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DOMINICAN REPUBLIC

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 83

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A. Analytical Description of the Poor

1. Definition of Poverty in the Dominican Republic

The IBRD 1/ lists Dominican Republic's most recent (1978) GDP per capita at $902. The substantial overvaluation of the Dominican peso, however, combined with the difficulties inherent in an island economy, where many essential items must be imported, seriously reduces the purchasing power which this figure represents. Poverty is still widespread in this country. Official statistics used by the National Planning Office estimate that approximately 75% of Dominicans do not receive a nutritionally adequate diet. Furthermore, approximately 50% of the population have a diet that is seriously deficient, averaging only 62% of the daily recommended minimum caloric requirement.

The rate of infant mortality, which reflects maternal health, nutrition, water quality, sanitation, as well as the quality of preventive and corrective medical care is 83 per thousand live births, higher than that in many Latin American countries with lower per capita incomes, and indicative of a widespread inadequacy in the satisfaction of basic needs.

The World Bank in 1975, using a combination of indicators of both absolute poverty (primarily the proportion of family income required to purchase a minimum food basket) and relative poverty, estimated that 17% of urban residents and 60% of the rural population were poor. Even accounting for some improvement, the same proportions indicate a 1980 population of urban poor of .5 million and rural poor of 1.7 million.

1/ The IBRD and the GODR are used as primary sources of poverty statistics in this paper.

While GODR does not have an official poverty definition, the Central Bank in 1976-1977 conducted a nationwide household survey, based upon which, it suggested as an official poverty criterion of $74 per month for a family of six. This figure appears to be excessively conservative (it would correspond to an annual per capita income of less than $150 at 1976-1977 prices); however, even at that more extreme level of privation 19% of the population (24% in rural areas, 13% in urban areas) would have been considered poor.

The Central Bank's figures suggest that the incidence of this more serious privation is relatively higher in urban areas, i.e. the IBRD define 23% of the poor in urban areas, while the Central Bank's more stringent definition lists 36% of the poor in urban areas. This probably reflects the fact that even very poor people in rural areas can manage to find some means of support, even if at a very low level, while the same is not always true in urban areas. Both sources demonstrate that, even though poverty in the Dominican Republic is predominantly a rural phenomenon, urban poverty remains a very real and very serious problem.

The Mission accepts the IBRD estimate as the best indicator of the extent of poverty, while recognizing the Central Bank estimate as an indicator of an even more serious level of privation.

2. Functional Description of the Poor

a. Small Farmers

The IBRD definition places the majority of the Dominican poor, 1.7 million out of 2.2 million, in rural areas. Of these, the majority are small farmers or members of their families. The best available information on this category of the poor is from a Ministry of Agriculture survey undertaken in 1976. 1/

In all, there are about 254,000 small farm households in the country with an estimated 6.4 persons per household, for an estimated small farm population of 1.6 million. The average size of those farms is 2.3 hectares. Of those farms, 74% are owned outright; 5% are rented either for cash or crop share; 4% are held under the agrarian reform; and 6% represent land occupied without title. The remaining 11% represents multiple tenure arrangements.

Of the total household income of small farm families, 36% represents the implicit value of on-farm consumption; 24% is from cash sales; and 40% is off-farm income. Of all small farm land, 41% was planted in annual crops; 27% is perennial crop; and the remainder in a variety of other uses. On average, small farmers possessed capital goods (including draft animals) worth $164 and livestock worth $300. Seventeen percent of small farmers used chemical fertilizer and 25% used some credit with an average loan size of $432. Most loans were short term crop loans, and the source of credit was approximately evenly divided between private individuals and official institutions. In general, there are not significant regional disparities in small farm incomes.

1/ This survey grouped farms into small, .5 to 4.9 hectares; medium, 5.0 to 49.9 hectares; and large, 50 to 499.9 hectares. Persons owning less than .5 hectares were considered landless. While this grouping by farm size does not correspond exactly to a grouping by household income, the correspondence between the survey's "small farmer" and the landholding portion of AID's target group (less than 5.0 hectares) appears to be close. Farms in the .5-4.9 hectares range, made up 63% of farm households and held 16% of agricultural land. Family farms in the 5.0-49.9 range, made up 19% of farm households and held 30% of farm land. The remaining 2% of private farms held 32% of farm land. Finally, the government itself held the remaining 22% of agricultural land.

A 1975 survey reported by the Secretariat of Agriculture showed average value of small farm production of $766 in the Northern zone, $982 in the Southwest, and $1,143 in the Southeast. Production on rainfed units in that year was adversely affected by drought, especially in the North. Finally, a larger proportion of units in the Southwest are small farms (69.6%), than in the North (61.0%), or the Southeast (54.2%).

A serious problem of small farm families and a major source of their poverty is underemployment. It is estimated that only 50% of labor time available to small farmers and their families is productively utilized. Apparently, the requirements of farming their plots restricts their ability to respond to off-farm opportunities. By contrast, rural landless laborers, apparently because of their greater mobility, are estimated to employ productively more than 80% of their available time.

b. Rural Landless Workers

The category of landless workers includes a broad spectrum of persons, some of whom, e.g., skilled workers on large estates, are probably not members of the target group. In broad terms, these households may be broken down into two groups: completely landless households numbering 11,000 in the 1971 agricultural census, and 50,000 households with "farms" of less than one-half hectare. Allowing for growth in the number of households since 1971, and assuming approximately 6 persons per household would yield a landless population at the present time of approximately 400 thousand.

The poverty of this group is essentially attributable to the absence of opportunities for employment providing more than a minimal wage rather than unemployment or intermittent employment. The average wage level for agricultural laborers was given in the 1976 Ministry of Agriculture study as $2.53 per day on large farms, less or small and medium farms. If we assume that there were 1.6 wage earners per household, and 210 work days per year, this would mean an average household income of $850 per household per year, or $142 per capita.

c. Urban Poor

The estimated half million urban poor in the Dominican Republic are located in poor neighborhoods, scattered around Santo Domingo, and other urban areas. Their poverty results from a high incidence of unemployment, intermittant employment, and employment in low productivity occupations.

Open unemployment in urban areas is officially estimated at 24% of the labor force. The primary cause of this is the very high rate of population growth which the Dominican Republic has experienced over the past several decades. While the GODR family planning council now estimates the population growth rate at 2.5%, in the early 1960's the rate of growth was 3.5%. The persons now entering the labor force are those born during the period of very high population growth during the early and mid-1960's.

Aggravating this situation is the very high rate of rural to urban migration. During the 1970's, the rate of growth in urban areas averaged 5.8%. For Santo Domingo, the rate was even higher. Furthermore, rural to urban migration has brought to urban areas persons who are not well prepared for urban employment. In particular, persons from rural areas have fewer years of schooling than those raised in urban areas, and what schooling they have is likely to be of lower quality. Thus, migration has swelled the already high rate of labor force entrants with persons ill-prepared for productive urban employment.

Finally, persons living in poorer neighborhoods are more likely to suffer from the effects of inadequate sewage facilities and contaminated water. Sewage disposal at present is available to only 37% of the inhabitants of large and medium sized urban areas. While urban water and sewage treatment are probably, on the whole, better than in most developing countries, contamination remains a problem. Debilitating water-borne diseases can further reduce the ability of the poor to engage in productive activities.

The consequence of this is not only high open unemployment and a high incidence of intermittent employment, but also a depressed level of urban wages. There is evidence that the average urban wage has declined in real terms since 1969, despite the very high rates of overall economic growth experienced in this country during the early 1970's.

B. The Causes of Poverty

1. Structure of the Dominican Economy

The Gross Domestic Product (GDP) of the Dominican Republic is unofficially estimated at $5.355 billion pesos for 1979, approximately US$992 per capita at the official exchange rate: one peso equal to one dollar. At the average unofficial exchange rate prevailing in the parallel market during 1979, this was equal to US$815 per capita. Real GDP will lie somewhere between these two figures. Real growth in GDP averaged 4.9% per year between 1975 and 1979.

During the period 1970-1973, real GDP growth averaged more than 10% per year, primarily as a result of several large foreign privately financed investment projects, including the Falconbridge ferronickel mine, the Rosario gold and silver mine, and the Shell refinery. The absence of additional investments in projects of a similar aggregate size, combined with the continuing adverse impact of high world oil prices on the Dominican Republic, have reduced growth in the period since 1973 to the 5% range.

Of the total output of the Dominican economy, 19.3% is in agriculture, forestry, livestock, and fishing; 18.0% in mining and manufacturing; 15.7% in construction and housing; 7.8% in public utilities; and 39.2% in other services. Over the past several years, the proportion of GDP in the mining and manufacturing sector has declined (from 22.2% in 1974 to 19.3%), while that in the service sector has increased (from 31.4% to 39.2%). Construction and housing increased from 13.1% to 15.7%.

The distribution of income in the Dominican Republic is highly skewed but, in general, no more so than in most countries of Latin America. According to preliminary results of the National Family Income and Expenditure Survey for 1976-1977, throughout the country, the lower 50% of households receive 18.5% of all income, while the top 10% receive 38.5%. The pattern of income distribution is slightly more even in rural areas, than in urban areas. This probably reflects the extremely slack state of the urban labor market.

2. Balance of Payments

The balance of payments of the Dominican Republic remains heavily dependent on a few primary commodities. Of total merchandize export receipts in 1979, 26.9% were from sugar, 18.2% from coffee, and 14.7% from silver and gold. Thus, approximately 60% of the Dominican Republic's export receipts came from sales of commodities whose markets have been characterized in the recent past by extremely erratic fluctuations in prices. Such fluctuations, particularly if downturns in more than one commodity coincide, can wreck this country's investment program.

At the moment, the Dominican Republic is benefitting from coinciding peaks in commodity prices as booming sugar, gold, and silver prices far outweigh the effects of a somewhat depressed coffee market. The short-term out-look appears to be relatively favorable for the D.R.'s export performance at least up to 1982, chiefly because of continuing high sugar and precious metals prices. Beyond that, the outlook is less favorable as the world sugar price is almost certain to decline, as other sugar producing countries return to more normal levels of output, and as users of sugar respond to high prices by substituting other sweeteners. A sharp downturn in precious metals prices at some point cannot be ruled out. For these reasons, the Dominican Republic's export earnings will continue to be subject to cyclical price movements of these commodities.

On the import side, the Dominican Republic faces continuing substantial increases in petroleum prices. Primarily because of price level increases, petroleum and petroleum product imports have grown from $48.5 million in 1973 to an estimated $450 million in 1980. Looked at another way, in 1973, petroleum and petroleum products absorbed 10.9% of the country's export receipts. In 1980, it is projected to absorb 45.3% of all Dominican export receipts. In the short run, assistance of about $100 million to finance these imports will be available from Venezuela and apparently from Mexico on concessional terms. In the longer term, it is essential for this country to find economically efficient substitutes for petroleum products in order to free up foreign exchange for development purposes. The most likely area for accomplishing this is in the generation of electricity, which in this country is almost exclusively done with petroleum products.

On the positive side, an increasingly important source of balance of payments finance in recent years has been remittances from Dominicans living outside the country. This item was estimated in 1979 at $118 million, and was an important item in keeping foreign borrowing requirements within manageable bounds.

Overall, the current account deficit for 1979 was $341.1 million, equal to 6.4% of GDP, with a balance of payments deficit of $85.2 million. In 1980, there was a bulge in imports early in the year due to overly stimulative monetary policy and excessive government spending which appears to have been corrected later in the year. The outlook for 1981 and beyond appears to be for a current account deficit of $450-$500 million in 1981; this will probably increase by perhaps $200 million as sugar prices re- turn to more normal levels. This level of current account deficit should be financeable from available private and official sources, with an overall payments surplus of perhaps $150 million in 1981, and a $50 to $100 million deficit thereafter. There are various ways a deficit of this magnitude can be handled, including shifting of further import categories to the parallel foreign exchange market. 1/ There appears to be limited potential, however, for financing a major

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1/ The parallel market is a legally ambiguous but officially tolerated and widely used foreign exchange market which supplies foreign exchange for imports for which the Central Bank will not provide exchange at the official rate of one-to-one, and to Dominicans for the purpose of investing abroad. The market is supplied primarily by tourists, by emigrant remittances, and by illegal over-invoicing of imports and under-invoicing of exports. The dollar premium as of mid-January was approximately 25%.

development program that would require substantial foreign inputs unless the projects produce a "quick-payout" or are financed concessionally.

The extent to which the government can finance any level of current account deficit depends crucially on the level of autonomous private capital inflow it can expect, and on the ability of the government or its autonomous agencies to borrow or their own account.

Net foreign private direct and portfolio investment in the Dominican Republic in 1978 was $46 million. In 1979, this rose to $53.5 million, and in 1980 is expected to rise again to about $65 million. In addition, the balance of payments has shown a consistent negative "errors and omissions" of $61.9 million in 1978, and $64.3 million, projected to rise to about $75 million in 1980 and beyond. This probably represents, in large part, an additional outflow of private capital. When this is added to the private capital account, the balance of that account is reduced to a small deficit of $10 to $20 million per year. There are numerous measures which the government could take (e.g., increase domestic interest rates) which would improve the balance in the private capital account, and simultaneously improve the government's ability to service additional external public debt.

In addition to the private capital balance, at least $200 million per year is likely to be financed in 1980 and beyond on the parallel foreign exchange market. To the extent that transactions are conducted in this unofficial but officially tolerated market, it reduces the requirement for financing through the government's official holdings of foreign exchange and frees up exchange for other purposes.

Taking all these items together, the balance of payment prospect for the early 1980's is for a current account deficit to be financed of \$450-\$500 million, perhaps going to \$600 million if commodity prices deteriorate. Offsetting this will be the fact that perhaps \$200 million of import transactions will be financed in the parallel market, leaving \$250-\$500 million per year to be financed in some manner.

The potential for balance of payments difficulties will affect the poor not so much directly, since the poor are not, in general, producers of export commodities, but rather indirectly through its impact on overall economic activity and through the impact of foreign exchange uncertainty on the GODR's ability to plan and execute significant development programs. The availability of export receipts is thus important to the poor because of its effect on the overall level of activity and because it acts as a potential constraint to alleviating poverty.

3. Public Sector Debt and Debt Service Capability

The external public and publically guaranteed debt of the Dominican Republic was \$971 million at the end of 1979, equal to 18% of GDP. This is by no means an excessive debt burden; at least two countries in Latin America have public sector external debts approaching 100% of their GDP. Nonetheless, because of the way its debt is structured, in the near term public sector external debt service payments are rather high, estimated at \$365 million in 1980. This results chiefly from a bunching of amortization payments from relatively short term commercial debt in 1980. The 1980 debt service ratio (the ratio of interest and amortization payments to exports of goods and non-factor services) is estimated at 28.8%, a relatively burdensome level.

Returning to the balance of payments financing requirements estimated at about $250-$500 million during the early 1980's, this seems to be within the government's financing capabilities. If we assume that world inflation will continue at 10% or so per year and that the Dominican economy will continue to grow at 5% per year, the government can increase its indebtedness by $145 million per year and maintain the ratio of external debt to GDP. To finance a foreign exchange requirement of $250 million would require increasing indebtedness by 2% of GDP per year above existing levels. This should be sustainable in the near term. The larger potential foreign exchange financing requirement at $500 million would require an increase in external debt of 5% of GDP per year, and is clearly not sustainable for more than a brief period. These points should probably be qualified in two respects. First, it is important to distinguish between borrowing undertaken to sustain consumption and borrowing for worthwhile investment projects which can generate the income to service the debt (perhaps after one or more refinancings). Second, the ability to undertake increased borrowings is clearly related to lender perceptions of short and medium term prospects.

In summary, the GODR is faced with a not terribly large but somewhat badly structured debt which imposes heavy amortization payments in next five years. In addition, balance of payments financing requirements will probably absorb most of the GODR's financing capability. Nonetheless, there is clearly potential room for expansion of the level of long-term external debt, particularly on concessional terms from official sources to finance economically worthwile projects.

4. Price Policies

The government of the Dominican Republic intervenes in free market price determination in a number of ways, some of which clearly have an adverse effect on the country's development prospects. Undoubtedly, a serious intervention from a development standpoint is the law restricting loan interest payments to 12%. The adverse effects of this legislation are numerous. First, the very low real level of interest rates, equivalent in real terms to 2 or 3%, underprices capital investment and creates a capital intensity bias in business investment which is especially serious in view of this country's severe unemployment and underemployment problem. Second, the controls discourage risky ventures which might provide substantial returns to the investor, the lender, and the Dominican economy. If potential returns are limited, lenders will clearly select those potential loans with the least risk. Third, the interest rate controls encourage capital flight as savers seek higher returns abroad and discourage saving and investment by small savers. All of these effects reduce the level of saving and investment available to promote the growth of the Dominican economy. Finally, interest rate controls make it difficult, if not impossible, to create lending institutions which mobilize household savings. The interest rate, even if certain "fees" are added simply does not allow an institution to meet its operating expenses, provide for defaults, and preserve its capital in real terms. Rather, small enterprises and small farmer lending institutions are dependent on government subventions or replenishments and, consequently, their viability and continued growth depend on the uncertainties of the budgetary process. Officials of the GODR are well aware of these problems but have not considered it politically feasible to attempt to alter the legislation at this time.

A second important government "price policy" takes the form of an over-valued official exchange rate. In effect, this is a combined tax on exporters, chiefly of traditional exports, who are compelled to surrender foreign exchange at the official rate and subsidy for those imports which are eligible for the official rate.

Any system of multiple exchange rates introduces allocative distortions into an economy, causing aggregate income to be lower than it would be in the absence of such distortions. However, the same can be said for any number of other policy measures which governments routinely undertake for other reasons. The degree of such distortion depends essentially on the degree of supply elasticity of the "taxed" exports with respect to price and the degree of demand elasticity of the "subsidized" imports. If both are low, the allocative distortions and consequently the loss of income will be small. As the Dominican exchange system is structured, the "tax" (from compulsory exchange surrender) falls primarily on traditional exports, chiefly sugar, gold and silver, coffee, cacao, etc. It is widely believed that the quantity supplied by producers of the goods is relatively insensitive to price changes. In the short run, this is undoubtedly true. Over the longer term, however, the case is less clear.

On the import side, the effect of the "subsidy" on classes of imports is also unclear. To the extent, for example, that the importer is a government agency, such as INESPRE, the government food price stabilization agency, the access to the official market may be simply a form of government financing. However, INESPRE's access to the official market may still encourage it to import food from abroad rather than allowing domestic prices to rise. In the past, one important and serious distortion resulted from eligibility of machinery importers for access to official exchange. This had the effect of underpricing capital goods and encouraging an excessively capital intensive development. Recently, however, machinery importers were required to purchase their foreign exchange on the parallel market thus eliminating this potentially very serious distortion.

The last important type of price control in the Dominican economy results from the activities of INESPRE to stabilize food prices. INESPRE undertakes to stabilize the prices of key agricultural commodities by making purchases in both domestic and international markets. INESPRE's operating procedures explicity take into account the need for a "fair" rate of return for the producer. Whether the resulting rate of return appears equally "fair" to producers, particularly in light of the risks they face is unclear. Equally unclear is the question of whether higher farm prices might induce potential migrants to remain in rural areas and undertake more intensive cultivation.

5. Public Sector Finances

The state of public sector finances in the Dominican Republic has deteriorated significantly in recent years due primarily to costly but necessary upward adjustments in public sector salaries combined with a perhaps less-justified increase in public sector employment. From a level of 12% of GDP, in 1975, public sector saving deteriorated to only 2.3% of GDP in 1979. This decline severely reduces an important source of financing for public sector investment projects. On the whole, the size of public sector current expenditures does not appear to be excessive. Current expenditures were equal to 11.1% of GDP in 1979, up from 7.6% in 1977, but still well within the range expected in a country with the Dominican Republic's level of per capita income. Fundamentally, there is no reason why the GODR should not be able to undertake the recurrent expenditures associated with new investment projects. Nonetheless, the GODR's fiscal system is weak primarily because of an excessive dependence on taxes on international trade to finance central government expenditures. In 1979, only 21.8% of central government tax revenue was produced by the general income tax. Fully 45.5% was produced by taxes on international trade. The need for broader income or expenditure-based sources of current revenue is clearly recognized by the GODR. However, an attempt to institute a value added tax was recently defeated in the Dominican Congress.

The other serious drag on the performance of the public sector is the operating deficits of the state electricity company (CDE) and the sugar company (CEA). In 1979, these two enterprises showed overall deficits of $40 million and $39.4 million respectively. In 1980, oil price increases appear to have pushed CDE's operating deficit above $100 million. The deficit of CEA should be reduced in the short run, by higher sugar prices. Both enterprises, however, have in the past absorbed resources from the central government budget which could otherwise have been used for development purposes and both are reported to have allowed serious deterioration of their plant and equipment which contribute to their operating deficits.

C. Progress and Commitment

In spite of increasing difficulties of energy and population pressure, the GODR continues to make substantial progress in social and economic development.

Its high commitment to human rights and respect for the democratic process continues, and elections in May 1982 will mark sixteen years of constitutional government. Political dynamics have reached the point that the campaign for national offices has continued almost without interruption since the last election in 1978. The performance of the present administration is a matter of daily discussion at almost every level of life across the country. With eight daily newspapers, six television stations, and more than 170 radio stations, the flow of information and political comment is constant and pervasive. The two houses of Congress, which in the past were inclined to endorse with little question the initiatives of the administration, now show growing independence, and are a new force to be reckoned with in the government.

During its campaign in 1978, the current administration promised reorientation of national policy. When the administration assumed office, it undertook a determined effort to establish a different sort of government. During the past two and one half years, the quality of top level officials has remained high, and turnover much lower than during the previous government. Most change is made in the interests of improving governmental operations, although two high level resignations were accepted because of profound and irreconcilable differences over management of the economy. Overall, the Guzman administration has maintained continuity in most key positions, and, in a significant departure from previous administrations, has delegated substantial funding and other decision-making authority to respective cabinet officers.

The government is also directing increased resources to rural areas and the agricultural sector, reversing a previous bias towards the capital city.

Efforts in agricultural development and rural health have increased significantly, especially in the zones affected by the hurricanes. The government's policies and budget provide a framework for increased social and economic opportunities for the rural poor, the energy problem is being addressed on a wide front, and sound measures are being established for the allocation and protection or resources.

1. Government Policy

The GODR published a three-year plan for public investment, 1980-1982. This was the first national plan for government activities in the history of the country. Major objectives of the plan include:

a. Increased employment and improvement of distribution of income.

b. Increased coverage of social services.

c. Increased domestic production.

d. Increased social and economic opportunities in the poorer sections of the country.

e. Improvements in the efficiency of government operations.

f. Improved foreign trade and financial/investment relationships.

These overall objectives are supported by specific action-oriented sub-headings such as agrarian reform, energy conservation, the agricultural sector, etc. Since its publication, the GODR has also developed other policy statements consistent with the thrust of the plan. Two major areas of concern, energy and unemployment, which represent two of the greatest and most immediate problems which the country faces, are subjects of the highest levels of policy attention. To shape public policy in these and other key areas, the GODR has established commissions and committees, which include private sector representatives. In addition to the family planning council, active since 1968, the GODR created and funded a high level energy commission in 1978, and in 1980, a natural resources council was formed to identify environmental problems and solutions, and to deal with natural resources as a factor in employment. Also established were a national employment unit and a construction sector commission to deal exclusively with job opportunities. A small business commission is to be formed in 1981 along the same lines.

The Dominican Republic is characterized by a heavy involvement of the private sector in social and economic development, and public policy has attempted to strengthen this participation. The resultant pluralism and a resultant broader base of participation in developmental activities broadens the base of funds and human resources available for projects. Some private organizations have multi-million dollar annual budgets. The most significant include two local organizations (the Dominican Development Foundation and Action for Education and Culture), and U.S. organizations such as CARE, Catholic Relief Service, and Church World Service. The government endorses the activities of private organizations, and in many instances provides cash subsidies to augment their work.

2. GODR Budgets

The GODR budget process is shaped to make possible the implementation of national plans and policies. The administration's central budget for 1981, submitted for congressional approval in December 1980, totaled $1.234 billion (of which $126 million was from concessional sources). This budget represents several important trends, including an increase of approximately 20% over the 1980 expenditures. Agriculture ($256.4 million), Public Works ($171.2 million,) Education ($145.1 million), and Health ($141.9 million) are the four largest line items totaling 57.9% of planned total expenditures. These funds will finance significant programs in rural areas. For example, some 3,000 rural classrooms are to be built this year. Funding increases to line agencies are one important trend under the budget. Of equal importance is the fact that line agencies, through decentralization of decision-making power, now exercise nearly complete control over project implementation. Further, complete expenditure of budgeted amounts is both allowed and encouraged, where in the past shifts and reductions in line budgets were commonplace. One result of this increased ability to plan and execute programs is that for the first time, the GODR fully executed its 1980 budget.

Indeed, the budget has assumed increased political significance in the country and has increasingly become a forum for healthy political debate. For example, instead of approving the budget with little debate, as was the custom of previous congresses, the congress reduced the administration's proposal by $85 million. In turn, the President vetoed the reduced budget and returned the original proposal for reconsideration. A reasonable compromise is being hammered out. It is unlikely that the rank order of priorities will change, or that the approved budget will not be fully supportive of the country's most important developmental programs. The administration also proposed major tax reforms, including new property taxes and the introduction of a value added tax, and unfortunately, both were rejected by the congress. The administration is now giving more attention to liaison and lobbying with the congress for support of its proposals. However, in those areas in which the government can act without congressional approval, the administration has taken strong necessary stands despite their political unpopularity. In sixteen months, gasoline prices have risen from $1.85 to $2.57 per gallon to offset petroleum import costs. Also, the cost of electricity is being increased to bring its price in balance with the cost of production.

3. Indications of Social and Economic Progress

Rural areas contain the greatest concentrations of the poor. GODR activities in these areas show impressive results. One of the most dramatic is a rural health program which began in 1976 (with AID assistance). Largely due to the priority given by this administration, basic health services have now been extended to more than two million rural people, administered by local people selected by their communities. Preventive and simple curative health measures have had dramatic impact on the quality of life. According to a baseline study in 1974, urban infant mortality was 73.9 deaths per 1,000 live births and in rural areas the figure was 127.9 per 1,000. A joint USAID/GODR study in 1980, of the records of 434,000 rural people, indicates that the current rural infant mortality rate has declined to 60.7 deaths per 1,000 in areas served by the basic health services. Higher rates are reported by current sources, with the UNFPA finding nation-wide infant mortality at 84 per thousand and the GODR citing a figure of 83 per thousand. Nevertheless, there is agreement that a significant reduction has occurred within a short period of time which is indicative of substantial improvement in quality of life. Such improvement is related to several factors, but there is no question that GODR programs have had critical impact. Some 300 rural clinicas have been established during the past two years, and 25 recuperation centers offer care for infants suffering from malnutrition. More than 5,000 rural health

Hurricane David and Tropical Storm Frederick in the late summer of 1979, posed critical hardships for more than one million rural people, and challenged the GODR's ability to respond to emergency. The government's response proved to be both immediate and appropriate. During the first two months following the disaster, food rations were distributed to more than 1.6 million rural and urban people affected by the storms, and temporary shelter was provided to 400,000 refugees. A recovery program with a budget of $114 million was immediately prepared and implemented in the affected rural areas. Follow-on programs (with World Bank, IDB, and AID financing) were developed and largely implemented in 1980. These efforts produced dramatic results. Despite widespread fear that severe food shortages and wild price fluctuations would result from damage to the agricultural sector, prompt efforts to replant and to increase production prevented more than temporary shortages. Within six months after the disaster, the availability and price of food was back to near normal levels. Also, the government has assisted in the repair or reconstruction of approximately 20,000 homes for the poorest households out of the 40,000 homes damaged or destroyed by the disaster. A variety of activities continue in rural areas.

Labor intensive community projects such as roads, irrigation systems, etc., supported through cash wages from the GODR or through PL-480 Title II food for work programs provide both employment and valuable infrastructure. Wages are being provided for thousands of rural workers under government public works projects, and 90,000 people benefit from Title II food for work activities directed by the Catholic Relief Service. The government also increased the minimum wage in 1980 to $125 per month for urban workers and

$3.50 per day for rural workers. Lower level government employees such as grade school teachers, and policemen also received salary increases. By the end of 1980, full time public employees had increased to 172,024 and part-time employees numbered 22,605.

4. The Administrative System

Expansion in the number, size, and diversity of public projects is placing severe demands on the GODR's administrative system. The system is generally honest. However, implementation of its expanding portfolio poses serious problems in some sectors in the forms of delay and inefficiency. To counter these problems, the government is increasing the number of public employees, and has entered into an agreement with a private university to provide both advanced degree and short-term instruction in public administration. Also, the administration and the congress are considering steps to establish a career civil service in order to provide continuity and professionalism in government. Public sector administration, however, especially in the rural areas, remains a critical problem which is hampering GODR efforts to improve the welfare of the rural population.

D. Other Donors

The GODR has sought and received a substantial amount of donor assistance. Under the current administration, all donor activities are coordinated by the Office of the Technical Secretary to the President, a cabinet level position. Although the Technical Secretariat is formally charged with this responsibility, its charter was not always honored in the past. Coordination has improved on several counts. Since the Technical Secretariat is also charged with national planning and the preparation of national budgets, the Office is uniquely qualified to fit donor activities into country development plans and to insure that counterpart funds are budgeted for projects.

Largest in concessional lending is the IDB with $386,872,000 in active loans and a pipeline of $251,574,000. Most loans are in irrigation and road projects. Some $137.5 million was extended after the 1979 hurricane disaster to finance recovery activities. The next largest lender is the IBRD with an active portfolio of $206 million, of which $185,360,000 is undisbursed. Projects are concentrated in tourism and rural infrastructure, with $85 million post-hurricane. Some $50 million are specifically tied to the disaster recovery program. There is also a $13 million IDA irrigation loan, approved in January 1973, which has $4.39 million still undisbursed. (These figures were drawn from an LAC/DP working paper, "Active MDB Loans to the Dominican Republic as of September 30, 1980".)

Although the pipeline totals $441,324,000, 83.7% is in loans which were negotiated with the administration which assumed office August 16, 1978. Further, $187.5 million of the portfolio is in loans to finance both short and longer term disaster recovery. It is important to note that $119,960,000 of the portfolio and $97,091,000 of the pipeline is in irrigation loans.

Another important point is that no new IDB or IBRD loans were approved during 1980. Congressional approval has, in some instances, been difficult to obtain. For example, a $7.5 million IDB loan for industrial rehabilitation was the subject of considerable debate and was not ratified until December 1980, one year after IDB's approval of the project. Congressional concern over the extent and nature of government borrowing is well founded, but differs from the considered opinion of administration and donor economists who view concessional lending as vital to development. A determined "education" effort may be necessary to gain congressional approval for new projects.

Bilateral loan and grant assistance from the Governments of Canada, Germany, Israel, Japan, the Netherlands, Spain, Sweden, Taiwan, and others is also active and makes possible a wide variety of developmental projects. The UN system is the largest source of grant technical assistance, with AID second, and the OAS third.

Another source of concessional assistance has been extended by the Governments of Venezuela and Mexico. Under the recently negotiated Venezuelan-Mexican Oil Facility, part of the Dominican Republic's oil bill to those countries is expected to be converted to long-term debt, and funds thus freed will be applied to developmental activities, particularly energy projects. Details are still under discussion and negotiation, but it appears that around $100 million per year will be available for developmental uses.

Part II - Strategy

A. Major Development Problems and Mission Objectives

From the foregoing, the major obstacles to equitable development facing the Dominican Republic are:

1. Population Growth

Although the Dominican Republic has made substantial progress in reducing the rate of population growth in the last decade, further progress is essential if the country is to be able to provide sustainable increases in the real income of its poor, especially in rural areas. Any major effort to increase the productivity of small farmers, provide alternative non-agricultural employment opportunities for both smallholders and the landless, and increase productive employment opportunities in the cities, will be overwhelmed if further progress is not made in the control of population growth.

2. Energy and Petroleum Dependence

No event has had a more striking impact on the development prospects of the Dominican Republic than the almost ten-fold increase in payments for petroleum and petroleum derivates between 1973 and 1980. The requirement to make these payments is severely constraining the GODR's ability to finance development projects in benefit of the poor.

3. Productive Employment

The high levels of population growth in the last two decades, a strong current of migration from rural areas into Santo Domingo and Santiago (and the U.S.), stagnation of foreign investment, and a capital intensive industrial policy oriented towards larger industries have resulted in open unemployment in the major urban areas approaching one-quarter of the urban labor force. The underemployment of persons in landholding households, and the low productivity employment of landless workers are major sources of poverty in rural areas.

4. Food Production, Productivity, and the Preservation of Land and Water Resources

The vast majority of the poor in the Dominican Republic are found in rural areas and are employed in agriculture. Alleviation of their poverty will almost certainly entail significant improvements in the productivity of agricultural activity. Such increased productivity can also reduce the need for food imports below what they would otherwise be, freeing up foreign exchange for other purposes. While overall agricultural self-sufficiency is an unrealistic goal for this country, self-sufficiency in rice and beans could and should be achieved. A major threat to this goal, however, is the progressive deterioration of hillside soils due to erosion and the mismanagement of scarce water resources. The goal of increased food production and productivity, and allevation of the poverty of the small farmers who are entirely dependent upon these resources will require that this problem be addressed in a major way.

B. General Context

The Mission's strategy has been to work closely with the GODR and other entities, including the private sector, to identify problems and/or sets of sub-problems, establish the major constraints to their resolution, identify the range of solutions available, select those most appropriate, list the resources available from all sources to deal with them, and establish priorities of both timing and resources for their treatment. We must also consider certain mandated responsibilities placed upon us, and USG policy directives.

Within this general context, we have concluded that USAID/DR's strategy should continue to have a rural focus, albeit with recognition that some symptoms of both rural and urban poverty have similar roots. Of the Dominican Republic's 5,578,200 people, 2,813,900 or 50.4% are rural. (Estimated as of the end of 1980 by the national family planning council and quoted in the national plan.) Within this rural population is 47% of the country's labor force, and 1.7 million people who constitute the poor majority. By most indicators of basic human needs, rural areas are at a disadvantage. The USAID has been effectively working at the rural level throughout the decade of the seventies. The GODR has recently shifted its priorities to the rural sector and many of the programs started under AID financing have received new emphasis. Finally, we believe the task of upgrading the rural poor requires a long-term commitment and a building block approach. Therefore, we propose to persist in our program emphasis in those areas of basic human needs where our cooperation with the GODR and other entities have shown promise for a significant impact upon the rural poor. We will build upon our experience, depend upon the GODR to continue its demonstrated ability to absorb new rural services within its own financing as each program proves its worth, and seek to involve the GODR on the cutting edge of new programs. Nevertheless, for those problems of national scope such as energy, population, and employment, we intend to work with the GODR and other entities across a wide range of solutions which offer the promise of policy and state of the art results for national application. Not the least of these solutions will be the dramatic expansion of training opportunities for future technicians, managers, and policy-makers necessary to serve this country through the year 2000. At the same time, given the physical proximity to the U.S. and the long tradition of involvement of U.S. educational institutions in the training and development of Dominican individuals and institutions, we intend to foster a widespread net of mutually beneficial relationships.

C. Agricultural Strategy

1. Problem

Agricultural production does not satisfy domestic needs, rural income is low, and under- and unemployment affect more than 40% of the rural labor force. The results of these three major problems are several. As previously noted, the diet of 75% of the population is inadequate. Food imports were over $118 million in 1980 and higher import levels are projected according to Central Bank sources, even for such staples as rice and beans. Well over half of the rural population falls below the poverty line. Rural to urban migration is on the increase, with the capital increasing by 6% per year during the 1970's. Lack of rural employment is a contributing factor to this migration.

2. Natural Resources

Production, income, and employment have major cause and effect relationships with the resource base, which is herein defined as including natural, financial, and human resources. In agriculture, soil and water are two of the most obvious natural resources. According to the latest USAID/DR-Secretariat of Agriculture (SEA) assessment, about 2.6 million hectares are in farms with 1.2 million hectares being used as cropland. These figures represent the total land available for farming in the Dominican Republic, and in fact exceed the limits of land suitable for crops. The GODR estimates that 20% of the land in crops is not suited for intensive cultivation because of soil type and slope.

Patterns of land distribution obviously have major impact on production, income, and employment. (See page 3 for a discussion of land-holdings.) Public land is a particularly important resource available to the GODR. Some 22% of agricultural land or approximately 570,000 hectares is owned by the state, with more than 360,000 hectares controlled by the Dominican Agrarian Institute (IAD). The remainder of public farm land is administered by the State Sugar Council (CEA). IAD was created in 1962 to administer land reform. To date, some 67,037 families have received land under IAD's auspices. About 30% of the country's irrigated land is occupied by agrarian reform settlers. The state continues to gain land through quotas of private land acquired from private holdings which benefit from public irrigation projects. It is expected that an additional 180,000 hectares will be acquired by IAD within the next ten years, under present legislation and as the publicly financed irrigation system expands. IDB has extended a $31 million loan to IAD to finance resettlement.

Availability of water, the second basic natural resource for agriculture, varies considerably over the Dominican Republic and is a primary determinant of yield and land value. The most productive areas receive at least 60 inches of rain per year, whereas much of the country is arid and must depend almost entirely upon irrigation. Therefore, size of land holdings tells little about farm productivity and income. In the well watered areas of the country, a peculiar unit of land measure, the "tarea", is used. A tarea is 1/16 of a hectare, or about the size of a tennis court. Income from a few irrigated tareas is more than can be gained from several hectares in the arid southwest.

3. Financial Resources

As previously mentioned, the GODR is commiting a substantial amount of its own resources to agriculture. The central budget for 1981 allocates 23% of its funds to the agricultural sector. Large additional inputs are included in the infrastructure construction budgets of public works and hydro-electric projects which also provide water for irrigation. The government also makes heavy use of concessional loans for agriculture and rural infra-structure. With the exception of two IBRD loans for tourism which total $46 million, the great part of the active portfolio of World Bank and IDB loans (which total $605,872,000) is for agriculture and supporting infrastructure. Some $97 million is in the pipeline for irrigation projects alone. However, impressive though these figures may be, additional and heavy commitments of funds are needed to address problems in the agricultural sector.

4. Human Resources

Human resources are present in many forms and are part both of the overall problem and solutions to aspects of the problem. For this discussion, we will deal with two particular resources: technology and institutions.

a. Technology

The country's soil and water base is experiencing continuing and severe degradation because of the traditional technologies applied by the typical small farmer. Damage is particularly severe on hillsides where approximately 80% of the small farms are located. Much of this land should not be farmed at all; the hillside land that is suited for cultivation should only be utilized under technologies which stress conservation measures. Deforestation was virtually completed under the years of the Trujillo dictatorship. In 1967, the government took the extreme measure of closing all sawmills and ordering a halt to all lumbering. The nation's pine forests are now under the protection of the Dominican military. However, no similar measures were taken to protect the denuded hillsides. As population pressure has forced farmers to marginal lands, slash and burn agriculture is causing severe damage to fragile uplands. Farmers engaged in this agriculture eke out a miserable living, and erosion leaves these areas even more vulnerable. Accelerated runoff greatly increases the danger of floods and siltation in the country's four major existing hydro-electric dams has assumed dangerous proportions. Dredging may be necessary within less than 20 years or less of the completion of these dams.

Poor technologies are also degrading fertile lands served by expensive public irrigation projects. Improper water management, and in some instances improper application of agricultural chemicals, are taking land out of production because of salt buildup.

Fortunately, a considerable body of technology is available to both protect the vital soil and water base, and to improve small farm production, income, and employment. Further, it is realistic to believe that financial resources are available to extend these technologies, along with necessary infrastructure and supporting services.

b. Institutions

The Dominican Republic's public and private institutional base is the resource which offers most of the solution to problems within the agricultural sector. But until these institutions are part of the solution, they will remain part of the problem. All well intended, their performance varies. Duplication of effort is not uncommon, while some serious problems may go virtually untreated. A general shortage of experienced administrators and shortages in some technical fields are exacerbated as rural projects increase in size, number, and complexity.

Within the agricultural sector there are nine independent government entities, each of which is undertaking expanded project responsibilities. The Secretariat of State for Agriculture (SEA) maintains research and extension, manages sales of farm inputs and limited marketing services, and makes overall sector plans. The Agricultural Bank (AgBank) manages concessional credit. The Office of Community Development (ODC) provides training in rural organization and supports self-help projects. The Institute for Development and Credit Cooperatives (IDECOOP) assists rural cooperatives. The National Hydrologic Institute (INDRHI) manages most water resources, including irrigation. The Dominican Agrarian Institute (IAD) manages State lands and land reform. The State Sugar Council (CEA) also manages State lands and sugar and ranch operations. The National Price Institute (INESPRE) sets prices and runs a price support program including the purchase of some crops. Supervision of forest reserves is under the Dominican military. In addition to their independent responsibilities, many of these entities now participate in two major regional projects in the north central sierra and in the southwest.

Private institutions range in size from the Dominican Development Foundation with 150 member groups down to cooperatives and small community associations which have no formal affiliation with larger organizations. All are important and grassroots means of economic and social improvement. Also, all such organizations are eligible for group credit through the AgBank, and for various extension and other services from GODR entities.

5. AID Strategy

Our strategy will continue to build the technological, methodological, institutional, and financial base to improve small farm production, income, and employment. It will be appropriate to the scale of AID resources, which dictate working on establishing the early steps necessary to longer range actions by the GODR, the private sector, other donors, and the farm families themselves. In large part, this is a conscious continuation of AID's long-term approach in this country. We have long worked with SEA and can take major credit for financing the training of many SEA technicians, most of whom have risen to positions of responsibility within public agricultural institutions. In the 1960's and early 1970's, our assistance was instrumental to the establishment and early operations of ODC, IDECOOP, and INESPRE. Next, two agricultural sector loans, totaling \$27 million, with a counterpart contribution of \$33.8 million, were initiated in 1975 and 1976. These loans, aimed exclusively at the small farm sub-sector, were successful in strengthening the institutional base and in starting programs which are still active. Training was financed for 29 M.S. and 2 Ph.D. students and 34 short-term participants, with most studies performed in U.S. universities. Some 29 of the advanced degree participants were from the agriculture faculties of three local universities and the country's only agricultural college, the Superior Institute for Agriculture (ISA). (ISA, which was created with AID assistance, received very successful orientation and assistance from Texas A&M.) As part of the total program, the AgBank reoriented its lending policies to make the small farmer its favored client. In that regard, agricultural credit remains a continuing need for small farmer programs which is currently receiving financing from IDB and IBRD. Other successful elements of the loan program, inter alia, include a revolving fund for multiplication of improved seeds, a fund for community self-help projects, and establishment of 17 input/marketing cooperatives. Central services necessary to the effective use of expanded agricultural credit were significantly strengthened, such as soil testing and classification. One major result of these programs is that public sector finances directed at small farmer services have risen dramatically. SEA has expanded into regional centers, the number of small farmers directly affected by SEA, the AgBank, and other agencies have multiplied. A major reorientation in attitudes and approaches towards the small farmer and his problems has been effected.

As SEA and the other public sector institutions have become more sophisticated, it has been possible to expand on these initiatives without technical assistance. PL-480 Title I local currency has become important as a source of funds to allow SEA to continue these programs. For example, Title I funds have financed four additional input/marketing cooperatives. These cooperative centers now serve more than 100,000 rural people. SEA plans to establish 36 more centers over the next three years.

However, despite these accomplishments, much remains to be done. Looking at the continuum of small farmer problems that remain to be addressed to the year 2000, our analysis and discussions with the GODR have identified five principal constraints which will be the focus of AID plans and projects within the period of this CDSS. The constraints are as follows:

a. Policies and practices which result in serious and growing depletion of the natural resource base, particularly soil and water.

b. An increasing and critical shortage of vocational and professional agricultural technicians and administrators in both the public and private branches of the agricultural sector.

c. A research and extension system inadequate to the needs of small farmers.

d. Growing inability among public sector agricultural institutions to coordinate policies and programs, especially as they become more complex and multi-sectoral.

e. A pricing and marketing system which does not offer equity and incentives, particularly to the small producer.

We propose programs to overcome each of these constraints. In addition to technical assistance and financing specific investments, our programs will emphasize training at all levels, from in-country training for farmers through training for public sector staff to advanced degree training offshore. We also plan to make maximum utilization of the resources afforted by the Title XII program. SEA has already signed agreements with six U.S. universities and a lively dialogue has begun.

Several factors bear on our selection of the above constraints. All relate directly our long-term commitment to the principal problems in small farm agriculture. GODR counterpart budgets are likely to be adequate to match AID's funding in these areas, and it is likely that AID's funds will be adequate to make sizeable but appropriate contributions toward solving these constraints. We have consulted with other donors, and they have indicated no plans for specific projects in these fields; however, in the future the World Bank and/or the IDB might undertake major projects in natural resource management and protection, following on the experienced gained from AID financed projects. Thus, we believe the program which we propose is consistent with our experience, our style, deep and continuous consultations and requests from the GODR, and what we believe is AID's mandate in this country.

Our proposed program contains five components:

a. Natural Resource Management. AID's assistance in this general area began in 1977 with the centrally funded Comprehensive Resource Inventory and Evaluation Systems (CRIES) project. In its first phase, the project provided training and advice in satellite imagery and other mapping, with a small counterpart staff. Next came crop specific work, particularly with rice. GODR interest in classifying the resource base and rationalizing its use has steadily increased. A natural resource office has been stablished in SEA at the sub-secretariat level with a staff of 80. The hurricane disaster of 1979 heightened Dominican concern for environment. Rains of 15 to 20 inches within seven days caused enormous damage and resulted in the irreparable loss of thousands of hectares from sheet and gully erosion.

Apart from a limited amount of reforestation and two recently started regional projects, few systematic conservation or resource use measures presently exist. The GODR proposes to begin work at two levels: national policies for environmental protection and resource use, and expansion of pilot conservation measures in specific watersheds. To support these initiatives USAID/DR will initiate a grant/loan project in FY-1981 to assist at both levels. PL-480 Title II commodities under food for work will be used as an incentive for small farmer participation in pilot measures. We propose follow-on soil and water management projects during the life of this CDSS.

Better water management is particularly important to prevent further degradation of the soil base, to protect the large GODR investment in irrigation, and to increase production. For example, the country's rice production is one-half or less the yields possible under better water and cultivation practices. The GODR recently signed an agreement with Colorado State University for assistance in irrigation.

b. Training

Assistance in several types of training will continue: on-farm, on-the-job, and both in-country and offshore. Almost all of our projects have included technical instruction and we do not plan to depart from this practice. However, during the planning period we propose activities which will deal more exclusively with training. In 1981, we will begin assistance in public administration for rural managers to address the serious shortage of competent agricultural administrators. The GODR has already budgeted $3.4 million in PL-480 Title I counterpart funds to construct facilities for a training center. We expect heavy involvement of Title XII universities of this component.

c. Research and Extension

A respectable base exists in these areas. Research centers and stations are in operation, some of which were started with AID assistance including Title I counterpart funds. Both the UN and IICA are providing a limited amount of technical assistance at this time. SEA has established an appropriate technology center which is producing items such as simple hydraulic rams for irrigation. However, the system needs to stress adaptive research, research more applicable to small farms and hillside farms in particular, and to improve and expand extension efforts for small farmers. We propose modest investment in this component especially in adaptive research, and some technical assistance, perhaps under Title XII relationships. In addition, we will continue to upgrade research and extension activities as specific components of our major loans.

d. Institutional Coordination

This is a sensitive area complicated by "bureaucratic turf", competition for personnel, budgets, and attention, and by personalities. The administration proposed legislation to consolidate most public agricultural entities under the Secretariat of Agriculture. Unfortunately, congressional debate and amendment left the legislation so diluted as to have little meaning. However, some positive steps have been taken. The Technical Secretariat is playing an increasingly important role in inter-agency coordination. Two regional projects and the GODR's energy commission and natural resources council require participation of most of the agricultural organizations in combined efforts. USAID/DR's efforts under this component, in concert with other donors, will be indirect. Our approach will include public administration training, seminars, "moral suasion", and AID supported projects in natural resources and research/extension which will involve several agricultural bodies.

e. Pricing and Marketing

PL-480 Title I counterpart funds will allow continued expansion of cooperative input/marketing centers. Other projects on stream such as improvement of the road network, and planned investments in urban market-places should improve the efficiency of marketing operations. More serious and sensitive is the question of price policy. We propose a technical assistance project to help improve public policy on prices for agricultural production. A thorough upgrading of the marketing system of the country, beginning with the more serious and sensitive question of pricing policy through the possible construction of local product assembly and grading stations and regional terminal markets, will be accomplished through loan projects contemplated for 1983 to 1987.

D. Employment Strategy

1. Problem

Simply stated, far too many people are under- and unemployed. Of an estimated labor force of 1.6 million, only 1.1 million have steady jobs. (Estimated by the National Planning Office.) Further, according to the GODR's estimates that the labor force will increase at 3.65% annually, more than 1.9 million people will be in the work force by 1985.

The need to create employment opportunities for these people is estimated at 52,000 jobs annually, simply to maintain the present employment rate. Unfortunately, the answer does not lie in easily defined solutions, and encompasses almost all sections of the society and economy. The GODR, how-ever, has made a serious effort to define the problem, its social implications, prospects for its improvement in selected sectors of the economy, and has proposed actions and policies to begin to attack the problem.

The problem is further complicated by increasing numbers of non-documented Haitians who enter the country. These immigrants have aggravated the unemployment problem significantly. Up to 300,000 Haitians are estimated to be in the Dominican Republic, almost all of whom are at the lowest end of the social and economic scale.

2. GODR Response

The GODR has in the past directly promoted private sector employment through its support for large scale building programs, mostly in Santo Domingo, and through increases in public sector employment. The government has now come to the realization that the employment problem must be addressed within a broad framework. ONAPLAN (the national planning office under the Technical Secretariat), during preparation of the 1981 budget, requested its AID supported employment unit to develop an employment strategy for the country. What emerged was a series of analyses, and program and policy recommendations which were in part, a "plan of action" which is still under discussion. Briefly, the plan proposed a series of policy guidelines for the GODR, which aim, *inter alia*, at creating productive employment, increasing production, increasing public investment in employment generating activities, elucidation of a clear government statement of policy, and creation of a responsible government organization to promote and coordinate employment studies, statistics gathering activities, manpower training, etc. The plan then identifies three sectors which offer short-term promise of improved employment opportunities --agriculture, construction, and industry-- and lists a series of actions and policies.

Major recommendations include creation of a secondary mortgage market, improvement of the sugar industry, establishment of small industry (including agro-industry) promotion programs, and rehabilitation of currently inefficient state-owned industries. Policy options include specific use of the budget as an instrument of employment policy (e.g., requiring agencies to explain how their programs will create jobs, inducing contractors to use labor intensive methods on government projects, etc.), expansion of low-cost small scale rural infrastructure, adjustment of exchange rates to eliminate subsidies for importation of machinery, export promotion, establishment of investment incentives for labor intensive technologies, etc., plus a wide range of policies in the agricultural sector to improve small farmer income and productivity, including a major effort in natural resource conservation.

To focus on these issues, two mixed public/private sector commissions have been created in natural resources and construction, and a third for small industries is being formed.

The sweep of the GODR analysis and recommendations is rather impressive, and it is unlikely that all actions can be implemented in their entirety in the near future. They are testimony, however, to the seriousness of the GODR's intentions in this area, and we have been informed that the plan is being pressed at the highest levels. For a start, the 1981 budget has earmarked specific resources to embark upon such new programs as natural resources ($6 million), small industry promotion ($5 million), and rural housing construction ($4 million).

The genesis of much of this activity is the relatively new GODR employment office within ONAPLAN, which received AID assistance to start-up and carry out its initial surveys and analyses. In addition, there have been other important recent developments which have accelerated GODR and private sector interest and capability in employment generation. These include the decision of FIDE, the Central Bank's industrial lending window, to lend only to small industry (FIDE's experience is that new jobs can be created in small businesses at a cost of about $3,000 per position), the legal establishment of INFOTEP, a vocational training private/public institution funded by a payroll deduction, and a new $7.2 million IDB loan for technical school construction. Nevertheless, these measures pale against the magnitude of the task, especially in the rural sector.

3. AID Strategy

The employment problem encompasses all sectors. Accordingly, we have found that the task of defining a strategy per se can be elusive as it impacts indirectly on some programs (e.g., natural resources), while it must be central to others (e.g., small industry). Strategy must encompass both the public and private sectors, yet have sufficient focus that it can be translated into realistic policies and workable (and measurably successful) programs. Further, strategy must depend upon a reliable information base upon which to make reasoned judgments. Our analysis of the GODR employment strategy, which we believe an excellent beginning worthy of continued support, suggests to us that we collaborate with the government in a range of activities which reinforces those GODR proposals which seem best suited to AID resources. In laying out our course of action, we are hampered by several factors:

First, compared to the agricultural sector, we are at an obvious disadvantage in framing a strategy for employment. Second, unemployment is a serious problem in both rural and urban areas, whereas our experience is almost entirely from rural projects. Third, until recently the GODR was experiencing difficulty in framing a focused course of action for employment creation. Finally, the magnitude of the problem is such that action is demanded, but AID's resources even under the most optimistic projections are small in relation to the size of investments which will be needed.

Our evolving strategy involves several aspects:

a. Indirect Employment Benefits of Regular Mission Sectoral Programs

We will continue to work primarily within the sectors of rural development, health, and education, where major reforms of lasting significance are possible and where employment benefits can be achieved indirectly. Such programs, apart from being positive in themselves, have the effect of inducing people to stay where they are or to move where these services are offered and thus have a direct impact on balanced regional development. Apart from their other impact, these programs also create jobs for the poor; i.e., more jobs in agriculture, new roads, dams, schools, and health and welfare services, which employ lower-skilled workers. 1/

b. Employment Generation

For the poor, since their key problem is unemployment and under-employment, putting them to work is the first step in moving them up from poverty. Consequently, specific development activities can be designed to

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1/ An example of this is the USAID Health Sector Loan I which has provided jobs for 4,889 health promoters, at third grade level of education; 448 supervisors with 8th grade level; and 48 field supervisors, above 8th grade level education.

have a direct employment generation impact. In this respect, AID will support small business promotion, and training programs that improve technical, managerial, and professional skills that relate directly to employment.

c. Strengthening GODR Institutional Capacity

We propose to continue to strengthen the GODR capacity to deal with policy development, institutional coordination, and planning, to maximize employment effects. AID is promoting studies, assessments, and data gathering to focus the attention of both the public and private sectors on employment issues. Such information will deal with the state of the economy and potential areas for economic development, including a proposed OPG for population policy studies. Information will also provide guidelines, not only for policy-making, but for specific measures that the GODR should adopt to have a better coordinated and integrated program of employment and manpower development.

As noted, our first steps have been in the collection and analysis of information. We have helped establish a labor statistics section in the Technical Secretariat. This section is producing information and policy options which are being used in policy discussions by government and private sector bodies. We are presently financing a study with the Secretariat of Education of vocational and technical training activities from both supply and demand perspectives. We have initiated conversations with INFOTEP and financed a tour of technical schools in Texas through the courtesy of Texas A&M. Also underway is an assessment of the industrial sub-sector, which we are financing with a private university. Finally, we have reviewed our on-going and proposed program to see where labor intensive approaches can be strengthened; e.g., rural roads.

The next step in our strategy is to undertake specific projects in employment creation. We do so with the expectation that upon proving the efficacy of new approaches they will be replicated by the Dominican Government with its own and other donor funds. Two projects are planned for FY-1981. With AID support, the Dominican Development Foundation conducted a study of micro-businesses (those with capital investments of $10,000 or less), which found considerable potential for new jobs if technical assistance and credit were available to small entrepreneurs. The Foundation is negotiating an OPG with the Mission in order to extend these services to six cities. In another approach to employment, we are preparing a loan for FY-1981 initiation with a private education credit foundation to finance offshore training for, inter alia, vocational/technical instructors, managers, and professionals. This project will provide a nucleus of trained people for the expected rapid expansion of industrial and public sector management requirements. An OPG presently underway with APEC focuses on employment opportunities for poor women members of the work force. Among the project activities are collection of social and economic information, identification of job possibilities, and training programs to enable women to gain employment.

We propose for FY-1982 a $10 million small industry loan program to finance the establishment of a comprehensive small industry promotion program. AID is also discussing with the GODR the next steps required to institutionalize the employment unit within ONAPLAN and expand its functions, scope, and influence. This may lead to an expansion of the employment policy project (now terminated). In addition, we intend to shape our proposed marketing program to promote labor intensive agribusiness. Also, early results of activities financed under our Agriculture Sector Loan II have lead us to include two labor intensive rural infrastructure proposals over the CDSS timeframe. Finally, we continue to hope that a return to lower interest rates in the U.S., as well as some upward adjustment of interest rate limits in the D.R., will enable us to utilize the HIG mechanism for an expansion of low-cost housing construction.

E. Energy Strategy

1. The Energy Situation in the Dominican Republic

The core of the energy problem in the Dominican Republic is the country's heavy dependence on imported petroleum. The amount spent annually on imported petroleum has increased from $42 million in 1973 to around $450 million in 1980. An AID-financed National Energy Assessment completed last fall estimates that, under current demand and price patterns, the oil import bill will reach $690 million (1980 dollars) by 1985 and $1.6 billion by 1990. This reduced dramatically the availability of resources which could otherwise be devoted to developmental and basic human needs programs.

The biggest consumers of imported petroleum are industry, transportation, and the public utility (CDE) for electricity generation. Biggest consumers of electricity, in turn, are industry and residences. Overall, imported petroleum represents just under 60% of all energy consumed in the country. Although hydro potential is substantial, at present hydroresources represent only 2% of all energy consumed. Other sources of energy are bagasse, used for most of the energy requirements of the sugar industry; firewood, which remains the principal energy source in rural areas; and charcoal. Explorations for oil and geothermal reserves within the country, which have been underway now for several years, have not yet resulted in any significant finds but have accelerated in the past year. Deposits of lignite and low-grade coal have recently been found in the northeast of the country. Additional exploration and feasibility studies are needed to determine if these sufficient quantity and quality to warrant development.

The problem of rising prices and energy shortages has a direct impact on low income groups in the Dominican Republic. Energy is a vital resource which is basic to development -- essential to health, productivity, employment, and other basic human needs. Electricity, for example, is used by low income groups for pumping drinking water, powering small industrial and food processing activities, running irrigation pumps, refrigerating foods and medicines, operating health facilities, and for domestic purposes. The continually increasing cost of generating electricity with imported fuel (almost 90% of electricity generation in the country requires imported petroleum), has resulted in an almost complete cessation of rural electrification expansion to serve people in poorer, more isolated rural areas.

With access to other affordable energy sources inhibited by scarcity and rising prices, reliance on wood and charcoal is increasing.

2. GODR Response to the Energy Problem

The GODR has taken important steps to address the problem. A high level of energy awareness exists within many government agencies. A permanent National Energy Policy Commission, with a qualified professional staff of 34 and an annual budget of $1.2 million, was established in 1979 to help coordinate the energy-related activities of different agencies, analyze the national energy situation, and identify and promote appropriate energy policies and programs.

The Energy Commission working closely with USAID/DR has developed a program of policy analysis which has played an important role in focusing GODR attention on energy problems and in helping the GODR to begin a comprehensive, rational, long term national approach to energy issues.

The first major contribution of the Energy Commission to helping the GODR come to grips with the overall energy problem was the National Energy Assessment completed in September 1980. The Assessment analyzes the energy situation of the Dominican Republic in detail, lays out a series of policy scenarios with their varying consequences through the year 2000, and recommends a mix of policies including:

a. Major investments in hydro-electric and coal fixed generation;
b. A comprehensive program of conservation to promote more economic use of available energy in all sectors; and
c. Development of renewable energy resources.

The Assessment further specifies a series of specific actions to be undertaken under the National Energy Policy:

"<u>Short-Term</u>

i) Vigorous pursuit of on-going programs to substitute minibuses for the existing stock of publicos and the scheduled construction of the first CDE coal-fired plant.

ii) Implementation as soon as possible of housekeeping conservation measures at CDE, CEA, and other major energy consuming government-owned plants and installations.

iii) Substitution of coal for fuel oil where technically feasible (and economical), especially in mining, cement, and sugar operations.

iv) Utilization of solar drying of bagasse to increase effective energy content of this resource.

v) Acceleration of the introduction of solar hot water heaters into households, hotels, and factories using large amounts of low temperature heat.

vi) Acceleration of feasibility studies for the development of renewable resources.

vii) Initiation of design and engineering studies to enable the existing refinery to meet future needs as determined by the impact of these strategy elements.

Medium-Term

i) Implementation or retrofit and institution of conservation measures in government and privately owned plants consuming significant amounts of energy.

ii) Acceleration of the development of conventional and mini-hydro resources.

iii) Construction of an energy-farm for electric generation and charcoal production and initiation of an energy-farm development program for the next two decades, and an autonomous plant for use of sugar cane.

iv) Reduction of electricity use in households and the commercial sector.

v) Substitution of larger trucks able to accept higher loads for inter-urban transportation and buses for intra-city passenger transport.

vi) Development of projects that demonstrate different applications of solar energy such as:

a) solar pond

b) solar grain drier

c) photovoltaic cell water pumping

d) solar refrigeration and air conditioning

vii) Utilization of coal only for electric generating demands not met by hydro

Long-Term

i) Utilization of new technologies to increase use of renewables.

ii) Planning of alternative modes for transporting goods and equipment within the country.

iii) Exploration of the applicability of electric powered vehicles to fulfill transport requirements in the Dominican Republic."

With the assistance from AID, the Energy Commission appears to be developing into a solid analytical and technical organization capable of formulating sound policy recommendations and assisting other institutions in the development and implementation of energy programs. The establishment of an AID-funded energy information system within the Commission by the summer of 1981 should further strengthen its ability to carry out these functions.

Implementation of the energy information system will help the GODR more effectively to confront a number of policy issues it now faces including:

a. Pricing Policy

The GODR has allowed the refinery to pass on most of the price increases for imported petroleum, so that gasoline per gallon has risen from 51 cents in 1973 to $1.85 in 1979, $2.40 in 1980, and finally $2.57 in 1981. The public protests, demonstrations, and general taxicab strikes which accompanied the increases in 1979 and 1980 underscore the sensitivity of using pricing policy as an energy saving measure. Notably, the most recent increase in crude oil prices was for the first time distributed evenly among all finished products in order tokeep the increase in gasoline prices to a minimum.

The Dominican Electricity Corporation (CDE) is also implementing a series of steady rate increases (2% per month for 16 months) plus automatic adjustments for future upward change in international oil prices. These rate increases will penalize excessive consumption and help defray some of the increased costs of fuel oil. Even together with stricter bill collection policies being introduced, however, CDE rate increases are not expected to cover an annual operating deficit estimated at about 100 million dollars in 1980 and 1981.

High fuel costs are only part of the problem affecting CDE. Another major difficulty is that about 30% of all electricity generated is lost during transmission and distribution, in part because of poor maintenance and in part because of unmetered tapping of lines.

b. Hydro-Power Investments

The government has announced a policy of increased investments in hydro-electric facilities over the next five years to take advantage of the substantial water resouces of the country. Several major projects are already in the design and feasibility stage. Large amounts of financing however, will be required to implement CDE's hydro expansion plans, on the order perhaps of 100 million dollars per year. CDE's history of financial and managerial problems has caused some concern among potential lenders which could adversely affect the availability of significant amounts of capital if current financial and administrative reforms are not carried through. Another concern is mis-management of watersheds above hydro-power reservoirs. Unless major steps are taken to reduce rapid sedimentation, the feasibility of additional large dam projects is subject to question.

c. Coal

Coal is currently about half the price of oil per equivalent b.t.u. value on the international market and in abundant supply. CDE has decided to redesign the 125 MW plant planned for construction at Itabo next year for use of coal rather than oil and to construct all future thermal generating plants for coal, rather than oil utilization. The National Energy Commission, in collaboration with CDE, contracted the Bechtel Corporation in the summer of 1980 to carry out a feasibility study for a national oil-to-coal coversion program for existing power plants, including large industries as well as CDE. The final report of the Bechtel Study is now being reviewed jointly by CDE, the Energy Commission, Falconbridge Mining Co., and the large cement factories. A decision on whether or not to proceed with conversion of current oil facilities to coal is expected shortly. The nature and extent of coal versus energy sources will be a continuing issue in Dominican energy policy.

d. <u>Transportation</u>

To conserve gasoline in the transportation sector, the government previously prohibited the importation of autmobiles costing over $4,000. Enforcement of this measure, however, has provided difficult and the government has just approved a measure to restrict the importation of cars on the basis of engine size (2,400 cc), rather than invoiced value. The government has also begun to purchase 500 minibuses and remove from circulation individually owned taxis. Commercial and inter-city transportation still represents a major problem about which little is being done. In the longer run, much broader problems of the structure of the transportation sector will be addressed.

e. <u>Mexican-Venezuelan Agreement</u>

The agreement provides that Mexico and Venezuela will each supply half of the oil imported by the GODR. Each supplier will finance 30% of its sales at 4% over 5 years, or 2% over 20 years if the credit extended is used for economic development projects, particularly in the area of energy. This arrangement will relieve to some degree the balance of payments burden of oil imports, which will be beneficial as long as the objective of reduced dependence on petroleum is not lost sight of or the motivation to carry out unpopular but necessary measures is not reduced.

An agreement has already been signed with Venezuela to put into effect its half of the arrangement. The heavier Mexican crude does not yield as favorable a product mix as the Venezuelan crude. Implications of this problem have delayed the Mexican agreement; however, signature is expected very soon.

f. Development of Indigenous Resources

Although renewable resources are not now utilized on a significant scale, with the exception, of course, of firewood and charcoal, some preliminary steps have been taken toward their development. Several private manufacturers, for example, have begun to market low cost solar water heaters and the Energy Commission and the National Housing Bank are developing a program to prohibit mortgage financing for houses with electric water heaters to encourage adoption of solar heaters. The State Sugar Council has just completed a voluminous study on the possibility of producing alcohol rather than sugar from state owned sugar lands. With the price of sugar at a 5 year high, however, it is unlikely that the Council will move any further in the direction of alcohol production at this time.

One of the obstacles to wider utilization of local energy resources is uncertainty about the economic, technical, and social feasibility of renewable energy technologies, specifically in a Dominican setting. For this reason, it appears that pilot programs to develop, test, and demonstrate renewable technologies will be necessary.

3. AID Strategy

AID has taken a leading role in helping the GODR to plan its response to the energy problem. As the GODR's program matures, AID's efforts will be focused on key activities outside the financing of major power facilities.

The goal of the Mission's energy assistance strategy continues to be to help the GODR reduce the nation's dependence on imported petroleum and increase the availability of affordable energy to Dominicans of all backgrounds.

USAID will finance activities which are relatively low cost and appear to have potential for significant pay-off; such as:

a. Improving the GODR's information base and institutional capacity to plan and implement energy policies and programs.

b. Support for specific programs with significant potential for energy conservation and for alternative energy production and utilization.

AID's involvement in energy in the Dominican Republic cuts across the entire spectrum of activities, with the exception of large scale generation investment. We have assisted the GODR in conducting an energy assessment, establishing an energy information system, studying the feasibility of an energy "farm", and designing and constructing a pilot solar dryer for bagasse. We intend to continue this across the board involvement, and are currently preparing a FY-1981 sector operation which will propose AID support in five general areas: (1) National Energy Planning and Policy; (2) Conservation; (3) Electric Utility Improvement; (4) Mini-Hydro Development; and (5) Tree Farm and Charcoal Development. Specific activities in each of these areas will be selected according to a carefully established set of criteria, including thousands of barrels of oil saved annually, employment effects and other direct impacts on the AID target group. Preliminary analysis being undertaken for development of the Project Paper indicates that benefits in each of the categories mentioned can be very substantial over a ten-year period. For example, a relatively small investment now in national energy investment planning could, by identifying the relative costs, benefits and financial attractiveness of alternative investments, lead to more rapid and efficient investments and save an estimated $138 million annually in imported oil by

1990 (according to an AID financed study). The direct and indirect employment which could be generated by improved investment planning is estimated at 23,000 by 1990. Corresponding estimates are now being developed for other areas of potential AID financing. Although these figures will have to be further refined, they give an idea of the orders of magnitude of benefits expected.

Overall, the guiding objective in USAID energy assistance strategy is the potential for a significant contribution to conservation or non-petroleum resource utilization, whether in the near, medium, or long term.

F. Population Strategy

While substantial progress has been made in reducing population increase, the birth rate continues to exceed the country's ability to provide services and employment. Fortunately, the Dominican Republic has public and private institutions which have good and expanding family planning programs. The largest direct donors in this field are the World Bank and the UNFPA. The USAID/DR's health sector loan programs have demonstrated considerable success in reducing the birth rate in rural areas. The Secretariat of Health plans to expand the program to urban areas, using GODR funds. Health workers selected by their communities are proving to be most effective in providing basic services to their neighbors, including contraceptives and information on their use. In view of the roles of other donors in family planning, severe political and religious sensitivities in this area, and the success which the Mission's present approach enjoys in the reduction of population growth, we do not propose a bilateral family planning program.

Our strategy is mainly to continue our present approach. We make maximum use of centrally funded services for training and information gathering. Funds and materials are also channeled to local organizations from AID/W financed sources. Our general health sector activities show strong and continued impact on improvement of overall quality of life and reduction of birth rates. As a new initiative, we are considering an OPG to a local foundation which will be aimed at producing information for policy-makers on the impact of population and migration of the country's potential for development.

G. Health Strategy

Our strategy focuses on delivery of low-cost basic health services within the Secretariat of Health. With assistance from two AID health sector loans, a health services program involving more than 5,000 health promotores now operates in all rural communities with populations of less than 2,000. About two million rural people receive simple preventive and curative treatment from health workers who are members of the communities in which they work. These workers are, in turn, supervised by personnel trained in health education. Serious or complicated cases are referred to clinics and hospitals where more sophisticated care is available. Construction of rural clinics and hospitals in small towns is financed by the World Bank and PL-480 Title I counterpart funds. Expanding on this base of field workers, new measures --potable water and environmental sanitation-- are being extended to 160,000 people in the country's poorest rural areas.

Given the success which our health activities enjoy, and their impact on the poorest people in the Dominican Republic, our strategy will continue concentration on basic measures: preventive and simple curative treatment, potable water, sanitation, and nutrition. Food donated under PL-480 Title II is an important resource to augment the diets of infants, and pregnant and nursing mothers. However, new activities in nutrition will stress local foodstuffs to avoid dependence upon outside sources of food.

H. Education and Human Resource Development Strategy

Neither the public nor private education systems serve the needs of the country. There are now an estimated 1.1 million children of school age. Physical facilities are grossly inadequate and in many rural areas non-existent. Absence of teaching materials, inadequate curricula, and poor teacher preparation, have resulted in an extremely low quality of education. The Dominican Republic has not used its education systems as critical elements in shaping its labor force at all levels, from farmers and laborers up to professionals. Nor has adequate attention been given to non-formal education as a means of skill training, and extension of better agricultural and health practices.

The private education system although enjoying a better reputation than the public has many shortcomings. Much of it does not, for example, reach the poor, except for some church supported entities, and the subsidies it receives (money and teachers) from the government drain resources that could be used to strengthen the public sector. However, laudable though this public support to the private sector may be, answers to the most serious education problems must come from the government.

Until recently, public education was not accorded priority in budgets. In fact, many traditional Secretariat operations such as school construction and site selection were carried out by other entities. Considerable investment in all areas of education is necessary to make up for previous neglect. But even when funds are available, the Secretariat of Education has not executed projects with alacrity. For example, a 1975 World Bank loan of $8 million for rural education centers still has more than $6.5 million undisbursed. An AID loan (the first in 10 years) for the implementation, in three provinces, of a primary education reform is significantly behind schedule in its construction component. However, technical assistance has recently been brought on board, and the education upgrading component of the project should be moving with deliberate speed. The project's principal problem, school construction, continues to be a problem. A new Secretary of Education has recently been appointed who may be able to give better direction. He has established a goal of construction of 3,000 new classrooms in 1981, and apparently has the funds to do so.

Because of the difficulties in working with public education, USAID/DR limited its assistance to small grants to private non-formal entities through most of the 1970's. We are continuing our relationship with these entities. FCE, an education credit institution will be receiving a government guaranteed loan. FCE will, in turn, give credits for on and offshore technical, managerial, and professional training in priority development areas. AID education strategy in the 1980's, depending upon the performance of the Secretariat under the current loan, will support the development of an effective primary level outreach. Enhancing this strategy is a $3 million centrally funded rural radio-community education project, which will begin in October 1981, and which we propose to follow-on with a loan to expand this effort to other rural areas. The Mission, therefore, intends to directly address the lack of formal education opportunities at the rural community level, albeit with non-formal approaches. To assist the broader governmental human resources training needs discussed in other sections of the paper, the Mission proposes a public administration loan. This loan would help establish a government training institute capable of providing managerial and administrative skills, lacking at the present time, as well as help institute the civil service reform legislation currently in preparation and discussion.

PART III - Assistance Planning Level

The Program which we propose will consist almost entirely of loans, from development assistance funds, HIG, and PL-480 Title I. A development assistance grant level of at least $3 million per year is necessary for studies, project preparation, and for OPG's to private institutions. While the planning levels established for this Mission are adequate to allow meaningful programs, we wish to point out that higher funding levels are desireable on several counts, and that at the minimum our program should not be reduced below the current planning figures.

The Dominican Republic is the second largest country in the Caribbean after Cuba, and the largest democracy in the region. As a reliable and long-term friend and trading partner of the United States, this country enjoys a unique relationship. Current economic problems, largely caused by petroleum import costs, greatly increase the need for concessional assistance.

Experience shows that the Dominican Government has the ability to make effective use of donor assistance, and the will to undertake programs which promote development with equity. PL-480 commodities are a most important resource.

The PL-480 program is an essential element of the AID program here and is viewed by the GODR as among its most important sources of international assistance. The government views PL-480 Title I as unique in its double coverage of serious and growing foreign exchange shortages, as well as the increasing fiscal requirements of fulfulling pledges to increase rural investment, especially in agriculture. To emphasize this, the FY-1981 Title I request was delivered personally to the Ambassador by the Governor of the Central Bank, in company of the Secretary of Agriculture, and the Executive Director of the Price Stabilization Institute. In their presentation, they made specific reference to the increased small farm services undertaken by the Secretariat of Agriculture, and the importance of the availability of the peso proceeds to carry on and expand activities begun under AID's previous agriculture sector loans. Their stated preference, ratified subsequently by the Technical Secretary to the Presidency, was that the proceeds be used exclusively within the small farmer sub-sector of agriculture.

Part I.B.2 of this CDSS analyzes the balance of payments position of the country and concludes that it will remain precarious for the forseeable future. Current account deficits of $400-$600 million are expected, with up to $250-$500 million per year requiring external financing not yet identified.

Justification of the FY-1981 PL-480 Title I program is contained in Santo Domingo 9663, which requested a program of $40 million ($15 million was authorized). We do not see any circumstance where the situation described therein would improve substantially. Indeed, with the increasing costs of imported petroleum, it is likely that it will worsen.

Furthermore, this past year the Mission and the GODR have undertaken a major revision of the programming of peso proceeds from PL-480 Title I sales, culminating in a memorandum of understanding signed as a corallary to the FY-1980 agreement. This document establishes clear responsibilities and obligations among the five agencies involved, and concentrates the authority for programming within the Technical Secretariat and specifically within its national planning office. That office reviews all requests for funding (as well as the technical viability of the projects themselves) from the operating Secretariats and assigns priorities in accord with the objectives and priorities of the GODR. In this regard, the Technical Secretary has informed us that the Secretariat of Agriculture has been assigned all of the proceeds from the FY-1981 agreement. We, in turn, have been in direct contact with SEA's office of planning and have had ample opportunity to discuss plans and projects to be funded.

This on-going dialogue has resulted in programs and projects which have direct bearing upon USAID/SEA priorities and has eased SEA's transition from AID sector loan financing to its own resources, with little impact upon the quality of services offered to small farmers. The dialogue also offers AID the opportunity, at all levels of government, to discuss policy issues related to food production, pricing, etc.

Donated foodstuffs under PL-480 Title II also continue to be important resources. Food for work supported self-help projects are active throughout the country. Hundreds of communities have built or repaired roads and trails, small public buildings, etc. As previously mentioned, food for work is going to be used to stimulate participation in pilot conservation projects. Such projects will represent a new approach to serious environmental problems. As a resource for humanitarian programs, Title II is without equal. More than 140,000 mothers and infants currently receive food assistance through the programs of CARE, CRS, and CWS. These beneficiaries are the poorest of the country's population. We urge continuation of the Title II program at its present level for both developmental and humanitarian reasons. (The current program is in fact a reduction from previous years in that responsibility for school feeding has been turned over to the GODR.)

Proposed Funding Levels by Functional Account
($ Millions)

	Fiscal Years 1983	1984	1985	1986	1987	TOTAL
Agr./Rural Development						73
Natural Resource						
Water Management	10			10		20
Soil Management			10			10
Marketing/Agri-business	5		8		10	23
Rural Administration & Technol.	1	4		5		10
Labor Intensive Rural Infrastructure		5		5		10
Health and Population						16
Sector Loans	8			8		16
Education and Human Resources						15
Radio Education	4					4
Public Administration		3				3
Rural Education Sector			4		4	8
Special Development Problems and/or Multiple Accounts						36
Energy	5		8		8	21
Employment		5		10		15
Total DA Loans and Grants	25	25	30	30	30	140
HIG		15		20		35
PL-480						
Title I	15	15	15	20	20	85
Title II	5	5	5	5	5	25

Implementation of our strategy, while maintaining both sound stewardship as managers of USG funds and timely preparation of new projects will require some readjustment of the Mission's style. It appears unlikely that increases in direct hire staff assigned to USAID/DR can be expected. At the least, we propose no reductions in current staff of 21 USDH.