained implementation of the program without significantly increased assistance from the international financial community. Hence, the GODR requested a 19 month standby arrangement for $53 million that was approved by the Fund's Executive Board on August 28, 1991. The Board also approved the GODR's request for a $60 million purchase from the Fund under the Compensatory and Contingency Financing Facility (CCFF) to compensate for the run-up in the cost of oil imports and reduced exports during 1990. The GODR met or exceeded all the Fund Program targets through June 1992.

In November 1991, the GODR reached agreement with the Paris Club creditors on the terms to reschedule that portion of official debt contracted prior to June 30, 1984. To date, the GODR has signed bilateral rescheduling agreements with France and Spain and is still negotiating with Germany, Japan and the U.S., among others. The negotiations with the commercial banks are in progress and an acceptable agreement by all parties is expected soon.

The year 1991 and the first six months of 1992 have covered a period of enormous change in the economic policy environment. Much has been done, but a great deal remains to be accomplished. And there is always the danger that the momentum will be lost as those opposed to the liberalization program will try to slow or derail the process.

C. Proposed ESF Program

The primary focus of the conditionality of this ESF Program will be on the sustained implementation of the central elements of the GODR's economic reform program, as set out in the Standby Arrangement agreed with the IMF in August, 1991. While that agreement requires compliance with specific fiscal and monetary targets (Table V), it does not require implementation of the other reforms proposed by the GODR in its letter of intent to the Fund. Thus, complementary conditionality in the ESF Program will

encourage the GODR to implement the additional reforms proposed in that letter, specifically those related to the energy sub-sector. Table VI describes the possible evolution of the energy sub-sector reforms over the next two years, starting with the adoption of an energy policy and strategy by the GODR which will be the focus of the FY 92 ESF Program. Finally, the Program will include conditionality which reflects USG interest in and concern with the rights of workers, including Haitian braceros, in the Dominican Republic.

The Program will be obligated through an ESF Agreement which will be signed by the Technical Secretariat of the Presidency and by the Central Bank. ESF dollars will be disbursed in a single $5 million tranche or in two tranches of $4 and $1 million, depending on the timing of actions taken by the GODR to satisfy the conditions precedent to disbursement, and will finance specific, eligible Dominican private sector imports from the United States. The pesos generated will be used to retire domestic debt owed by the public electric utility, CDE, to the GODR.

The identification of eligible import transactions and the transfer of the dollars to the corresponding commercial banks will utilize existing documentation and follow established procedures currently in use by the Central Bank in monitoring the domestic foreign exchange market. The ESF Agreement will provide for the need to establish separate, non-commingled, interest-bearing dollar and peso accounts, will require routine reporting and provide A.I.D. the right to audit the supporting documentation to ensure full accountability for the final use of the ESF dollars and the corresponding peso generations. The Agreement will also require a redeposit to the separate account of funds applied to a disallowed use.

II. BACKGROUND

A. Economic Performance in the 1970s and 1980s

The demand for traditional Dominican exports -- sugar, coffee, cacao and tobacco -- was strong enough in the 1970s to generate economic growth of 7 percent per year, despite a policy environment badly distorted in favor of import substitution. When international demand fell and the value of these traditional exports declined in the early 1980s, real GDP growth plummeted and averaged less than 3 percent per year for the decade. The resulting increases in unemployment (averaging around 25 percent) and declining per capita income, generated strong political pressures for expansionary macroeconomic policies.

The Government that came to power in 1986 embarked on a major public works program accompanied by expansionary monetary policies. Real GDP growth increased to an unsustainable 6.6 percent in 1987, mainly as a result of the more than doubling of public investment to about 10 percent of GDP. The increased fiscal deficit was financed by Central Bank credit. This produced an increase in inflation and a widening of the external current account deficit, which in turn led to substantial international reserve losses and increases in international debt payment arrears.

Public investment continued to be excessive in 1988 and 1989, averaging 10 percent of GDP. The associated public sector deficit increased further to more than 7 percent of GDP before grants, and necessitated continued Central Bank financing. Moreover, the operating losses of the Central Bank increased significantly as a result of exchange losses associated with preferential exchange rates. The resulting credit expansion led to sharp depreciation of the exchange rate while the rate of inflation jumped to 58 percent in 1988 before moderating to 41 percent in 1989. Despite significant export and tourism expansion in both 1988 and 1989, the destabilizing fiscal and monetary policies generated unstable growth, with stagnation in 1988 and 4 percent expansion in 1989.

B. Economic Performance in 1990-91

In early 1990 economic activity weakened, inflation remained high and the balance of payments deficit widened as the public sector finances deteriorated (Tables I, II and III). In response, public investment was reduced and the exchange rate devalued in April.

These actions proved inadequate and in August 1990 the GODR introduced a broader package of measures that included substantial price increases of products produced or controlled by the government (petroleum, sugar, and flour), and further

exchange rate devaluation. At the same time, interest rates were increased, financial system reserve requirements were raised and enforcement was tightened on bank reserve deficiencies. In the latter part of 1990, as exchange shortages persisted and oil import costs rose, domestic petroleum prices were further increased, electricity rates were raised, and the exchange rate was again devalued. These measures, coupled with public investment cutbacks, produced a significant reduction of the public sector deficit (before grants) in 1991 from 5.9 percent of GDP in 1990 to 0.6 percent in 1991 (Table III).

However, inflation increased to over 100 percent in 1990, in part because of the corrective price increases, but also as a result of the continuing need to finance the public sector deficit domestically (1.4 percent of GDP in 1990) (Table III). Economic activity declined markedly in the latter part of 1990 as the GODR's reform program took hold, the Gulf Crisis produced increased petroleum import prices and reduced tourism, the U.S. recession hit Dominican exports, and exchange rate shortages resulted in petroleum import curtailments and widespread electric power disruptions. As a consequence, real GDP fell bv 5.4 percent for the year. In spite of the decline of imports in 1990, net capital outflows picked up and the overall balance of payments deficit widened to 507 million dollars and international arrears increased by 638 million dollars. By the end of 1990, international arrears amounted to 1.5 billion dollars (Table II).

Economic performance during 1991 was more favorable, reflecting further exchange regime liberalization, interest rate decontrol, tight fiscal and monetary policies and the decline of the import price for petroleum. Inflation was reduced to only 4.0 percent and the exchange rate was stabilized. Improved Central Bank access to foreign exchange led to the clearance of arrears to the international financial institutions (IFIs), including the IMF, the World Bank, and the Inter-American Development Bank (IDB). Arrearage clearing in turn facilitated the IMF stand-by approved in August 1991, which led to renewed IFI lending and the initiation of Paris Club and commercial bank debt rescheduling. The resulting improved private sector confidence produced net inflows of capital in 1991. By the end of 1991, international arrears had been reduced to 780 million dollars under the terms of the Paris Club Agreement.

The Dominican economic recession continued through early 1991 and produced an estimated 3.2 percent drop in GDP during the first six months. The economy began to grow in the second half of the year, limiting the yearly GDP decline to -0.5 percent. However, with a growing labor force, continued increases in unemployment, underemployment and poverty are anticipated until rapid, sustained growth is restored to the economy.

C. Future Prospects

Until mid-1990, economic policy implementation had been ad hoc, and not implemented in terms of a coherent medium-term framework that would provide sustained long-run, albeit moderate growth. However, the potential for increasing growth with sustained sound policy implementation is significant, with 3 percent real GDP growth anticipated for 1992 and nearly 4 percent per year projected for the 1993-96 period.

The primary growth sectors are projected to be tourism and free trade zone service exports. Tourism revenues, just 173 million dollars in 1980, reached 900 million dollars in 1990 (16 percent of GDP). Tourist arrivals are projected to increase 6 percent in 1992 and 4 percent per year for 1993-96. Income from free trade zones (FTZs) increased from 44 million dollars in 1980 to an estimated 196 million dollars in 1990. FTZ income is projected to increase by 8 percent in 1992 and by about 10 percent a year during the 1993-96 period.

Nevertheless, the Dominican economy will remain vulnerable to external shocks. Lower export growth due to reduced external demand, higher world interest rates, higher world petroleum prices, and/or lower tourism growth could significantly lower this projected growth path.

III. THE GODR's ECONOMIC REFORM PROGRAM FOR 1990-92

A. Overview

The comprehensive economic reform program that the GODR has been implementing since mid-1990 has produced dramatic results in the short run. Domestic financing of the public sector deficit has been virtually eliminated through a combination of reduced capital and operating expenditures, tariff reform, and significant price increases for petroleum, electricity and other governmentally produced or controlled products. This has been accompanied by prudent monetary policy, including reductions in net domestic credit balances of the public sector with the Central Bank, stringently enforced reserve requirements, and positive real interest rates facilitated by the decontrol of all financial system interest rates. Coupled with the adoption of a unified market-determined exchange rate, the new policy framework is designed to produce price and exchange rate stability and sustained future economic growth.

Based upon actions already taken and continued sound performance, the GODR's reform program targets inflation for the 5-8 percent range during 1992. The exchange rate, which has been remained in the 12.5 pesos to the dollar range since early 1991, is projected to remain stable throughout 1992. While real GDP declined 0.5

percent in 1991, the economy has turned around and 3 percent growth is projected for 1992. Continued financial stability is expected to provide a solid base for more rapid, sustainable growth after 1992.

Support of the program by the international financial community remains essential to attain these objectives. Hence, the GODR requested a 19 month IMF stand-by arrangement for 53 million dollars that was approved by the Fund's Executive Board in August 1991. The Board also approved in August 1991 a 60 million purchase from the Fund's Compensatory and Contingency Financing Facility (CCFF) to compensate for the increase of the cost of petroleum imports and reduced exports during 1990.

All arrears to multilateral lenders were cleared in 1991 (except to the OPEC Special Fund), and agreement on debt restructuring was reached with the Paris Club. While the final bilateral rescheduling negotiation phase associated with the Paris Club agreement with the individual countries has been slow, they are expected to be concluded by early fall 1992. Debt buy-backs were successfully negotiated with Mexico in 1991 and Venezuela in March 1992. Negotiations with the commercial banks are in progress and an acceptable agreement by all parties is expected soon.

The year 1991 and the first six months of 1992 have covered a period of enormous change in the economic policy environment. Much has been done, but a great deal remains to be accomplished. And, there is always the danger that the momentum will be lost as those economically hurt by the far-reaching liberalization program that is taking place try to slow or derail the process.

B. Public Sector Finances

Improved public sector finances are central to the stabilization program. The GODR program cut the overall public sector deficit (after grants) to 5.0 percent of GDP in 1990 from 5.9 percent in 1989. The deficit had been projected to only decline to 2.1 percent of GDP in 1991, but tighter fiscal policy actually produced a slight overall surplus (equivalent to 0.1 percent of GDP) (Table III). The overall fiscal balance is projected to shift to a deficit of 0.8 percent of GDP in 1992 (compared to an indicative deficit in the original program of 1.6 percent of GDP for 1992). The overall deficit is being monitored under the IMF stand-by on a quarterly basis, with fully satisfactory compliance achieved through June 1992.

Domestic financing of the deficit, because of its effect on overall credit expansion, inflation and the crowding out of private sector investment, is a key measure of fiscal soundness. Expansive fiscal policy in the late 1980s necessitated net domestic financing that averaged almost 3.0 percent of GDP. The

reform program's fiscal restraint in 1990 reduced net domestic financing to the equivalent of 1.4 percent of GDP. In 1991, net domestic financing was negative, actually reducing domestic indebtedness of the public sector by the equivalent of 2.6 percent of GDP. Domestic financing of the public sector is projected to be limited to only 0.5 percent of GDP in 1992.

This dramatically improved fiscal performance is based upon a number of specific fiscal reforms. Public sector investment was cut from earlier unsustainable levels of more than 11 percent of GDP to 6.6 percent of GDP in 1990 and 6.2 percent in 1991. It is expected to rise to 7.3 percent of GDP in 1992 (Table I).

Tariff reform implemented by decree in late 1990 eliminated most exemptions from import duties, and reduced tariff rates to a range of 5 to 35 percent (previous maximum was almost 600 percent). Consumption taxes ranging from 15 to 80 were also imposed on selected luxury imports. In July 1991, the Government extended the base for the current 15 percent surcharge on imports from about half of imports to all items, except for petroleum, certain food items and medicines. Since July 1991, the market exchange rate has been used to determine import duties, as opposed to the earlier practice of using overvalued official exchange rates.

In an effort to shift the structure of taxes away from over reliance on indirect taxes and taxes on imports and ferronickel exports, the GODR in April 1992 passed a new Tax Code, developed in collaboration with the UNDP. The package broadens the base of the value added tax, increases excise taxes and converts them from specific to ad-valorem, and lowers and simplifies personal and corporate income taxes (with rates ranging between 15 and 35 percent). The over-all tax package is expected to increase tax revenue by the equivalent of 1 percent of GDP. The Government intends to maintain domestic petroleum prices (which are yielding net revenue of about 1.3 percent of GDP) at least until equivalent additional revenue is generated by tax reform.

C. Monetary Policy

Monetary policy has focussed on holding down inflation while supporting the balance of payments objectives of the GODR's reform program (Table IV). Monetary performance is being monitored under the IMF stand-by on a quarterly basis, with fully satisfactory compliance indicated by Central Bank authorities through June 1992 (Table V).

Domestic financing (primarily by the Central Bank) of the public sector deficit was the key force driving excessive monetary expansion and surging inflation during the late 1980s. The GODR's restrictive fiscal policies have virtually eliminated the need for domestic financing, with public sector credit declining

significantly in 1991 as noted above. Central Bank financing of the public sector deficit is programmed to be limited to 440 million pesos (0.5 percent of GDP) in 1992, and is to be used for payment of debt-service obligations that were deferred from 1991 to 1992.

Restrictive credit policies, facilitated by reduced public sector financing and open market operations, coupled with continued enforcement of financial system reserve requirements and market-determined interest rates limited overall banking system credit expansion to less than 2 percent in 1991 and is projected to limit it to 15 percent in 1992 (Table IV). However, as a result of the larger than expected private sector capital inflows 1992, the money supply (M2) increased by 36.6 percent in 1991. Foreign exchange losses anticipated in 1992 coupled with the projected moderate credit expansion are projected to limit monetary expansion to 11 percent in 1992.

Dramatic evidence of the program's success in meeting its inflation objectives is provided by the low 4 percent increase of the consumer price index during 1991, in contrast to the 100.7 percent increase in 1990 (Table 1). Inflation under 2 percent up through June 1992 suggests that the 1992 target inflation range of 5-8 percent will be met. However, there remains concern that the large money supply expansion in 1991 may result in price increases in the future. This probably will not be a significant problem due to the increase in money demand associated with financial stabilization (the breaking of inflationary expectations and increasing real interest rates) and significant excess capacity that remains in the economy after two years of recession.

With the low rate of inflation prevailing in 1991 and this year, the pressure for wage increases is expected to be moderate. In addition, the control of inflation also facilitated the removal of the remaining price controls in May 1992.

D. External Policies

Exchange rate reforms initiated in January 1991 were designed to ensure a flexible and market-determined system. Coupled with sound fiscal and monetary policies, these reforms allowed for de facto unification of the rates in the official and free interbank markets and exchange rate stability. In July 1991 these gains were consolidated by the official unification of the two rates, with the official rate determined by the previous day's average interbank rate. The GODR reduced the 2.5 percent tax on foreign exchange sales of the Central Bank to 2 percent in December 1991. The actual rates in the commercial banks may differ from time to time from that of the official rate by more than just transactions costs, but it is clear that the private foreign exchange market is driving the exchange rate and not the reverse.

However, the Central Bank absorbed a large part of last year's unexpected capital inflows to help prevent an appreciation of the exchange rate and to provide a cushion against a sudden reversal of capital flows.

The liberalized exchange regime virtually ensures that the international reserve targets of the IMF stand-by can be met, as any potential reserve short falls can be overcome by Central Bank purchases of reserves in the interbank market. While this would not necessarily undermine other stand-by targets, it could add to exchange rate depreciation and inflation. The liberalized exchange system should also provide increased incentives to export, especially service exports from tourism and the rapidly growing free trade zones. To further enhance the prospects for export-led growth, the GODR is reviewing the incentive system for direct foreign investment. Liberalization of profit remittance ceilings have been proposed.

The liberalized foreign exchange regime will also encourage the private sector to economize on imports. This, coupled with the recent economic recession and the growth projected for 1992 explains why imports declined in 1991 but then are expected to expand moderately in 1992. Combined with the anticipated expansion of export and private transfers, limited improvement of the current account deficit is projected, with a decline from 262 million dollars in 1990, to 245 million dollars in 1991 and 193 million dollars in 1992 (Table II). An unexpected fall in the export of the traditional exports due to drought and world supply increases has made the impact of the liberalization less apparent and may affect these projections.

The capital account improved dramatically in 1991, shifting from a 245 million dollar net outflow in 1990 to a net inflow of some 314 million dollars in 1991 . However, even with continued compliance with the program, the capital account is projected to have net capital inflows of only 70 million dollars in 1992. Public transfers are expected to increase moderately. Public sector net capital flows are projected to remain negative, but significant increases of bilateral and multilateral lending are projected to significantly lower the levels of net outflows. Direct foreign investment is not expected to increase significantly and other private capital flows are expected to be negative. This may reflect the widespread private sector concern over the ability of the Government to sustain implementation of the reform program and frustration with the now endemic electric power shortages.

The actual increase of net international reserves of approximately 380 million dollars far exceeded the program's projected increase of 80 million dollars for 1991. At year end 1991, gross net international reserves were at 426 million dollars. For 1992, net international reserves are targeted to

decline by 28 million dollars while gross international reserves are projected to increase slightly to 436 million dollars.

As a consequence of the unexpected accumulation of reserves in 1991, the GODR has not had to draw funds from the Standby. It has only drawn-down funds from the 60 million dollars made available through the Compensatory and Contingency Financing Facility. While the unexpected increase in net foreign assets will provide more flexibility than otherwise would occur, unanticipated declines in traditional exports in 1992 may neutralize the unexpected inflow of foreign assets. Furthermore, the proposed new banking and financial code, the pending signature of a major part of the Paris Club rescheduling agreements with the bilateral donors, as well as the failure to date to come to terms with the commercial creditors, have created uncertainty in the capital markets.

Total public external debt at the end of 1991 stood at 4.6 billion dollars. This included some 1.1 billion dollars owed to multilateral donors, 1.7 million dollars to Paris Club bilateral donors (of which about 1.0 billion dollars is to the USG), almost 1.0 billion dollars to commercial banks, and about 140 million dollars to suppliers and others. At the end of 1991, total arrears, net of arrears rescheduled at the November, 1991 Paris Club meeting, amounted to 780 million dollars, including 20 million dollars owed to multilateral donors, 316 million dollars to bilateral donors not included in the Paris Club, 360 million dollars to commercial banks, and 84 million dollars to suppliers and others.

The program envisages that all debt negotiations will be completed in 1992. To date, the GODR has signed bilateral rescheduling agreements with France and Spain and is still negotiating with Germany, Japan, and the United States, among others. Debt buy-backs from Mexico (160 million dollars) and Venezuela (400 million dollars) were successfully negotiated for less than one-third of face value. The negotiations with the commercial banks are in progress and an acceptable agreement by all parties is expected soon.

Even under the assumptions of generous debt restructuring, the Dominican Republic will need to make cash payments of some 439 million dollars in 1992 (including 113 million dollars of deferred payments form 1991). Of this total, debt-service payments to multilateral lenders would amount to some 144 million, payments to Paris Club creditors would be about 160 million, and the remainder would represent payments to other bilateral creditors, commercial banks and suppliers.

While the GODR's reform program balance of payment projections do not show a "financing gap" in 1992, the assumptions used to generate these projections are open to question. For example, if

the unexpected but recently reported $100 million reduction in traditional exports in the first six months of 1992 are not recouped by the end of the year, a significant gap could emerge. Continued economic stagnation in the industrial world could easily cut Dominican exports and tourism by several percent, thereby generating a financing gap for 1992 and/or enlarging those in the future.

Increased external assistance is needed to close unexpected gaps and help restore growth to the economy. A.I.D. and other donors can play an important role in filling the gaps. Without a resumption of significant growth in the near future, pressures may be expected to build within the Dominican Republic for dropping the reform program and returning to the pump-priming economic policies that prevailed during the late 1980s.

IV. USAID PROGRAM STRATEGY

The Mission's Country Development Strategy Statement (CDSS) for the Dominican Republic (FY92-FY96) states that the overall goal of U.S. economic assistance is:

> **To enhance the close and cooperative relationship between the Dominican Republic and the United States, as envisaged by the Enterprise for the Americas Initiative (EAI), by supporting Dominican efforts to promote economic growth and to strengthen democratic institutions.**

This development strategy for the Dominican Republic is consistent with the major LAC development objectives:

> Achievement of broad-based, sustainable economic growth; and
>
> Development/strengthening of a stable democratic society.

The joint objectives are interdependent and mutually reinforcing. Strengthening Dominican efforts to liberalize the economy and facilitate the country's participation in the EAI will provide an important complement to efforts to strengthen Dominican democratic institutions.

This proposed ESF Program is directly related to and supports one of the four strategic objectives presented by the Mission in the Action Plan for FY 1993 - FY 1994, which seeks to promote <u>increased and diversified external trade.</u> The focus on <u>external trade</u> draws on the enormous energy and entrepreneurial talent that the Dominicans have displayed in reacting to <u>preferential trade</u> agreements, such as the Generalized System of Preferences, the Caribbean Basin Initiative and the Lome Convention. It also builds on the historically significant levels of trade between the D.R. and U.S. This mix of Dominican drive and the allure and

strength of U.S. markets has produced many of the Mission's success stories, such as the development of the free trade zones. The challenge of the remaining years of this century will be to help the Dominican Republic to redirect its energy and talent to a new world in which the emphasis is on free trade, where imports and exports are of equal concern.

The Mission will pursue three major avenues in support of this strategic objective, focusing on program outputs related to:

- market oriented economic policy and regulatory reforms
- export production by Dominican firms, and
- reliable, competitively-priced electrical energy.

The first program output requires the sustained implementation of sound economic policies and related implementing laws and regulations. This is a necessary condition to achieve expanded and diversified external trade. International trade and foreign investment simply will not grow at a fast enough pace to generate increased employment and income if the Dominican Republic does not have stable and predictable economic rules of the game and a fair and transparent legal, regulatory and judicial environment for business and commerce.

As to the second program output, the Mission already is engaged in activities to help increase the export capability of Dominican firms. Aside from its obvious, direct impact on jobs and income, this activity is vital because it goes at the heart of Dominican fears that a free trade regime will destroy domestic industry and agriculture. The third program output focused on increased availability and reliability of competitively-priced electrical energy addresses a unique and critical impediment to the long-run competitive position of the Dominican Republic. It remains and will continue to be an important policy dialogue topic for several years.

The Mission recently authorized the Economic Policy and Practices Project which will provide direct support to the many private organizations in Dominican society which share the Mission's view of the need to sustain the implementation of sound economic policies. The project will also provide a unique and valuable mechanism to initiate discussion of additional measures required to carry forward the economic reform agenda. In FY 1993, the Mission will authorize the Trade and Investment Project which will support Dominican efforts to address constraints to the country's full and successful participation in increasingly competitive external markets through:

- the creation of effective legal and regulatory environments in which business can be transacted with confidence and security,

- the removal of administrative and structural market distortions, e.g., those caused by government participation in productive activities, and

- the improvement of the productive capacity and competitiveness of Dominican firms.

Finally, the proposed FY 92-94 $15 million ESF program is a key element of the Mission's strategic objective of increased and diversified external trade. The proposed conditionality for the first year of the program in FY 1992 addresses specifically two of the related program outputs, that is, the need for market oriented economic policy and for competitively-priced, reliable electric energy. The ESF program in FY 1993 and 1994 will continue the same thrust, emphasizing policy changes which lead to a more transparent set of rules and regulations that affect business transactions, the so-called enabling environment. The ESF program promises to be an exceptionally useful instrument for sustaining the comprehensive economic reforms undertaken by the Dominican Republic and for promoting U.S. interests.

V. PROPOSED ESF PROGRAM

A. Overview of the Program

The Mission's overall strategy links expanded U.S. assistance to the Dominican Republic to continued adherence by the GODR to an internationally sanctioned economic reform program. In August, 1991, the GODR entered into a standby arrangement with the IMF. The depth and breadth of the reforms undertaken in conjunction with the IMF agreement merit substantial recognition and support. The associated short-term costs of the related adjustments suggest the need for continuing assistance to encourage the GODR to stay the course.

As the key element in this effort to signal U.S. Government support for the economic reforms, while providing an incentive to the GODR to sustain their implementation, the Mission is proposing the use of $15 million in ESF over the next three fiscal years. This PAAD describes the purpose and sets out the procedures for the first $5 million ESF cash transfer to be authorized in FY 1992. Authorization of ESF cash transfers in FY 1993 and 1994 will be addressed either through amendments to this PAAD or through new authorization documents.

The ESF Agreement will be signed by the Technical Secretariat of the Presidency and by the Central Bank. ESF dollars will be disbursed in a single $5 million tranche or in two tranches of $4 and $1 million, depending on the timing of actions taken by the GODR to satisfy the conditions precedent to disbursement, as described in section V.B., below. Upon meeting the conditions

precedent, the dollars will be disbursed to a separate, interest bearing, non-commingled Central Bank dollar account established in a U.S. bank in the United States. All interest earned will be programmed as principal. Funds will be withdrawn from the separate account to reimburse the Central Bank for financing it has provided for specific, eligible Dominican private sector imports from the United States. The Dominican pesos generated by these transactions will be deposited in a separate, non-commingled, interest-bearing peso account established by the Central Bank on behalf of the GODR. The pesos will be managed by the Technical Secretariat of the Presidency. They will be used to retire domestic debt owed by the public electric utility, CDE, to the GODR. ESF dollar funds, or the corresponding local currency generated by the Program, may be used, as required, to finance Program audits.

The identification of eligible import transactions and the transfer of the dollars to the corresponding commercial banks will utilize existing documentation and follow established procedures currently in use by the Central Bank in monitoring the domestic foreign exchange market. The ESF Agreement will require routine periodic reporting and provide A.I.D. the right to audit the supporting documentation at both the Central Bank and the participating commercial banks, as well as at the Technical Secretariat of the Presidency, to ensure full accountability for the final use of the ESF dollars and the corresponding peso generations. The Agreement will also require a redeposit to the separate account of funds applied to a disallowed use. These procedures are described in greater detail in section VI., below.

B. Conditionality

The primary focus of the conditionality of this ESF Program will be on the sustained implementation of the central elements of the GODR's economic reform program, as set out in the Standby Arrangement agreed with the IMF in August, 1991. While that agreement requires compliance with specific fiscal and monetary targets (Table V), it does not require implementation of the other reforms proposed by the GODR in its letter of commitment to the Fund. Thus, complementary conditionality in the ESF Program will encourage the GODR to implement the additional reforms proposed in that letter, specifically those related to the energy sub-sector. Finally, the Program will include conditionality which reflects USG interest in and concern with the rights of workers, including Haitian braceros, in the Dominican Republic.

1. Conditions precedent to the First Disbursement

Prior to disbursement under the ESF Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, except as A.I.D. may agree otherwise in writing, the Government of the Dominican Republic will furnish to A.I.D., in

form and substance satisfactory to A.I.D.:

(a) Evidence that the Government of the Dominican Republic has sustained implementation of the principal elements of its economic reform program, including compliance with the fiscal and monetary objectives of the Standby Arrangement, maintenance of a unified market determined exchange rate and market-determined financial system interest rates.

(b) Evidence that the GODR has adopted a comprehensive policy and strategy for the energy sector which will enable and encourage the participation of the private sector in meeting the country's energy needs.

Implementation of the Economic Reform Program

In August 1990, the GODR took the first steps to stabilize the economy of the Dominican Republic and to arrest inflation, which at that time was running at a record annual rate of about 100 percent. The implementation of these measures has been sustained through 1991 and 1992. Progress in stabilizing the economy has been very encouraging, as discussed in Section III. While the turnaround in the Dominican economy has been impressive, continued implementation of the reforms is vitally important. Success in maintaining stabilization over the long run remains uncertain. In its May 1992 report prepared for the CGCED, the World Bank notes with concern that:

> First, fiscal discipline and, therefore, macroeconomic stability are vulnerable to increases in international oil prices, changes in the exchange rate, and readjustments in domestic petroleum prices. Second, the program of trade liberalization (which involves loss of import tax revenues) cannot be implemented as planned without jeopardizing control on the revenue side of the fiscal equation. And third, the need to restore social infrastructure, which has deteriorated over time, will put considerable upward pressure on public investment, jeopardizing control on the expenditure side of that same equation.

The Bank report goes on to add:

> The main issue facing the Dominican Republic now is to sustain the structural reform process initiated by the Government to put the economy on a path to sustainable growth. International support for these efforts is sought. (Emphasis added.)

This ESF Program precisely intends to signal U.S. Government support for the record of sound economic policies developed by the GODR since August 1990. It also seeks to provide added incentives to the GODR to sustain the implementation of those

policies over the next year. The condition precedent will be deemed to have been met upon submission by the Central Bank of evidence that the GODR has met the targets of the IMF standby arrangement for the first reporting period which concludes subsequent to the signing of the ESF Agreement. The exchange rate and interest rate conditionality will be deemed to have been met upon submission by the Central Bank of evidence that decrees establishing a unified market-determined exchange rate and a market-determined financial system of interest rates are still in force and are being applied consistently.

The Energy Sub-sector

The Dominican Electric Corporation (CDE) is a state enterprise with a legal monopoly over the generation, transmission and distribution of electricity in the Dominican Republic. Failure by CDE over the years to follow its own expansion plans or to provide proper maintenance for its installed capacity has created a severe power shortage in the country. This has compelled business firms and households to provide their own energy through small individual standby generators and medium-sized power plants. As a result, according to World Bank figures, CDE's share of the total installed power generation capacity in the Dominican Republic declined from 64% in 1987 to 56% in 1991.

The fact is that neither the power currently provided by CDE nor the alternative, make-do arrangements put in place by business firms provide reliable, competitively-priced electricity required to sustain the economic development of the Dominican Republic, particularly as it strives to participate successfully in international markets. The problem will only grow worse. Demand for electricity in the country is expected to grow fast at about 4.5 to 5.0% per year through the end of the 1990's.

The Dominican power sub-sector is facing a major crisis. To meet existing and projected demand for electricity will require the complete rehabilitation of the existing system and construction of 800 to 1,000 megawatts of new capacity over the next ten years. The GODR and CDE alone cannot undertake this task. Substantial private sector participation in the management and financing of the sub-sector is essential. That, in turn, requires the existence of a clear power sector policy framework and of stable, transparent rules of the game which facilitate and encourage private participation.

The enactment of Law 14-90 toward the end of 1989 seemed to provide such an alternative by empowering the private sector to participate in the generation, transmission and distribution of electricity in the country. Despite the enthusiastic response by interested private investors, the implementing regulations of the law were never promulgated. Finally, the law itself was abrogated in May 1992 as part of a general fiscal reform.

This was a serious setback. However, there are new, promising signs. The GODR remains committed to continued negotiations with private energy investors in those projects actually approved before the abrogation of Law 14-90. President Balaguer instructed the Technical Secretariat of the Presidency and CDE jointly to develop a new legal framework which will once again enable private participation in the energy sub-sector. The largest private Dominican firms are prepared to participate actively in the privatization of CDE. Finally, the World Bank, with A.I.D. support, reached preliminary agreement with the Technical Secretariat and with the Central Bank to undertake an intense, short-term effort leading to adoption by the President of an energy policy and strategy which will define the respective roles of the public and private sectors in meeting the country's energy needs.

The ESF Program will support these efforts by focusing part of the conditionality on the need to adopt an energy policy and strategy which facilitates and enables private sector participation in the meeting the country's energy needs. The condition will be deemed to have been met upon submission by the Technical Secretariat of the Presidency of a copy of a policy signed by the President which commits the GODR to a firm schedule of steps to transfer expeditiously to effective private control the transmission and distribution of electricity within the country and to facilitate private investment in new energy generation capacity. In addition, use of the local currency generated by the Program to reduce CDE debt to the GODR will help make that state enterprise a more attractive target for privatization. Table VI describes the possible further evolution of the energy sub-sector reforms over the next two years.

To reinforce the effect of the two conditions precedent to disbursement, the ESF Agreement will also include covenants to the effect that:

(a) The GODR agrees to continue the implementation of the principal elements of its economic program, including compliance with the fiscal and monetary targets of the standby arrangement with the IMF, maintenance of a unified market determined exchange rate system, and market-determined financial interest rates.

(b) The GODR agrees to present to the National Congress in its first ordinary session in 1993 a new draft law to create a viable legal framework for the energy sector in the Dominican Republic, which will enable and encourage the participation of the private sector in meeting the country's energy needs.

2. Conditions Precedent to Disbursement of the Final $1 million.

Prior to a final disbursement of $1 million under the ESF Agreement or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, except as A.I.D. may agree otherwise in writing, the Government of the Dominican Republic will furnish to A.I.D. in form and substance satisfactory to A.I.D. evidence that the GODR continues to adhere to its initiatives to improve itinerant Haitian workers rights.

Traditionally, Haitian laborers have participated in the sugar cane harvest in the Dominican Republic. U.S. based human rights organizations, and several U.S. Congressmen, have voiced serious concerns in the recent past about the conditions under which these Haitians work and live in the bateyes and on the sugar plantations. Specific allegations include the failure of the employers to pay minimum wages, use of child labor, restrictions on the freedom of movement of the workers and the absence of official documentation granting temporary residency to these itinerant workers.

Over the past year, the GODR undertook a number of initiatives designed to improve itinerant worker rights, including a decision to issue one-year provisional residency permits to Haitian sugar cane workers. The proposed condition precedent to disbursement of the final $1 million would encourage the GODR to implement this measure. It will be deemed to have been met upon submission by the Technical Secretariat of the Presidency of evidence that as of December 1, 1992 12,000 itinerant Haitian workers have obtained temporary residence permits and that there will be continued progress in issuing the permits throughout the harvest.

In a related issue regarding workers rights in the Dominican Republic, the AFL/CIO has filed written complaints about the failure by firms in the free trade zones to respect the right of their employees to seek to create a union to represent their interests. The complaints refer to cases in which persons engaged in organizing a union have been dismissed and lost their job. On May 11, 1992 the National Congress approved a new labor code which was promulgated into law by the President on June 16. This code, which received the endorsement of both organized labor and business, provides guarantees to workers involved in organizing unions and establishes many additional new measures to protect workers rights in general. The following covenant will be included in the ESF Agreement to encourage the GODR to enforce the provisions of the new code:

The GODR agrees to enforce the newly enacted labor code, especially as it pertains to the guarantee of internationally recognized rights of freedom of association.

VI. PROGRAM IMPLEMENTATION AND MONITORING

A. Implementing Arrangements and Responsibilities

1. A.I.D.

The ESF Program will be managed by the Mission's Office of Policy and Democratic Initiatives (PDI). The Program, with its emphasis on economic policy reform and its concern for worker rights, fits well with the rest of the PDI portfolio, which includes projects, such as Economic Policy and Practices, Economic Education and Democratic Initiatives, designed to generate broad consensus around such issues. The Trade and Investment Office (TIO) will support PDI in evaluating progress in the area of energy. PDI will also be responsible for the timely evaluation of the ESF Program.

The workload of managing the ESF Program is well within the capacity of PDI, which has been the office designated to assume that responsibility since it was created by the Mission in FY91. PDI staff includes three economists (two USDH and one FSN), one of whom would be the program manager.

The Mission Controller's Office (CONT) will keep the accounting for the ESF Program and will process the dollar disbursement(s). It will also be responsible for tracking both the dollars and the local currency generations to their final use in conformity with the ESF Agreement. CONT will monitor the Program based on the periodic reports prepared by the Central Bank and the Technical Secretariat of the Presidency and will conduct or arrange for on-site review of the supporting documentation in the files of the implementing institutions. The Controller's Office will also monitor the audit coverage of the ESF Program.

2. GODR

The ESF Agreement will be signed on behalf of the GODR by both the Central Bank and the Technical Secretariat of the Presidency (TSP).

The Central Bank will be responsible for preparing the documentation demonstrating compliance with the economic policy reform conditionality. The Bank will manage the ESF dollars. To that effect, it will establish a separate account and handle related disbursements and withdrawals, establish and document end use of the dollars and prepare the related periodic reports to the Mission, as set forth in the ESF Agreement.

The Technical Secretariat of the Presidency will be responsible for preparing the documentation demonstrating compliance with the energy sub-sector policy and with the workers rights

conditionality. The Secretariat will manage the ESF local currency generations through its Resources Coordination Department (DCR), which already has responsibility for local currencies generated under past ESF and PL480 agreements. The Secretariat will establish a separate peso account and handle related deposits and disbursements, establish and document end use of the pesos and prepare the related periodic reports to the Mission, as set forth in the ESF Agreement. It will also arrange to have the Program audited, including the separate bank accounts, in conformance with the audit provisions contained in Section VI.C., "Reporting, Records and Audits," of this document. ESF dollar funds, or the corresponding local currency generated by the Program, may be used, as required, to finance Program audits.

B. Flow of Funds

1. Disbursement and tracking of ESF Dollars

Once the conditions precedent to disbursement have been met, the Central Bank will open an uncommingled, interest-bearing Separate Account in a U.S. bank in the United States for the initial deposit of the funds to be disbursed under the ESF Program and present a request for disbursement to the Mission. The request will specify:

- The name of the U.S. bank where the account has been opened
- The bank's address and/or American Banking Association numbers
- The name and number of the Separate Account
- A statement indicating Central Bank assurances that the account does not and will not contain any other funds, and
- The amount to be deposited.

Funds disbursed to the Separate Account and all interest earned by those deposits will be withdrawn by the Central Bank, with prior A.I.D. concurrence, to reimburse the Central Bank for import transactions which meet the following eligibility criteria:

- The Central Bank will include as eligible transactions only productive inputs of U.S. source and origin imported by the Dominican private sector. The list of eligible and non-eligible items is contained in Annex 3.

- The Central Bank will include as eligible transactions only otherwise eligible items imported within twelve (12) months of the date on which the ESF Agreement is signed.

- The maximum eligible amount for reimbursement from the Special Account for each eligible transaction shall be the

total dollar cost of the import, as billed by the exporter. Such cost may include the cost of goods, shipping (only if on U.S. flag vessels), handling, insurance, and bank charges.

Financing of eligible import transactions will follow procedures currently in use by the Central Bank to monitor the domestic foreign exchange market and to manage its interventions in that market. In order to establish the current and projected demand for dollars in the country, the Central Bank requires commercial banks to submit documentation describing each import transaction they finance. These documents identify the buyer and the seller, the source and origin of the goods, their value and the delivery date. When the Central Bank decides to provide an infusion of dollars to the markets, it does so by financing specific import transactions identified in these documents. The intent is to provide a clear trail of the precise use of its dollars. In the case of the ESF dollars, the Central Bank will simply select transactions that meet the eligibility criteria of the Program.

The exact procedure will be as follows:

- The Central Bank will review the documentation on imports submitted by the private sector, through the commercial banking system. It will identify transactions eligible to be financed under the ESF Program and include them among the specific import transactions which it finances as part of an infusion of dollars to the commercial banks subsequent to the signing of the ESF Agreement.

- The Central Bank will notify the Mission in writing of the specific import transactions it has financed, certifying that it has in its files the supporting documentation that demonstrates that the transactions meet all the eligibility criteria of the ESF Agreement. At a minimum, that documentation will include:

  - Evidence of the U.S. source and origin of the imports.
  - Copy of the foreign exchange authorization form (CE1, "Autorización de Divisas para Pagos de Bienes y Servicios al Exterior").
  - Copy of the commercial invoice.
  - Copy of the shipping documents (e.g. airway bill, bill of lading, etc.)
  - Copy of the import certificate ("póliza").
  - Evidence of payment to the exporter.

- The Mission, or any of its authorized representatives, will review the supporting documents in the files of the Central Bank to determine whether the documents provide adequate evidence of the eligibility of the transaction

proposed for funding under the Program.

- After confirming the adequacy of the evidence in the Central Bank files of the eligible transactions proposed for funding under the Program, the Mission will approve the reimbursement and authorize the Central Bank in writing to withdraw the equivalent amount of U.S. dollars from the Separate Account. The Central Bank will identify with precise numbering the transactions for which it received reimbursement in each withdrawal from the Separate Account.

- The ESF Agreement will contain a redeposit clause in the event that a withdrawal from the Separate Account is made for any ineligible use.

2. Generations and tracking of local currency

Within two (2) working days of receipt of bank notification of a deposit of funds to the Separate Account, the Central Bank will deposit in a uncommingled, interest-bearing Special Peso Account on behalf of the GODR an amount in local currency equivalent to the dollar amount disbursed by A.I.D. to the Separate Account. Within five (5) working days of receipt of the deposit notification from the U.S. bank, the Central Bank shall inform the Mission, in writing, of the amount of dollars received, the exchange rate used and the amount of local currency deposited in the Special Peso Account.

The local currency equivalent to the U.S. Dollar deposit will be calculated at the official rate used by the Central Bank on the date of deposit of the U.S. Dollars to the Special Account.

The Technical Secretariat of the Presidency, through its Resource Coordination Department (DCR) will manage the account and control the use of the pesos. It will disburse the funds deposited in the Separate Peso Account, as well as any interest earned by those deposits, to make full or partial payment for the following eligible obligations in the specified order of priority:

a) domestic debt obligations of the Dominican Electricity Corporation (CDE) with the Banco de Reservas;

b) other domestic debt obligations of the CDE with the GODR.

The exact procedure will be as follows:

- The Technical Secretariat of the Presidency will notify the Mission in advance, in writing, of the specific obligations of the CDE which it has identified and selected for full or partial payment under the Program, certifying that it has in its files the supporting documentation that

demonstrates that these are eligible obligations under the Program.

- The Mission, or any of its authorized representatives, will review the supporting documents in the files of the Technical Secretariat of the Presidency to determine whether the documents provide adequate evidence of the eligibility of the obligations proposed for funding under the Program.

- After confirming the adequacy of the evidence in the files of the Technical Secretariat of the Presidency of the eligible obligations proposed for funding under the Program, the Mission will authorize the Technical Secretariat in writing to disburse the equivalent peso amount from the Separate Peso Account. As part of the disbursement, the Technical Secretariat will obtain, for its files, documentation that demonstrates that the corresponding CDE debt obligations have been retired.

- The ESF Agreement will contain a redeposit clause in the event that a disbursement from the Separate Peso Account is made for any ineligible use.

C. Reporting, Records and Audits

The Central Bank shall provide to the Mission the following information and reports:

- The Central Bank will report in writing to the Mission within five (5) working days of receiving notification of dollar deposits to the Separate Account:

  a) The amount of the deposit.
  b) The exchange rate used to determine the equivalent amount of local currency.
  c) The amount of local currency deposited

- Subsequent to the first disbursement of dollars to the Separate Account, and until all funds, including any interest earned, have been withdrawn fully from the Separate Account, the Central Bank will provide to the Mission, on a monthly basis, a copy of the monthly bank statement and of the corresponding account reconciliation report. The Central Bank will also request the U.S. bank to submit directly to the Mission, on a monthly basis, a copy of the monthly bank statement.

- The Central Bank will provide to the Mission, within three (3) working days after the end of each month, a Report of Separate Account Withdrawals. This report

will specify, for each withdrawal during the month, the withdrawal identification number, the identification number of the corresponding eligible transaction, and total U.S. dollars withdrawn for each transaction.

The Technical Secretariat of the Presidency shall provide to the Mission the following information and reports:

- Subsequent to the first deposit of pesos to the Separate Peso Account, and until all funds, including any interest earned, have been disbursed fully from the Separate Peso Account, the Technical Secretariat will provide to the Mission, on a monthly basis, a copy of the monthly bank statement and of the corresponding account reconciliation report.

- The Technical Secretariat will provide to the Mission, within three (3) working days after the end of each month, a Report of Separate Peso Account Disbursements. This report will specify, for each disbursement during the month, the disbursement identification number, the corresponding eligible CDE debt obligations, and total pesos disbursed for each such obligation.

The ESF Agreement will require that:

- The Central Bank and the Technical Secretariat of the Presidency, as appropriate, maintain financial documentation, books and records covering the use of dollar funds and of the corresponding local currency generations in accordance with generally accepted accounting principles and practices consistently applied.

- The documents, books and records of the ESF Program be available for inspection by A.I.D. or any of its authorized representatives at all times as A.I.D. may reasonably require for a period of three (3) years after the date of the last disbursement by A.I.D. under the ESF Program.

- The Central Bank ensure that A.I.D. has access as well to supporting documents, books and records in the commercial banks receiving funds under the Program.

- The GODR have an independent audit performed of the Program at least once a year in order to determine whether the receipt and expenditure of the funds provided under the Agreement are presented in accordance with generally accepted accounting principles and whether the GODR has complied with the terms of the Agreement. The audit will be performed in accordance with U.S. Government auditing standards as set forth in the GAO publication "Government

Auditing Standards". The audit will be performed by an independent firm or by the Dominican Republic's central audit agency, subject to the Regional Inspector General's prior determination that the chosen audit entity is capable of meeting GAO auditing standards.

TABLE I

DOMINICAN REPUBLIC: POPULATION, NAT'L ACCOUNTS AND PRICES 1989-92

			Est	Prog
	1989	1990	1991	1992
POPULATION				
Thousands	7017	7178	7343	7512
Growth Rate	2.3	2.3	2.3	2.3
NATIONAL ACCOUNTS				
GDP, curr. prices (mill pesos)	42393	60355	91111	97598
GDP, 1980 prices (mill. pesos)	8346	7895	7856	8092
Real GDP Growth Rate (%)	4.1	-5.4	-0.5	3.0
Real Per Capita GDP	1189	1100	1070	1077
Real PC GDP Growth Rate (%)	1.7	-7.5	-2.7	0.7
Gross Domestic Investment/GDP (%)	20.2	16.2	16.8	17.5
Private	8.9	9.6	10.6	10.2
Public	11.3	6.6	6.2	7.3
Gross National Savings/GDP (%)	15.6	13.3	14.2	15.9
Private	10.2	11.8	6.3	6.5
Public	5.4	1.5	7.9	9.4
Foreign Savings/GDP (%)	4.6	2.9	2.6	1.6
PRICES				
GDP Price Deflator	507.9	764.6	1159.8	1206.1
Annual Change (%)	43.7	50.5	51.7	4.0
Consumer Prices (Dec.)	677.4	1359.4	1413.8	1526.9
Annual Change (%)	40.5	100.7	4.0	8.0
Exchange Rate (Annual Average)	6.30	8.54	12.5	12.5
Depreciation (-, %)	-3.2	-26.2	-31.7	0.0

TABLE II

DOMINICAN BALANCE OF PAYMENTS 1989-1992
(In millions of US$)

			Est	Prog
	1989	1990	1991	1992
BALANCE OF PAYMENTS (mill. US$)				
Current Account	-395.9	-262.2	-245.2	-192.8
Trade Balance	-1039.3	-1058.2	-1078.1	-1123.4
Exports fob	924.5	734.7	650.7	704.6
Imports fob	-1963.8	-1792.9	-1728.8	-1828.0
Services (net)	342.9	481.2	503.4	585.2
Private Transfers	300.5	314.8	329.5	345.4
Capital Account	-55.5	-244.8	313.6	70.4
Official Transfers	83.8	55.8	57.0	65.8
Official Capital (net)	-15.6	-302.2	-133.4	-75.4
Direct Investment	110.0	134.4	145.0	160.0
Other Private (including errors and omissions)	-233.7	-132.8	245.0	-80.0
Overall Balance	-451.4	-507.0	68.4	-122.4
Financing	451.4	507.0	-68.4	122.4
Central Bank net intern'l reserves (increase -)	112.4	-75.7	-380.4	28.0
Arrears	273.5	519.6	-659.0	-643.4
Debt relief	65.5	63.1	971.0	737.8
Memorandum items				
Stock of arrears	841.5	1479.0	780.5	0.0
Gross international reserves	122.8	68.8	426.1	436.0
EXTERNAL DEBT				
Outstanding, Dec. 31	3893.0	4481.8	4585.7	4380.0
Outstanding/GDP (%)	62.1	63.2	62.5	59.5
Debt Service ratio (%)	28.1	35.8	13.7	18.0

TABLE III

DOMINICAN REPUBLIC: PUBLIC SECTOR OPERATIONS 1989-92
(In millions of Dominican Pesos)

			Est.	Prog
Concepts\Years	1989	1990	1991	1992
GDP, curr. prices (mill pesos)	42393	60355	91111	97598
PUBLIC SECTOR OPERATIONS (mill pesos)				
Total Revenue	7209.4	7810.5	14464.8	15556.4
Current Expenditures	4461.7	5687.0	8321.6	8839.3
Capital Expenditures	4787.9	3965.5	5612.7	7092.3
Central Bank Losses	77.4	0.0	0.0	0.0
Residual Deficit	935.6	1716.4	1117.1	1117.1
Deficit before Grants(commitments)	-3053.2	-3558.4	-586.6	-1492.3
Grants	541.8	522.4	707.4	712.3
Deficit after Grants (commitments)	-2511.4	-3036.0	120.8	-780.0
Interest Arrears	1035.4	1882.4	0.0	0.0
Financing	1476.0	1153.6	-120.8	780.0
Interest Resched./Deferment	61.6	0.0	2681.8	1070.0
Foreign	784.6	337.8	-412.0	-730.0
Domestic	629.8	815.8	-2390.6	440.0
PUBLIC SECTOR OPERATIONS (% GDP)				
Total Revenue	17.0	12.9	15.9	15.9
Current Expenditures	10.5	9.4	9.1	9.1
Capital Expenditures	11.3	6.6	6.2	7.3
Central Bank Losses	0.2	0.0	0.0	0.0
Residual Deficit	2.2	2.8	1.2	1.1
Deficit before Grants(commitments)	-7.2	-5.9	-0.6	-1.5
Grants	1.3	0.9	0.8	0.7
Deficit after Grants (commitments)	-5.9	-5.0	0.1	-0.8
Interest Arrears	2.4	3.1	0.0	0.0
Financing	3.5	1.9	-0.1	0.8
Foreign	1.9	0.6	-0.5	-0.7
Domestic	1.5	1.4	-2.6	0.5

TABLE IV

DOMINICAN REPUBLIC: SUMMARY OPERATIONS OF THE CENTRAL BANK
AND THE CONSOLIDATED BANKING SYSTEM 1989-92
(In millions of Dominican Pesos)

			Est.	Prog
Concepts\Years	1989	1990	1991	1992
CENTRAL BANK				
Net Foreign Assets (End of Period)	-1731.3	-2215.4	2281.3	1932.2
Net Domestic Credit	6547.3	10242.7	8535.9	10382.2
Public Sector	4491.4	5498.2	3904.2	4344.2
Other	2055.9	4744.5	4631.7	6038.0
Monetary Base	4290.3	6126.5	10362.4	11398.6
Currency in Circulation	2664.5	3717.2	4585.3	5020.9
Annual % Change	42.0	39.5	23.4	9.5
Net Domestic Assets *	6021.7	8341.9	8081.2	9466.4
* (Monetary Base - NFA)				
Flows	917.4	1210.2	-486.5	1385.2
CONSOLIDATED BANKING SYSTEM				
Net Foreign Assets (End of Period)	1131.2	-1602.3	3105.7	2756.7
Net Domestic Credit	14476.2	20147.6	20424.1	23534.2
Public Sector	5036.8	5765.7	3346.6	3786.6
Credit to Pub Sect from Renego.			1052.2	1560.0
Official Cap. and Accum. Surplus	-532.6	-589.8	-718.3	-718.3
Credit to Other Finan Institutions	670.9	994.1	1312.9	1312.9
Private Sector	6858.0	8943.7	11100.1	12608.7
Other	2443.1	5033.9	4330.6	4984.3
Liabilities with the Private Sector	11589.5	15527.5	21325.3	23625.0
Money and Quasi-Money (M2)	10485.0	13923.2	19017.5	21063.3
Currency in Circulation	2664.5	3717.2	4585.3	5020.9
Demand Deposits	2350.0	3373.0	-	-
Time and Savings Deposits	4176.0	5817.0	-	-
Other Liabilities (net)	1307.4	1016.0	-	-

TABLE V

DOMINICAN REPUBLIC: PERFORMANCE CRITERIA FOR STAND-BY ARRANGEMENT IN 1992

Details	June 30	September 30	December 31
(In Millions of Dominican Pesos)			
Net Credit of the Central Bank and the Banco de Reservas to the Nonfinancial Public Sector			
Ceiling	270	260	440
Net Domestic Assets of the Monetary Authorities (effective flows)			
Ceiling	980	1045	1385
Overall deficit of the Nonfinancial Public Sector			
Ceiling	300	570	780
(In Millions of U.S. dollars)			
Net foreign borrowing by the Public Sector			
Ceiling	22	22	22
Subceiling	10	10	10
Net International reserves of the Monetary Authorities			
Floor	-53	-41	-28
Reduction in Nonrestructurable Arrears through payments			
Target	3	3	23

Source: Dominican Republic authorities; IMF Staff estimates.

Table VI

Dominican Republic: Energy
An evolving agenda

A lasting solution to the energy crisis in the Dominican Republic could evolve in three phases, as follows:

PHASE I: ADOPTING A POLICY AND STRATEGY FOR ADDRESSING THE PROBLEM

Background

There is a growing consensus among high-level officials within the GODR that the lack of reliable competitively priced energy is a major constraint to economic growth and that the solution to the problem will require substantial private investment in new energy generation capacity.

There is disagreement among these same officials on how to proceed in promoting private investment in the energy sub-sector. This is producing confusing signals to interested private investors and effectively impeding progress in resolving the country's electric power problems.

Energy experts suggest that private investment in new energy generation projects will not be feasible until there is effective private control of the transmission and distribution of energy, a function currently performed exclusively by the public utility, CDE. These same experts also point out that there are many viable models for structuring the energy sub-sector in the D.R. which would satisfy these conditions.

Proposed actions

The GODR needs to articulate its solution to the energy problems confronting the Dominican Republic. The statement should include a firm, clear policy on the need for private investment in the sub-sector and a practical strategy for creating an enabling environment which encourages and facilitates such investment.

Benchmarks

The adoption by the President of the D.R. of a energy policy and strategy which enables and encourages the participation of the private sector in meeting the country's energy needs.

A.I.D. and other donor roles

The adoption of an energy strategy and policy, as described

above, is a condition precedent to the FY 92 $5 million ESF program in the Dominican Republic.

The World Bank is organizing and supporting a meeting of six high-level GODR officials who are the key advisors to the President on energy to review options and make a recommendation to the President on energy policy and strategies. The Mission is cooperating with the World Bank in this process.

Timing

This phase should take about three (3) months. Given current events, it could be concluded by late November or early December, 1992.

PHASE II: CREATING THE ENABLING ENVIRONMENT FOR PRIVATE PARTICIPATION IN THE ENERGY SUB-SECTOR

Proposed actions

The law which created CDE grants that public utility a virtual monopoly in the generation, transmission and distribution of energy in the Dominican Republic. The law would have to be amended, at a minimum, to recognize and authorize private participation in these functions. The law might have to be replaced with new legislation if the policy adopted by the GODR is to privatize CDE completely.

Detailed technical documents may be required to support the invitations for bids from private proponents interested in participating and/or investing in the generation, transmission and distribution of energy in the Dominican Republic. A long-term, least cost energy expansion plan will serve as an important guide to interested private investors, as well as to the authorities responsible for reviewing and awarding contracts to such investors.

In addition, there may be a need to develop regulations governing future private energy operations. As an alternative, energy experts suggest that this could be accomplished through specific clauses in the contracts with the private participants. Model contracts may be required.

Benchmarks

Approval by Congress and promulgation by the President of an amended CDE law or of new energy legislation which authorizes private participation in the sub-sector.

Promulgation by the President of energy regulations, if the GODR policy is to create an energy sub-sector regulatory body and process.

Approval by the appropriate authority of a long-term, least cost energy expansion plan for the Dominican Republic.

Approval by the appropriate authority of the model contract and of the RFP packages for private participation in the energy sub-sector.

A.I.D. and other donor roles

The current expectation is that these benchmarks would be incorporated as conditions precedent to disbursement in future ESF programs. In addition, the Mission has been asked by the GODR to provide technical assistance in the development of detailed legal and technical documentation to support its eventual policy and strategy in the energy sub-sector. This could be handled through a buy-in to existing R&D/E&I contracts in this area cr as part of the privatization component of the Mission's new Trade and Investment Project.

The World Bank anticipates providing technical assistance as well. The IDB, which has an ongoing program with CDE, may want to participate in the process or at least to review the draft documents before they are formalized. The Mission will seek to ensure close donor coordination in this effort.

Timing

This phase should take about six (6) months and run into the summer of 1993. If legislation is not ready to be considered by the Dominican Congress in its regular session at the beginning of 1993, the completion of this phase could be delayed until the next session and extend to the end of 1993.

PHASE III: IMPLEMENTATION

Proposed actions

The key actions in this phase begin with the actual bidding and contracting with private firms interested in participating in and/or investing in the generation, transmission and distribution of energy. As part of the RFP, the responsible authorities should make the long-term, least cost energy expansion plan available to interested investors. This would be followed by the implementation of the contracts to build and/or manage key components of the energy sub-sector.

Benchmarks

Awarding and signing contracts with private firms to manage and or invest in key components of the energy sub-sector in the Dominican Republic.

Implementation of the contracts, with private firms assuming effective control of the transmission and distribution of energy in the country and with the beginning of the construction of privately owned energy generation projects.

A.I.D. and other donor roles

Any Mission role in this phase would be in the context of the new Trade and Investment Project. If appropriate, there might also be associated conditionality in the ESF program.

The World Bank has suggested that it might develop and approve a new energy loan for the Dominican Republic if the right policy decisions are adopted and implemented. The IDB has not described plans beyond its current project.

Timing

The elections in the first half of 1994 in the Dominican Republic could affect and delay the timing of this phase. Whenever it actually starts, it will take twelve to eighteen (12-18) months to bid and award the contracts. This would place the actual implementation of the contracts, at the earliest, in the summer of 1994.

Issue

A continuing concern during all this process will be the need to ensure continuity of the policy/strategy/plans in the transition from one government to the next starting in 1994. This suggests strongly that in phases I and II, above, the process of developing and approving key documents will have to stress the consensus building that has characterized the process surrounding other key reforms in the Dominican Republic, such as the recent electoral, fiscal and labor code reforms.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

ANNEX 1.
LAC-IEE-92-49

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Dominican Republic
Project Title	:	Investment and Trade Expansion Program
Project Number	:	517-0263
Funding	:	$5.0 million (ESF)
Life of Project	:	Two Years (FY 92-93)
IEE Prepared by	:	Douglas Chiriboga, Chief, Program Development Office
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	Approval of categorical exclusion is granted on the condition that program agreements include the following restriction on the use of program funds: (1) no pesticides will be procured or used, nor (2) will there be support of activities or procurement or use of materials or equipment for commercial timber harvesting in primary forests under program without first completing an Environmental Assessment and having it approved by the LAC Bureau Environmental Officer.
Copy to	:	Douglas A. Chiriboga Chief, Program Development Office
Copy to	:	Gene Wilken, REAA/Caribbean
Copy to	:	Jeffrey Evans, LAC/DR
Copy to	:	Gussie Daniels, LAC/CAR
Copy to	:	James Hradsky, LAC/DR/CAR
Copy to	:	IEE File

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

James G. Hester Date August 27,

James Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

INITIAL ENVIRONMENTAL EXAMINATION

Project Location	:	Dominican Republic
Project Title	:	Investment and Trade Expansion Program
Project Number	:	517-0263
Funding	:	5.0 million (ESF)
Life of Project	:	2 years (FY 92-93)
IEE Prepared by	:	Douglas A. Chiriboga Chief, Program Development Office

Recommended Threshold Decision:

a. Recommendation:

After repeated ad hoc attempts to deal with the deteriorating policy environment, in August 1990, the Government of the Dominican Republic (GODR) initiated a comprehensive economic reform program that has produced dramatic results. Domestic financing of the public sector deficit has been eliminated. A tight monetary policy, positive real interest rates coupled with the adoption of a unified market-determined exchange rate have produced price and exchange rate stability, increased the net international reserves, and the reduction of arrears to the International Financial Institutions (IFI)s. However, the short-term costs of the program in terms of economic recession and increasing unemployment are serious constraints to its sustained implementation without increased assistance from the donors. A.I.D. will support the sustained implementation of the reform program and the stand-by arrangement with the IMF with the ESF resources in FY92 and FY93.

The ESF resources will be provided in the form of a cash transfer. The dollars will be used to finance productive imports from the U.S. for the Dominican private sector. Disbursements will be made after the GODR satisfies certain conditionalities. Conditions Precedent to disbursement will include: the sustained implementation of the economic reform program and the stand-by arrangement with the IMF, actions taken to facilitate private sector investment in electrical power projects, and continued adherence to Dominican initiative to improve workers rights. Local currency generations will be used to finance reductions in public sector domestic debt.

Pursuant to A.I.D. environmental regulations [22 CFR Part 216.2 (c) (1) (i) and (ii)], no further environmental review is required and a categorical exclusion applies when:

(i) "The action does not have an effect on the natural or physical environment;" and
(ii) "A.I.D. does not have knowledge of or control over, and the objective of A.I.D. in furnishing assistance does not require, either prior to approval of financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physical and natural environment for which financing is approved by A.I.D."

Based on A.I.D. regulations in Handbook 3, Chapter 2, the A.I.D. Mission to the Dominican Republic recommends that no further environmental study be undertaken for this PAAD and that a "categorical exclusion" be approved.

Concurrence: Raymond Rifenburg, Director
USAID/Dominican Republic

Drafted by:DChiriboga:PDO:md:7/28/92:PDO-001

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

As part of the conditionality of this ESF Program, the GODR will undertake structural reforms which will increase the flow of international trade, foster private initiative and competition, and improve technical efficiency of industry, agriculture and commerce.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The GODR's new economic program includes tariff reductions which should increase the flow of U.S. goods into the country. The GODR is currently reviewing its investment policies and is expected that the new policies will result in a better environment for U.S. investments. The dollars from the cash transfer will finance imports from the U.S.

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?	Yes - Congressional Notification sent to Congress on November 27, 1991. CN expired on December 12, 1991.
b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?	N/A
c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted?	Yes
4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	N/A
5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	N/A

6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) — N/A

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)? — Yes

8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? — N/A

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. — N/A

10. U.S. Private Trade (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). — See reply to A.2 above.

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. — N/A

b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? — No

c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account? — Yes

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? — Yes - Local Currencies will be used to finance reductions in public sector domestic debt.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? — Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? Yes

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? No

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

15. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A

16. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). Yes

17. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the N/A

extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

18. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased? N/A

19. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs. No

20. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No

b. Will any funds be used to lobby for abortion? No

21. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? N/A

22. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. N/A

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No

23. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? N/A

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? N/A

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

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible N/A

under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? N/A

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? N/A

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? N/A

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? N/A

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? N/A

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? N/A

l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? N/A

24. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

c. Large projects, congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A

25. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

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

27. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes

28. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes

29. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

30. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes

31. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

32. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

33. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes

34. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes

35. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes

36. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	Yes
37. Publicity or Propoganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?	No
38. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?	N/A
39. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?	No

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. Economic and Political Stability (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? — Yes

2. Military Purposes (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? — No

3. Commodity Grants/Separate Accounts (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? — N/A

4. Generation and Use of Local Currencies (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? — No

5. Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:

a. Separate account: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? — Yes

b. Local currencies: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

Yes - Local Currency will be deposited in a special account. The ESF agreement will contain the terms, conditions and responsibilities for use of local currency.

c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

Yes

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Yes - CN expired on December 12, 1991.

DRAFTER:GC/LP:EHonnold:4/11/91:2169J

ANNEX 3.

A. ELIGIBLE IMPORTS

The following list of eligible items, if of U.S. source and origin, can be imported with financing from the ESF Cash Transfer Program dollar funds:

- Raw materials
- Intermediate goods
- Spare parts
- Capital goods

B. INELIGIBLE IMPORTS

The following list of ineligible items cannot be imported with financing from the ESF Cash Transfer Program dollar funds:

- PL480 commodities
- Fine furs
- Explosives and ammunition
- Passenger cars
- Firearms/military equipment
- Police equipment
- Weather modification equipment
- Alcoholic beverages
- Jewelry
- Surveillance equipment
- Pesticides
- Gold, silver, coins/stamps
- Abortion equipment
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