PN-AAU-306

Country Development Strategy Statement

FY 1985

Dominican Republic

January 1983

Agency for International Development
Washington, D.C. 20523

UNCLASSIFIED

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COUNTRY DEVELOPMENT STRATEGY STATEMENT (CDSS)

USAID/DOMINICAN REPUBLIC

FY-1985

JANUARY 1983

SANTO DOMINGO, D.N.

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This CDSS update outlines the developmental implications of the deteriorating macro-economic situation of the Dominican Republic, and the initiatives of the new Jorge Blanco administration which was installed in August 1982. This is followed by the Mission's analysis of current problem areas deemed most appropriate to focus the full variety of available AID resources.

The Mission's development strategy continues to evolve and expand on that presented in the FY's 1983 and 1984 CDSS, taking into account the new emphasis within AID, the new GODR administration, a worsened economic and social environment, and the foundation of over 20 years of AID development assistance to the Dominican Republic. Prior CDSS submissions of FY's 1983 and 1984 will provide a more in-depth analysis of the social and institutional aspects of our development strategy.

This CDSS update is structured specifically to outline how our strategy and specific sector programs stress the Agency's four priority areas (policy reform, the private sector, institutional development, and technology transfer and research) plus developmental use of PL-480 and training.

In essence, the operational portion of this CDSS covers the four year mandate of the Jorge Blanco administration and takes into account how we perceive their developmental needs in the 1983-1986 period, and in a general sense, beyond. As a democratically elected government of the largest Caribbean country after Cuba, the Dominican Republic continues to enjoy close relationships with the United States. A tangible and growing expression of that relationship is the USG developmental assistance program, which has grown from a total of $193 million for the period FY-1974/1978 to $564 million for the period FY-1979/1982. This CDSS projects a continuation of that trend under the assumptions that the D.R. will continue to manage its serious and growing problems of unemployment, economic stagnation, food production, and human resource improvement within the context of a democratically oriented society and political structure. Its ability to do so will depend, in some measure, on the program presented herein.

The IMF has recently approved the GODR's request for $459 million from the Extended Fund Facility. This culminates a carefully orchestrated round of negotiations wherein the GODR undertook belt-tightening measures in advance of the IMF agreement to avoid the specter of "conditionality". This also constitutes the end of the major portion of the first phase of the Jorge Blanco administration game plan. The remaining portions include administrative measures on such broad issues as export promotion, foreign investment incentives, reorganization of the mining sector, etc., which are in varying stages of analysis or completed. The IMF has taken the lead in the first phase, and AID has played a supporting role, where appropriate, ever mindful not to upset what was a carefully designed, but fragile orchestration. Now that the goal has been reached in most aspects, AID will undertake a wider role in this dialogue, and focus on those issues which build upon the IMF agreement, support its basic objectives, and expand its effect into new areas of restructuring the economy for export of non-traditional crops and pricing policy. Our main tools will be the trade and investment portions of the CBI, a steady flow of significant ESF funds to promote economic and political stability, an increased level of Title I and II resources, and a level of DA assistance sufficient to support those human and financial efforts critical to the country's attaining equitable growth within a democratic framework.

The resource flows proposed herein show major emphasis on food production, employment, and human resource development. Less emphasis will be placed upon supporting expansion of health services, per se, as the country consolidates the rural health program into its overall health service. Our health assistance will become more issue-specific, such as vector control and include, perhaps, selective assistance to the Social Security Health System. Energy will remain a priority concern in terms of implementing the major energy loan/grant now underway, but no new major assistance is contemplated other than a possible initiative in mineral resource development.

Over the five year planning period, a major new strategy will emerge in the USAID/DR in the area of export promotion. This should serve to diminish the critical balance of payments problem, and provide employment, while taking full advantage of the proposed trade and investment components of the CBI. Development activities will include export financing, agribusiness and local enterprise development, strengthening of export infrastructure, and development training.

This CDSS has been reviewed by several of the major PVOs and the Peace Corps office.

USAID/DR FY-1985 COUNTRY DEVELOPMENT STRATEGY STATEMENT (CDSS)

I. THE MACRO-ECONOMIC SITUATION UPDATE

A. Overview

The year 1982 was a difficult one for the Dominican economy as well as for the new administration that took office in August. The primary cause continues to be the depressed world prices of agricultural and mineral commodities that are major foreign exchange earners for the Dominican Republic. Export earnings from sugar and tobacco are down 41% and 81% respectively from 1981 levels; exports of bauxite, ferronickel, and doré declined by an average of 45%. As a whole, commodity exports in 1982 were 36% below levels in 1981. As available foreign exchange diminished, foreign exchange prices increased substantially, and necessary imports had to be curtailed. Imports of goods were reduced by 13% in 1982. Foreign trade was subdued. This reduced foreign trade activity impacted adversely on the D.R. economy as a whole and on the public sector revenue in particular. The estimated total GODR revenue in 1982 declined by about 17%, while foreign trade taxes plunged some 34% from the 1981 level. It is estimated that the real GDP for 1982 grew little, if not negatively.

The newly elected Jorge Blanco administration, realizing the financial and economic predicaments it faces, took immediate measures to arrest the rising tide of economic crisis. It has taken a 3-pronged approach as a short-term measure: (1) to reduce import demand, (2) to reduce public sector expenditures and step up public sector revenues, and (3) to request $459 million from the IMF Extended Fund Facility. It also began negotiations with foreign commercial banks for an extension of the payment schedule for some $450 million arrears in letters of credit, drafts, and transfers. At the same time, the GODR has continued to maintain a tight money supply while permitting higher interest rate payments for deposits in the financial institutions.

The long-run development policy, however, has not yet been publicly announced by the new administration. Evidence indicates that the medium- to long-run development policy will be concentrated on three areas of importance: (1) encouragement of foreign investment through revision of the foreign investment law, (2) encouragement of non-traditional exports, and (3) self-sufficiency in basic food production particularly in rice and beans. In addition, the new administration seems to be determined to increase the capital budget of the public sector proportionately faster than the operational budget, and expand private sector participation as a percentage of GDP. If this tendency is maintained for the next four years, future economic growth will undoubtedly be favorable.

The following is an update of the economic analysis presented in the FY-1984 CDSS. A description of the balance of payments, public finances, and the monetary and interest rate situation is followed by an analysis of the short-run GODR policy.

B. The Balance of Payments Update

Revised figures for 1982 exports reflect the gravity of the current balance of payments problem (see Table 1). Exports of goods are estimated downward to only $766 million in current prices, a 36% decline

TABLE 1

Balance of Payments
(Millions of DR Pesos)

	1980	1981	Revised 1982
CURRENT ACCOUNT			
Exports (FOB)	961.9	1,188.0	766.0
Imports (FOB)	1,519.7	1,451.7	1,264.0
Trade Balance	-557.8	-263.7	-498.0
Net Services	-299.8	-335.2	-235.0
Net Transfers	187.8	193.0	200.0
Current Account Deficits	-669.8	-405.9	-533.0
CAPITAL ACCOUNT			
Private Sector	225.7	8.3	-102.0
Direct Investment	92.7	79.7	45.8
LT Loan Disbursements	163.2	29.3	15.0
LT Loan Amortization	-100.9	-96.9	-73.3
ST Loans, Net	38.3	-13.9	9.8
Other ST Credits, Net a/	32.4	10.1	-99.3
Public Sector	465.6	432.9	449.6
LT Loan Disbursements	241.9	198.7	285.2
LT Loan Amortization	-37.1	-59.7	-138.7
Other Assets, Net (San Jose Agr.)	63.3	86.9	30.4
ST Inter-Central Bank Deposits	77.4	-2.5	6.2
ST Payment Arrears b/	81.2	179.2	287.8
Other ST Credits, Net c/	38.9	30.3	-21.3
Balance on Capital Account	691.3	441.2	347.6
SDR Allocation	7.3	7.3	-
Gold Revaluation	19.4	-19.2	-11.0
Gold Monetization	5.9	5.1	-
Changes in Reserves (- = Increase)d/	-54.1	-28.5	196.4

a/ Includes primarily short-term suppliers' credits and commercial bank facilities to the private sector. Note that ST credits became scarce for Dominican Republic in 1982, i.e., more credits became due than new credits available, making the entry negative. The $99.3 million is essentially a loan forced upon foreign suppliers and banks.

b/ Payment arrears are simply forced loans. The GODR is in a process of renegotiating a new repayment schedule.

c/ Includes errors and omissions.

d/ Note that the reduction in reserves in 1982 would be greater than the $196 million indicated here, were it not for the forced loans as shown in a/ and b/ above.

SOURCE: Central Bank, Balance of Payments Estimates and D.R. Mission.

from the 1981 level. Sugar exports are down by 41%, tobacco by 81%, bauxite by 71%, ferronickel by 89%, and gold by 20%. Although coffee exports are up some 35%, revised figures indicate that the 1982 commodity exports were below what had been expected. Continued sluggish demand and the precipitous fall in prices of major Dominican exports in the world market have brought about this outcome. Imports also have declined to about $1,264 million in 1982 from $1,452 million in 1981, a reduction of some 13%. Higher peso prices of imports from continuing shifts of eligible items from the official import category to the parallel market, import prohibition of some 150 items, and the continued large bill for oil imports had a dampening effect on imports. Taking into account estimated net services of -$235 million and unrequited transfers of $200 million, the current account deficit in 1982 is estimated at about $533 million, which is some 31% above the 1981 level.

Although the deficit is large, the Dominican economy would have been able to accommodate it with some internal adjustments, were it not for the virtual evaporation of long-term and short-term financing facilities in 1982 for the private sector. The estimated long-term net disbursement was -$58.3 million. Similarly, the net short-term financing plunged to -$89.5 million, as the result of the lack of refinancing facilities for the $99.3 million of short-term credits (mostly suppliers' credits), that became due in 1982. Including the private investment, the net inflow of foreign capital to the private sector plunged to -$102 million, which added to the mounting payment arrears caused by the inability of the Central Bank to provide foreign exchange at the one peso to one dollar rate. The public sector fared somewhat better but not much. Although the Central Bank records the net foreign capital inflow as $449.6 million, the actual situation is far less encouraging. The accumulated payment arrears in the form of unpaid but executed letters of credit and drafts reached $287.8 million in 1982, which was considered by the Central Bank, for the purpose of balance of payments, as short-term forced loans to the public sector (Central Bank). If this involuntary loan is subtracted from the net loans and credits, the net 1982 capital inflow to the public sector reduces to $161.8 million, which is 36% less than the 1981 level of $253.1 million.

The current account deficit ($533 million) is financed with the available resources from the capital account ($347.6 million) and the draw-down of the reserves ($196.4 million), including a negative gold revaluation ($11 million). If the forced loans were excluded, the required reserve financing would reach $583.5 million, far greater than the total Central Bank reserve. The need for external assistance has never been greater.

As of this writing, the new GODR has just completed negotiations with the IMF for a three year Extended Fund Facility of some $459 million. At the same time, it began negotiations with external creditors for an extended repayment schedule for the arrears. In addition, the new administration has already taken a number of emergency austerity measures to combat the balance of payment problem. The Central Bank continues to shift imports from over-valued official foreign exchange to the parallel market. Non-traditional exporters are allowed to keep a portion of their earned foreign exchange. Traditional exporters are to receive Certificates of Exchange, equivalent to 20% of exports for sugar and 10% for certain other products. These new measures are designed to encourage more exports of non-traditional goods and to solidify financial viability of the traditional products (a more detailed description is given in Section E below).

Future prospects in the period 1983-1984 are not promising. Although the future's market seems to show some price recovery, large scale favorable price movements of D.R. export commodities are not expected. However, once the credit worthiness is restored through the IMF assistance, the D.R. presumably will be able to finance balance of payments current account deficits with net capital inflows. For the years beyond 1984, the prospect depends primarily on whether or not the D.R. will be able to develop non-traditional exports to supplement traditional foreign exchange earners. For this, the Dominican economy must undergo structural adjustments. The new administration already has taken a first step towards the required structural adjustments by allowing partial retention of earned foreign exchange. Many more difficult policy decisions will have to be made in 1983 and 1984. Whether the new administration has the determination and capacity to make the right policy decisions is to be seen.

C. <u>The Public Finance Situation Update</u>

As of this writing, 1982 revenue and expenditure figures for the entire public sector are not available. Particularly, financial statistics for the public enterprise are limited. This update is, therefore, based on the central government's revenues and expenditures.

The estimated 1982 total revenue has declined 17% to $754.2 million from the 1981 level of $908.3 million (see Table 2). The receipt was actually 15.2% less than the anticipated revenue of $889.1 million. Both tax and non-tax revenues have declined -- tax revenues by 4.6% and non-tax revenues by a whopping 75.2%. Almost all of the latter decline was due to a drop in the transfer of profits from the Rosario gold mine which the GODR had purchased in 1979. During 1980 and 1981, the Rosario mine transferred some $100 million in each year to the GODR coffer, but due to

TABLE 2

GODR Budget Financing, 1979-1983 2/

		1979	1980	1981	Est. 1982	Budget 1/ 1983
I.	CURRENT REVENUES	673.6	868.9	908.3	754.2	790.9
	Tax Revenues	622.7	713.6	749.2	714.7	689.3
	Non-Tax Revenues*	50.9	155.3	159.1	39.5	101.6
II.	CURRENT EXPENDITURES	614.9	719.7	756.2	783.2	719.1
	Operating Costs	432.0	486.9	541.0	537.8	515.8
	Interest Payments	33.9	62.3	48.6	78.5	63.3
	Current Transfers	149.0	170.5	166.6	166.9	140.0
III.	CURRENT SAVINGS	58.7	149.2	152.1	-29.0	71.8
IV.	EXTRAORDINARY RECEIPTS	16.4	20.4	11.8	8.0	15.0
	Sale of Properties	8.6	9.6	10.2	7.2	13.0
	Grants	2.5	0.1	-	-	-
	Transfers	5.3	10.7	1.6	0.8	2.0
V.	TOTAL RESOURCES AVAILABLE	75.1	169.1	163.9	-21.0	86.8
VI.	CAPITAL EXPENDITURES	360.2	332.8	324.7	292.8	284.0
	Real Investment	121.4	134.9	151.8	99.8	141.5
	Acquisition of Properties	6.1	2.3	3.9	7.6	0.8
	Capital Transfers	165.6	194.5	167.9	184.0	140.5
	Financial Investments	67.1	1.1	1.1	1.4	1.2
VII.	OVERALL SURPLUS OR DEFICIT	-285.1	-163.2	-160.8	-313.8	-197.2
	FINANCING THE DEFICIT					
VIII.	NET EXTERNAL FINANCING	210.7	94.1	66.8	74.4	197.2
	Disbursements	227.3	104.4	82.4	95.3	197.2
	Less: Amortizations	16.6	10.3	15.6	20.9	***
IX.	NET INTERNAL FINANCING	61.0	67.3	83.4	192.5	-
	Bonds and Certificates	78.0	50.0	85.0	178.5**	-
	Other	10.0	20.0	-	15.0	-
	Less: Amortizations	27.0	2.7	1.6	1.0	***
X.	TOTAL FINANCING	271.1	161.4	150.2	266.9	197.2
XI.	VARIATION IN CASH/BANK BALANCE	-13.4	-1.8	-10.6	-46.9****	-

1/ Represents the original budget proposed by the Executive Branch. Although the Chamber of Deputies passed the budget with an addition of extra $14 million and sent it to the Senate, the Senate adjourned without passing the budget. In the meantime, the GODR will operate without the 1983 budget until February 27, 1983, when the Congress reconvenes, at which time the Executive Branch needs to submit a new 1983 budget.

2/ Notice this table is based on the Budget Office data which represent allotment figures and may differ from Treasury data which are actual expenditures.

* Data for 1980 and 1981 include transfer of around $100 million received from the Rosario gold mine. This contributed to the reduction of the overall deficits during these years.

** Most of the Central Bank financing has been used by the decentralized institutions for investment and amortization of debts.

*** Amortization figures are included under the capital expenditure category for 1983. No breakdown is yet available.

**** Partially financed by short-term Banco de Reservas credit and intra-public sector transfers.

SOURCE: 1979-1981 National Budget Office (ONAPRES).

lower gold prices and capital investment, little transfer took place during 1982.

Although revenues were down, current expenditures continued to increase in spite of the tight control instituted by the government. The persistent rise in wages and salaries seemed to have reached a plateau, and so did current transfers to the autonomous entities, but the interest payments rose by 61.5% to $78.5 million in 1982 from $48.6 million in 1981. This $29.9 million increase is more than the total net increase ($27 million) in current expenditures. The net result was that, for the first time ever in the post-revolution era (i.e., since 1965), current expenditures exceeded current revenues, rendering a negative current savings of $29 million. With some added adjustments, total resources available for capital expenditures are estimated at -$21 million, a reduction of some $185 million from the previous year level.

Capital expenditures naturally have declined as well. In fact, they have been declining steadily for the past 3-4 years. During 1982, capital expenditures were down by 9.8%. All of this reduction has been accounted for by the drop in real investment expenditures from $151.8 million in 1981 to a mere $99.8 million in 1982, more than a 34% decline.

The overall central government deficit rose to $313.8 million from $160.8 million. Some $74.4 million of the deficit was financed through net foreign resources and the remainder through internal means. Net domestic sales of bonds and certificates accounted for $192.5 million and the rest is financed by short-term bank credits and intra-public sector transfers. Notice that the above deficit is for the central government only. If the deficit of the public enterprise is added, total aggregate public sector deficit for 1982 could be well above $500 million.

The Jorge Blanco administration embarked on a belt tightening austerity program immediately after Inauguration Day, August 16, 1982. Whether or not the new administration is succeeding in this effort seems still unclear due to lack of hard evidence, but there are some indications that the new administration is fostering some changes in the government. One evidence is the change in monthly expenditures of the GODR before and after the new administration. Table 3 shows GODR average monthly expenditures by category before and after August 1982. There has been no major change in the total average monthly expenditures at about $81.9 million, but there has been a substantial change as far as the individual expenditure categories are concerned. All durable goods and capital expenditures have been reduced. Wages and salaries were cut from $33.4 million to $33.2 million, a relatively small amount, but a courageous decision. The only expenditure items that have increased are debt amortization payments, expenses for non-personal services, and current transfers to autonomous institutions. These expenses are obligatory and/or politically sensitive so that it would have been difficult to reduce them. Out of the total monthly expenditure increase of $8.53 million, 72% ($6.1 million) was for the payment of amortization of past debts. An additional 20% ($1.7 million) went for current transfer payments to maintain financial viability of public institutions. This change in the expenditure pattern clearly shows the determination of the new administration to carry out its austerity program.1/

Another evidence is the administration's proposed budget for 1983, which was at $1,003 million or $73 million less than 1981 actual

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1/ Note that part of the change may be due to seasonal variations.

TABLE 3

GODR 1982 Average Monthly Expenditures
Before and After the New Administration

(In $ Millions)

Expenditure Category	Before	After	Difference(%)
Salaries	33.4	33.2	-0.6
Non-Personal Services	2.18	2.91	+33.5
Materials and Supplies	8.75	7.51	-14.2
Machinery and Equipment	0.54	0.39	-27.8
Purchase of Real Estate	0.20	0.02	-90.0
Construction	9.41	6.14	-34.8
Current Transfers	13.1	14.8	+13.0
Capital Transfers	7.76	4.45	-42.7
Debt Amortization	6.37	12.47	+95.8
Financial Disbursements	0.18	0.05	-72.2
Total Average Monthly Expenditures	81.89	81.94	No Change

SOURCE: Article of Luis Alvarez Renta, Listín Diario, January 8, 1983, page 8.

expenditures. One of the stated goals of the new administration is to reverse the past trend of rising current expenditures and declining capital expenditures. The first budget submitted to the Congress seems to support this. The current expenditure for 1983 is budgeted at $719.1 million, some 8.2% less in current prices than the 1982 current expenditure. The investment budget, on the other hand, is put at $141.5 million, 42% more than the 1982 actual investment level, but still less than the 1981 actual level of $151.8 million. The capital expenditure as a proportion of the total budget shows a slight increase at 28.3% in 1983 from the 27.2% level in 1982. The 1983 overall central government deficit of $197.2 million is expected to be financed by external resources. Although details of the new budget are still not available, the direction and emphasis of the new administration seem clear.

D. <u>The Monetary and Interest Rate Policy Update</u>

The results of the balance of payments and fiscal problems seem to appear in the monetary statistics shown in Table 4. The narrowly defined money supply I reached the record high of $746.1 million at the end of 1981, and began to decline gradually to $691.8 million as of June 1981, a 7.3% reduction in six months. Although part of this contraction may be due to seasonal variations, the primary reason must be found in the 18.6% decline in the official demand deposit and the virtual stagnation of the private demand deposit during this period. This situation has likely grown worse during the latter half of 1982, although no published statistics are available at the time of this writing. The declining public revenue obviously is the main culprit. A similar phenomenon can be observed for the broadly defined money supply II. Money supply II rose only 1.6% during the first six months of 1982, following the 5.9% increase in 1981. Time

TABLE 4

Money Supply and Credit Growth
(In RD$ Million)

	End of Period 1979	1980	1981	June 1982
MONEY SUPPLY				
Currency/Demand Deposits (Including Official Holdings)	701.0	716.8	746.1	691.8
Of Which:				
Private Demand Deposits	299.1	286.3	312.8	315.3
Official Demand Deposits	127.6	153.5	109.2	88.9
Time and Savings Deposits*	615.0	856.9	919.7	1,000.0
Money Supply II	1,316.0	1,573.7	1,665.8	1,691.8
Percentage Change	11.6	19.6	5.9	1.6
Gross Credit Outstanding	2,218.8	2,687.9	3,152.8	3,313.4
Percentage Change	12.5	21.1	17.3	5.1
Private Sector	1,569.9	1,896.1	2,016.6	2,022.3
Public Sector**	648.9	791.8	1,136.2	1,291.1
Percent of Total Credit	29.2	29.5	36.0	39.0

* Deposits in the commercial banking system only.

** Includes the central government and all other public sector entities.

SOURCE: Boletín Mensual, June 1982, Central Bank.

and savings deposits continued to increase slowly at about an 8% average annual growth rate since 1980. This growth rate will likely decline, and possibly become negative, if the economic crisis continues much longer. In real terms, the growth rate of this domestic supply of loanable funds is close to zero and reflects the economic stagnation of the past two years as well as the current GODR interest rate structure.

Until the monetary board recently approved increases in savings deposit rates in commercial banks to 9.5% a year for deposits of six months or longer, banks were restricted to paying only 8%, which was far below the world money market rate and the domestic inflation rate. From the savers' point of view, there was little incentive to save in the form of bank deposits. At the same time, from the bank's point of view, there was little incentive to encourage deposits because of the 30% reserve requirement for time and savings deposits, and, to a lesser extent, the 12% legal limit on loans. Banks must pay 11.4% of the 12% loan rate just to cover the interest payment for the deposit. In reality, banks charge much higher effective loan rates. Furthermore, various studies reveal that informal money lenders charge 40%-50%. Under such a system, the official interest rate structure is not conducive to increased savings. With the interest rates on deposits increased to 9.5% to encourage savings, the effective interest payment on deposits rose to 13.6% a year. Therefore, disincentives for banks to encourage savings deposits have effectively increased. Although the recent declining trend in interest rates in the U.S. makes the D.R. interest rate structure somewhat less unfavorable, a rapid increase in time and savings deposit is not expected without other appropriate policy changes.

The figures for the credit outstanding reveal an interesting aspect of economic adjustment in recent years. The public sector began to borrow a larger share of total credit, leaving a smaller share for the private sector. The percent of total credit utilized by the public sector increased rapidly from 29% in 1979 to 36% in 1981, and jumped to 39% by June 1982. Since the public sector capital expenditure declined and the current expenditure increased during this period, it can be concluded that much of the public sector credit has likely been used primarily for the maintenance of the current expenditures and payments for the past debt.

E. The New GODR Economic Policy

The shortage of foreign exchange and mounting fiscal deficits in the public sector are two urgent macro-economic bottlenecks that must be addressed by the new administration. In addition, the growing number of unemployed workers has become an immediate concern for this administration. The new economic policy is aimed at providing some relief to these constraints in the short-run. The basic response is one of austerity measures that reflect the current economic reality in which no other alternatives seem to be open to the new administration. A cut in imports and public expenditures is a bitter pill to swallow. As for the mounting unemployment problem, the new administration is inclined to provide an immediate relief to some unemployed workers through implementation of public housing projects and various public work programs.

1. Balance of Payments

Measures were taken to reduce import demand and to arrange a $459 million 3-year IMF stand-by credit under the Extended Fund Facility on a conditional-tranche agreement. The policy measures to reduce import demand are: (1) one year imposition of 10% surcharge on all imports except petroleum and other items of prime importance; (2) prohibition of imports of some 150 items, including rice and beans; (3) payments of import duty at the time of customs clearance; and (4) shifting of $85 million from the official imports to the parallel market during 1983. Items equivalent to $40 million in imports have been already shifted to the parallel market, and the remaining $45 million will be transferred quarterly in equal amounts during the remaining three quarters of 1983. In order to ease the pressure in the parallel market, and to help restore the financial viability of certain traditional exporters, the Central Bank will issue freely negotiable Certificates of Exchange in the amount of 20% of sugar exports, and 10% each for coffee, tobacco, and cacao exports. These Certificates of Exchange can be either used for imports of necessary supplies or sold to other importers at the prevailing parallel market price.

The IMF loan is aimed at reducing the short-run balance of payments pressure, and at helping restore D.R.'s credit worthiness in the world financial market. Under the IMF agreement just signed, the economic policy to be followed by the GODR includes imposition of a 6% value added tax, a capital gains tax on real estate transfers, 10% <u>ad valorem</u> tax on imports, higher licensing fees for private cars, and elimination of provisional duty payments. It is also agreed that the GODR raise interest rates on deposits to encourage domestic savings, and to make the parallel market semi-official by allowing commercial banks to operate in the market and by shifting more imports to the parallel market. The Central Bank has also begun to negotiate with foreign commercial banks to extend its payment schedule for the arrearages of Letters of Credit (L/C) already executed. Success of the rescheduling would relieve short-term pressure on Central

Bank obligations, and enable the Central Bank to carry out its normal functions in a more orderly manner.

As can be seen, the new administration has already taken new economic policy measures that satisfied most of the IMF preconditions, including the 6% value added tax which was passed by the D.R. Congress in January 1983. The IMF agreement also stipulates performance criteria for the loan. Limits are set on ceilings in public credits, in domestic peso assets, and in arrearages in international payments. The criteria also include conditions for the maintenance of international reserves, for external debt payments of public sector loans, and for quarterly transfers of imports to the parallel market. These criteria do not seem too restrictive, but the real test of the administration will be whether or not the GODR can stay within the limits of the agreement during the course of 1983.2/

An important aspect of the IMF loan agreement is reflected in the effort to remedy the situation in which the official exchange rate is substantially over-valued compared to the parallel market rate. Movement of imports from the official to the parallel market helps accomplish restoration of equilibrium in the balance of payments, as well as higher efficiency and growth in production. A case in point is the Institute for Price Stabilization (INESPRE) operation. Whereas in the past the Central Bank allocated as much as $100 million for INESPRE's imports, it is estimated that for 1983 INESPRE has access to the official market for only about $50 million, compared to $70 million in 1982. The remainder, if

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2/ For a detailed explanation, see the IMF agreement.

needed, must be procured in the parallel market at a current 50% premium. An implication is that INESPRE's support prices should be raised to meet higher costs of procurement, thus providing production incentives to domestic farmers. Although a too rapid increase in consumer prices must be avoided, current basic food prices set by INESPRE provide little production incentive for the domestic producers.

2. Public Finance

The new policy measure in public finance is designed to moderate public sector current expenditures and raise its revenues. The new administration actually reduced salaries of high government officials (salaries of $500 per month or higher), set the government salary ceiling at $2,225 per month, raised vehicle license plate fees, increased airport departure taxes, initiated payments of government electrical bills, and restricted in-country as well as foreign travel for high government officials. The new 6% valued added tax to raise tax revenues as well as to reduce dependency on trade taxes has been approved by the D.R. Congress, although a similar tax package was defeated in 1980. Eventually, it is suggested that this new valued added tax will substitute for the recently imposed 10% import surchange. The administration also has submitted to the D.R. Congress a lean budget for 1983. The proposed new budget was for $1,003 million. The Chamber of Deputies added $14 million and approved the budget for $1,017 million, which is $37 million less than the 1982 budget of $1,054 million. The Senate is yet to approve the budget. The new administration's determination and capability will be judged at the end of 1983, when the actual expenditures are added up. If past experience is any guide, the new budget figure may be too lean for Dominican politics.

3. Unemployment

The unemployment situation has become worse during 1981-1982. Not only has the number of unemployed workers increased, but more are classified as self-employed workers than ever before. The new administration has taken emergency measures to relieve the plight of some of the unemployed workers by initiating public housing projects employing some 8,000 workers, and a $10 million public works program. The President also has appealed to USAID for the rapid expansion of the Rural Roads project to provide job opportunities in rural areas, as well as to maintain the rural road system.

These measures are temporary, short-run remedies. A long-run, permanent solution must be initiated soon to maintain the social and political stability of this pluralistic economy. Although no long-run policy measures to provide more productive jobs have been announced, it is expected that the key thrust of employment policy will be centered in the export of labor intensive products (see a more detailed analysis on Section B, Part II.

II. MISSION'S PRINCIPAL AREAS OF CONCERN

USAID/DR's principal concerns for the Dominican economy reflect commonly recognized economic problems of the medium- to long-run nature. They are: (1) an economic policy environment that discourages full participation of the private sector, both domestic and foreign, and human resources in the development process; (2) the high unemployment with a rapidly growing population; (3) the high cost of energy, which impedes efficiency in agricultural and industrial production; (4) an insufficient domestic production of basic food grains; (5) the difficult structural adjustment that is necessary to cushion the domestic economy from the vagaries of world price fluctuations; and (6) generally the low level of human resources available for self-sustaining economic growth. We recognize that there are other short-comings that need to be addressed, but given limited human and financial resources available, USAID/DR has opted to concentrate on these problems.

A. Economic Policy

Our macro-economic policy dialogue is aimed at the creation of an economic environment in which multitudes of highly motivated private entrepreneurs, large and small, pursue their individual profits in a manner that would result in macro-economic benefits to the country, as well as to the individual entrepreneurs themselves. To achieve this objective, USAID/DR believes that there are two major policy issues that need to be addressed during FY-1983/FY-1988. They are the industrial development policy based on import substitution, and the GODR pricing policy for basic food grains. USAID/DR believes that the Dominican economy will benefit substantially from more active participation of private sector resources if the GODR changes its industrial development and pricing policy as follows:

Industrial Development Policy: The Dominican industry has developed under the protection of import substitution. Various inefficient industries have prospered under this policy in the past, but today the domestic market seems to have reached the saturation point. The survey of industry conducted by the Santo Domingo Technical Institute (INTEC) last summer, points out that the major problem of the Dominican industry is the lack of markets.3/ It seems imperative that if the Dominican economy is

3/ "Diagnóstico del Sector Industrial y de las Pequeñas Empresas en República Dominicana: Resumen, Conclusiones y Recomendaciones", por el Instituto Tecnológico de Santo Domingo (INTEC), 1982.

going to provide enough job opportunities to the unemployed as well as to the new workers entering the workforce, the GODR must look for larger markets and compete against other developing countries in the world market. With its proximity to large markets, a trainable workforce with a low wage scale, active private sector entrepreneurs, and emerging CBI trade and investment provisions, now seems to be the time to abandon the old import substitution policy and embark on an economic growth based on export promotion.

The main objective of USAID/DR in the Industrial Development Policy is to encourage the GODR to adopt export promotion as the basic engine of growth, and to implement economic policy designed for this goal. Our goal is that by FY-1988 (a lot sooner in some cases), the GODR will adopt the following policy changes: (1) all non-traditional exports operate freely in the parallel market without the foreign exchange surrender requirement, (2) INESPRE operates in the parallel market, (3) repeal or modification of exoneration of duty payment granted to all importers for raw material imports for Class B and C industries,4/ (4) exports to free zones are encouraged and treated exactly the same as exports to other countries, and (5) preferential production credits are efficiently made available to holders of international L/Cs for exports.

<u>Pricing Policy:</u> The pricing policy of basic grains (mainly rice and beans) by INESPRE seems to be influenced more by political stability considerations than financial return considerations of the farmers. A study conducted by a team of specialists from the University of Minnesota shows that during the period 1976-1981, the INESPRE milled rice purchase

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4/ These are new or existing import substitution industries that produce goods not yet produced in the Dominican Republic.

price increased by 24%, while the price of 46% Urea fertilizer in the D.R. rose by 108%.5/ The ratio of rice/fertilizer price decreased from 3.0 in 1976 to 1.8 in 1981 (during the same period, in the U.S., the same ratio increased from 1.8 to 2.1). One of the reasons why the fertilizer price increased much faster than the rice price is that the fertilizer price is not under government control, but rice is. Fertilizer is imported using foreign exchange obtained in the parallel market, and thus fertilizer import costs reflect the scarcity of foreign exchange, while INESPRE used its one to one official foreign exchange obtained through the Central Bank. INESPRE, thus, was able to set the rice price lower than the price level it would have to charge if the official foreign exchange were not available. This clearly illustrates that allocation of official exchange to INESPRE was counter-productive for the objective of self-sufficiency in basic grain production. The USAID/DR's basic goal in pricing policy is to encourage INESPRE to operate in the parallel market for those imports financed by GODR funds.

B. Unemployment

It is well known that the Dominican Republic has a large unemployed and underemployed workforce. The most recent population study indicated that estimated unemployment in 1970 was about 24% of the economically active population. The same figure seems to have increased to about 28% in 1980.6/ The estimate for 1970 is based on the 1970 census; that for

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5/ "An Analysis of Foodgrain Price and Trade Policy in the Dominican Republic", The University of Minnesota, October 1982.

6/ "Población y Mano de Obra en la República Dominicana: Perspectivas de la Fuerza de Trabajo y del Empleo-Desempleo en el Período 1980-1990", by Instituto de Estudios de Población y Desarrollo, under the auspices of PROFAMILIA, September 1982.

1980 is obtained from the urban sample survey conducted by ONAPLAN in June 1980. Although the two data sources are basically incompatible, knowledgable observers seem to agree that unemployment in the Dominican Republic is a crucial economic problem that has become worse lately. The same study, furthermore, states that in 1970 the estimated underemployment was at about 40% of the workforce.7/

The above cited study also makes a projection of the economically active population and probable employment for 1990 based on the assumption that the Dominican economy would grow along the past trend observed between 1966 and 1979. It shows that the open unemployment rate will steadily increase from 28% in 1980 to 36% in 1990.

Unemployment Projection

	1970	1980	1985	1990
Economically Active Population (In 1,000)	1,239	1,862	2,197	2,556
Employed (In 1,000)	942	1,340	1,479	1,640
Unemployed (In 1,000)	297	522	718	916
Unemployment Rate	24%	28%	33%	36%

7/ It should be made clear that these figures must be interpreted cautiously. The unemployment figure includes estimates for economically inactive population of all ages 10 years and older. If we exclude those between ages 10 to 20, and 60 and over, the data show the following unemployment rates:

	1960	1970	1980 (Urban Only)
Male	2.3%	7.8%	12.8%
Female	88.0%	71.5%	61.8%

The adult male workers show about 13% unemployment which is high but far below the reported 28%. A striking point to observe is how fast the female participation rate increased between 1960 and 1980. It has more than tripled to 38.2% in 1980 from 12.0% in 1960. The significance of this change is that the average family income might not have decreased as much as suggested by the unemployment rate of male workers.

A conclusion is that the Dominican economy must create during 1980-1990 approximately 90,000 additional jobs a year beyond the normal employment generation, if the Dominican economy is to eliminate unemployment by 1990. This obviously is a tall order. Elimination of unemployment is most likely impossible and probably unnecessary. Instead, the unemployment rate must be brought down to a socially acceptable level.

During 1980-1982, real GDP growth stagnated. Our preliminary estimates indicate that, in real terms, the GDP has grown little since 1980. An implication is that net productive jobs probably have not been created during this period, while the population grew at about 3% per year. The unemployment situation must have become worse in 1982 by about 6 percentage points. Since the economic prospect in the near term is not promising, the unemployment problem will likely become worse before it gets better.

The USAID/DR's primary objective in the area of unemployment is, based on the realistic current economic situation, to prevent the unemployment problem from getting worse in 1988 than it was in 1980. The basic assumption for setting this objective is that real GDP will grow more rapidly from an average of 3% during 1983-1984 to 6% during 1985-1986, and finally to 8-9% during 1987-1990. This somewhat optimistic growth projection is based on the perception that rapid growth in non-traditional exports will induce an accelerated economic growth. The following table shows assumptions and projections:

	1983-1984	1985-1986	1987-1988	1989-1990
	(In Percentage)			
Average Real GDP Growth	3	6	8	9
Average Labor Productivity	2	3	3	3
New Jobs Created	1	3	5	6
Population Growth	2.8	2.6	2.4	2.2
Estimated Unemployment at End of Period	37.6*	36.8	26.6	19.0

* At the beginning of 1983, the unemployment rate is estimated to be 34% (28% in 1980 plus 3% each in 1981 and 1982).

Due to the lack of data on labor productivity, somewhat conservative figures were used, primarily because of the assumption that the GODR will steer its economy to an export-oriented growth path that would utilize more labor than capital during this period. The scenario is that unemployment will become worse until the end of 1984, at which time the rate of new job creation will exceed the population growth rate, and unemployment will begin to show a decline. By 1988, unemployment will be brought down to about 27%, about the same as in 1980, with promise for further reduction. If the trend continues, the unemployment rate will likely be less than 20% by 1990.

C. Energy

The center of the energy problem in the Dominican Republic continues to be the country's heavy dependence on imported petroleum. The high costs of imported oil and other petroleum products, along with a growing demand for energy, have placed a serious strain on the balance of payments and development of the economy. Petroleum imports have increased from $42 million in 1973 to around $500 million in 1981 at an annual average growth rate of 36%, which was far in excess of the growth rate of exports. Available data indicates that the Dominican Republic has devoted an increasing share of its earned foreign exchange for procurement of necessary oil imports. In 1977, only 20% of exports of goods and services was needed for importation of petroleum. That percentage steadily increased to 34.2% (see Table 5) in 1980, declined slightly to 32.6% in 1981, and reached the highest level of 41.3% in 1982. This steady growth in oil dependency will have to be reversed if the Dominican economy is to embark on a self-sustaining growth path. Although world oil prices seem to have stabilized for the short-run, it cannot be ruled out in the future that the Dominican Republic may have to allocate more than 50% of its exports of goods and services just to secure oil imports for energy.

The impact of rising oil prices on the Dominican economy seems obvious. The drain of foreign exchange on petroleum imports reduces its availability for imports of other necessary goods and services, thus causing inflation through rising costs of other imported raw material and through higher per unit costs of electricity which is heavily dependent on imported fuel. Because electricity is a major input for production in industry and agriculture, and because electricity is essential for modern living, the rising cost of electricity generation not only reduces the standard of living but also diminishes the relative advantage of Dominican production. Currently the Dominican Electricity Corporation (CDE) charges anywhere between 6 to 10 cents per KWH for residences. It charges industry even higher rates, although in neither case does CDE fully cover its costs. The primary cause for the high electricity cost is, of course, the rising fuel cost, but the other equally important factor is that about 30% of all

TABLE 5

Imports of Petroleum and Its By-Products
(In $ Millions)

	1977	1978	1979	1980	1981	Est. 1982
Imports	187.8	199.0	314.9	448.8	497.4	468.0
Exports of Goods & Services	939.5	848.8	1,166.8	1,313.1	1,524.4	1,134.5
Percent	20.0	23.4	27.0	34.2	32.6	41.3

SOURCE: Boletín Estadístico, Octubre-Diciembre 1981; Central Bank Boletín Mensual, Junio 1982; and the U.S. Embassy in the D.R.

electricity generated is lost during transmission and distribution, in part because of poor maintenance and in part because of unauthorized tapping of lines. This high attrition rate obviously must be reduced in order to make electricity available at reasonable prices.

The goal of the USAID/DR's energy assistance program continues to be to help the GODR reduce the nation's dependence on imported petroleum and increase the availability of affordable energy to all Dominicans. We believe this goal can best be achieved by supporting the government's efforts in national energy planning, and to encourage energy conservation and development and utilization of indigenous and alternative energy resources.

The Energy Conservation and Resource Development project (initiated in FY-1982), whose full effect will not be felt until early 1984, will assist the GODR to develop the institutional capability necessary for achieving energy conservation and non-petroleum resource utilization on a wide scale.

D. <u>Food Production</u>

In addition to policy changes discussed earlier, USAID/DR believes that the key to increasing the overall agricultural growth rate is the 254,000 small farm families working 450,000 hectares of land. Although these 450,000 hectares are only 17% of total land in farms, they comprise 45% of land devoted to food crops. The small farmer family's average income of about 900 pesos is generated by growing largely rice, plantains, corn, beans, peas, cassava, and peanuts, which constitute the main staple diet for the majority of Dominicans. Their farms are located throughout the country in terrain varying from flatlands to extremely mountainous. Their average yield per hectare is far below the achievable level with sound technology. For instance, the average rice yield in the D.R. is 2.67 MT/HA as compared to 5.04 MT/HA in the U.S. It is technology and lack of economic incentives that are constraining higher productivity of small farm units.

The USAID/DR's major objective in agriculture is to increase food production by providing small farmers the necessary technology that consists of better soil and water management, training of a cadre of specialists in agricultural resource management, adaptive agricultural research, planning and adequate price policy implementation. Primary reasons for selection of these objectives stem from the perception that Dominican agriculture faces four major problems. They are: (1) food production must be increased to improve nutrition and reduce food imports to save scarce foreign exchange; (2) the urban migration and unemployment problem can, in part, be dealt with through a massive increase in rural jobs; (3) the problem of natural resource degradation must be reduced soon, if not arrested; and (4) the loss of benefits to siltation of major dams and irrigation infrastructure, caused by inappropriate agricultural practices, must be stopped.

At the heart of these issues is the small farmer. He is the immediate cause and future victim of the problem. The USAID/DR's approach is designed to help the small farmer to adopt a farming method stressing intensification of small farm agriculture. It means increasing current and longer term yields per unit of land farmed by small farmers. Intensification will require a number of tangible and intangible inputs from the agricultural support system in addition to adequate economic incentives. Some tangible inputs, such as farm inputs, infrastructure for transport and marketing, have been provided adequately, although at times unevenly. Some other tangible inputs, such as improved technology and extension support, could be developed fairly quickly through the institutional base already in existence. The primary weaknesses that require major efforts in implementing the intensification strategy rest in the system's inability to provide, on a timely basis, agricultural credit and intangible inputs such as soil and water management skills, institutional support capability, and improvements in agricultural research. Credit rarely reaches small farmers, but could be made available to them by strengthening financial institutions serving the rural sector through savings mobilization. The USAID/DR agricultural assistance concentrates on resolving the bottlenecks that require major efforts. In addition, training and policy reforms will improve all aspects of the overall agricultural system.

With successful implementation of the ongoing programs, it is expected that by FY-1988 the major problems facing agriculture will have been diminished to a substantial degree. Imports of food items grown in the D.R. under normal weather conditions will have been eliminated, the rural to urban migration rate will have been reduced, and the pace of natural resource degradation and of siltation of major dams will have been reduced. Quantification of some of these benefits is not possible.

E. Structural Adjustment

One of the basic structural weaknesses of the Dominican economy is that the industrial and other sectors are dependent on foreign exchange earned by exports of a few agricultural and mining commodities, whose prices in the world market are notoriously unstable. When world prices were reasonably high, enough foreign exchange was available for industry to import raw materials for manufacture to supply the domestic market. With a high tariff protection, industry grew rapidly to take advantage of the captive domestic market. However, both the advent of oil price increases and the inevitable price drop of the D.R.'s major export commodities have put the Central Bank in a squeeze. Shortage of foreign exchange and expensive oil payments left little for importers of consumer goods and raw materials to continue the old way of living. Although the current foreign exchange predicament will undoubtedly pass, and the Dominican economy will probably return to better days of the past if world prices of Dominican exports peak again, the basic structural problem will remain unresolved unless the GODR takes this opportunity to address the structural problems.

The new economic structure should be built on the principle that the industrial and non-traditional sectors of the economy must earn enough foreign exchange of their own to protect themselves from the cyclical fluctuation of traditional exports. Industry should face competition in the world market and carve out its own share of the market. It should be made clear, however, that pursuit of this policy adjustment in the transition to a new economic order does not mean the demise of traditional exports. Far from it. Traditional export commodities must also compete for resource allocation based on improved efficiency and profitability. This includes mineral resources, which constituted about 23% of exports in 1982, and which represents an area of possible USAID assistance in mounting a mineral resource program around a restructured mining sector which encourages private investment in exploration.

The USAID/DR's basic objective is to increase non-traditional exports from the 1982 level of $100 million to $300 million by 1988. The average annual growth rate is 20%, which is a realistic goal in view of the fact that the non-traditional exports have increased at the annual rate of 17% during 1977-1981. In fact, if the GODR is successful in implementing the IMF agreement and provides an economic environment wherein the private sector is encouraged to export non-traditional products, the average annual export growth rate could achieve 25% or even higher. USAID will encourage GODR adoption of policy measures spelled out in the IMF agreement, and will provide technical assistance as well as funding for export infrastructure development. However, the importance of allowing the non-traditional exporters to operate freely in the parallel market without the surrender requirement cannot be overemphasized. Although this policy reform is not a part of the IMF agreement, it is considered an essential ingredient for success in the export promotion effort.

F. Human Resources

A generation of experience in economic development has demonstrated the inevitable truth that development of an economy and of a higher standard of living depend more upon the stock of human capital than the size of natural resource endowment of the economy. The validity of this proposition is supported by the past 20 years' experience of a few small East Asian countries that have embarked on an economic growth path, triggered and sustained by the exports of labor intensive products. These products contain relatively more labor than capital inputs. Naturally, production of such goods requires a large, highly trainable, intelligent workforce. A high level of human capital is essential to embark on the economic growth strategy based on export promotion.

An educated workforce, in addition, seems to be less vulnerable to the forces of unemployment, primarily because educated labor can be more readily trainable in and adaptable to new technology. An educated and more capable workforce is better able to create work opportunities for itself. As a consequence, aggregate unemployment becomes less of a problem.

In the Dominican Republic, the level of human capital, unfortunately, is rather low. Some 40% of the workforce is illiterate. Rural primary education is in a deplorable situation. Vocational and technical education must be strengthened, and university training needs to be upgraded. In addition, there are pockets of malnutrition among children in rural areas that threaten the quality of a future workforce. Furthermore, several vector induced diseases seemed to have reared their ugly heads in recent years.

In order to address our major concerns in unemployment, energy, food production, and structural adjustment (or export promotion) successfully, human capital resources have to be increased rapidly. The GODR has been aware of this problem and has begun to address it by allocating more resources to the Secretariats of Education, Health, and Agriculture. The table below shows GODR expenditures in these sectors expressed as a proportion of total GODR expenditures.

GODR Expenditures in Percentages

	1977	1978	1979	1980	1981
Education, Art, and Worship	9.8	10.2	10.5	10.8	12.1
Public Health and Social Assistance	5.7	6.0	8.2	9.2	9.2
Agriculture	3.6	3.2	9.5	14.5	14.9
Office of the President	47.2	43.5	18.5	13.7	14.9

The Secretariat of Education's share of the budget increased from 9.8% in 1977 to 12.1% in 1981; Health's share rose substantially from 5.7% to 9.2% during the same period; and Agriculture's share jumped more than fourfolds to 14.9% in 1981 from 3.6% in 1977.

The major USAID/DR objective in the area of human capital development is to assist the GODR in increasing human resources through continuing participation in primary education in rural areas, continuing our assistance programs in vocational and technical education, initiating in-country management training at the Master's level, and continuing health promotion by providing assistance in vector control and nutrition programs. The large training component in our agricultural program will also contribute to increasing human capital resources in rural areas.

By FY-1988, the Dominican Republic will be able to adequately supply the trained and trainable workforce necessary to meet the growing demand for labor due to rising exports of labor intensive, non-traditional exports.

III. MISSION DEVELOPMENT STRATEGY

A. Strategy Overview

The Mission's development strategy continues to evolve and expand on that stated in the FY's 1983 and 1984 CDSS. It pursues the following objectives: increased food production, decreased unemployment, conservation and development of energy resources, a strengthened human resource base, and increased non-traditional exports.

The AID priority policy areas have been taken into full consideration in the implementation of the Mission strategy.

Policy dialogue will take place at basically two levels. As in the past, dialogue with both public and private institutions will continue to take place in the design of individual projects. This has been an effective vehicle in encouraging reforms in those areas where USAID is most directly involved, and is discussed in more detail in the individual strategy sections which follow. The second level began with the negotiations for the Caribbean Basin Initiative (CBI), which initiated the process of encouraging structural economic changes. The recent passage of the International Monetary Fund (IMF) agreement, which further laid out needed structural changes and economic performance criteria, will reinforce our efforts. Further opportunities for policy dialogue will emerge with the passage of the trade and investment components of the CBI. For negotiating these various components, the Mission will set up a formal mechanism for consultation with the GODR and the private sector. Negotiations for the next Title I agreement will involve discussion of reforms needed in the area of agricultural pricing policies. Over the next five years, the Mission's strategy will stress policy reforms that are needed to remove constraints to the growth of the private sector -- particularly as it relates to our strategies of export promotion and food production.

Institution building and strengthening has long been one of the major objectives of the USAID strategy. Initially, institutions were established through AID support in order to implement our programs. Most of these institutions have grown considerably, and for the most part, there is little need to establish new ones. There is a need, however, to assess and strengthen these institutions. This is particularly true for cases in which we are introducing additional roles for these institutions, such as entrance into for vocational training and participant training in the case of the Educational Credit Foundation (FCE), or where original goals have been distorted, such as INESPRE.

Technology transfer has generally taken place in the linkage of Dominican institutions with off-shore, U.S.- or third-country institutions. Universities often play a partnership role in that linkage. Technological hardware and software are often needed and introduced in the implementation of many of our projects, such as the use of computers linked to the U.S. for statistical data, radios for education, and lasers for land leveling. Research takes place when we conduct studies or assessments directed toward specific development problems. Although the research is usually part of the process of project development, the assessments and studies often provide critical data needed by the host country.

We are also strengthening the domestic capability to do research, particularly in the areas of agriculture and business management. As we move into the area of export promotion, we envision joint ventures with Dominican and U.S. firms to facilitate technology transfer, particularly in the areas of product development and marketing.

The role of the private sector in our development programs has always been significant in virtually all sectors, and that role is steadily increasing. Private educational institutions, small industries, and indigenous private and voluntary organizations now play major roles in the implementation of our projects. Our strategy for the next five years stresses greater involvement of the private sector in our programs, and its increased participation in the economic growth of the country — marked by a larger share of the GDP going to the private sector.

In our strategy to strengthen the quality of the human resource base, the predominant method has been and will continue to be development training. By development training we mean both participant training (off-shore) and in-country training. Often, the two approaches (off-shore and in-country training) are combined in the same project; for example, professors or trainers are given training off-shore, and they, in turn, return to the D.R. to teach or train others.

USAID has a long history of supporting development training in practically all sectors, and much of the educational wealth in this country has directly or indirectly resulted from USAID supported training. In addition to the training programs included in almost all of our major projects, some projects are designed for participant training alone, such as the Agricultural Sector Training and the LAC Training Initiatives projects. While 300 participants were trained through Mission-funded and AID/W-funded activities during the five year period, FY's 1978/1982, we expect to more than double that figure for the period FY's 1985/1989.

Often, the training needs can be taken care of in-country at a much lower cost. This is usually accomplished by strengthening the Dominican institution through technical assistance, training, and/or credit, which often the institution, as a result, takes on a new role. For example: an Educational Credit Foundation (FCE) was provided technical assistance and credit, and is now providing assistance in vocational and participant training; a Catholic University (UCMM) is being strengthened to provide master's level training in business and public administration; an agricultural institute (ISA) is being strengthened to provide training for rural development managers; another educational institute (APEC), in conjunction with vocational schools, has been strengthened to coordinate vocational education for rural women. Wherever this approach can effectively be used in the future, we will continue to do so.

In addition to being a significant vehicle for conducting policy dialogue, the PL-480 Title I program has provided an additional source of local currency to fund development projects. More recently, it has been used in direct support of our DA-funded projects, such as Rural Development Management, Rural Roads Maintenance and Rehabilitation, Education Sector Loan, and Health Sector Loan. In addition, some follow-on projects have been encouraged, such as small farmer programs. Over the next five years, Title I will increasingly be used as a vehicle for policy reforms -- particularly as they relate to agriculture -- and new activities will be introduced as they relate to export promotion -- for example, support to agribusiness. In Title II, much progress has been made over the last few months, beginning with the Title II evaluation. This evaluation not only served to point out some of the strengths and weaknesses of the ongoing projects, but more importantly established a spirit of cooperation between AID, CARE, CRS, and CWS,7/ at what may be the highest level achieved in the 20-year program. Dialogue has already taken place with the three agencies and several GODR Secretariats, Peace Corps, and the various technical offices of AID itself, in pursuit of possibilities of pooling resources towards commonly shared goals. The four agencies are now in the process of designing a Three-Year Plan (1984-1986) for the Title II program, which will identify development objectives to be achieved, improved food management practices, as well as non-food resources required in the program.

Involvement of Peace Corps in our program has also been increasing. In addition to our Special Development Activities Fund (SDAF) for small community development activities, which Peace Corps has been the

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7/ CARE (Cooperative Assistance for Relief Everywhere); CRS (Catholic Relief Services--CARITAS is the local organization); and CWS (Church World Service--SSID is the local organization (Servicio Social de Iglesias Dominicanas, Inc.)).

principle user, a $40,000 set aside for Peace Corps has been introduced this year which will permit Peace Corps to design and implement larger development activities. In some cases, Peace Corps Volunteers (PCV) are directly involved in USAID-funded projects, such as the Natural Resource Management project and the upcoming Rural Roads Maintenance and Rehabilitation II project. In addition, as mentioned above, dialogue has begun with the Title II voluntary agencies in pursuit of opportunities to pool resources in development activities where common goals are shared. The Mission will continue to consider ways in which PCVs can be more effectively involved in implementation of our development programs, particularly as "hands-on" assistance is required at the local community level.

Women, as both participants and beneficiaries, are also a consideration in our programs. In the Women's Training and Advisory Services, being implemented by APEC (Acción Pro-Educación y Cultura), an indigenous PVO, women are receiving traditional and non-traditional skills training from local vocational schools. They are also receiving Human Development Training, which serves to change traditional attitudes and replace them with a more positive, assertive world view. In other projects, particularly the Basic Health Services (SBS) component of the health loans, and the Maternal & Child Health (MCH) component of the Title II program, women play a predominant role in implementing development activities in the community level. Over the next five years, activities designed to enhance women's roles will continue to increase, particularly in activities concerned with rural development.

The following section has been structured to elaborate USAID/DR's sector strategies and programs containing reinforcing elements which we propose to continue or undertake during the five-year planning period, taking into consideration the Mission's principal areas of concern and strategic approach outlined in Section II. It also details how our development strategy and specific sector programs stress the Agency's four priority areas outlined above. As the reader will note, this results in some unfortunate, but unavoidable repetition, especially where programs in the strategy areas span several of the policy areas.

1. Food Production

a. Introduction

Agricultural production does not satisfy domestic needs, rural income is low, and under- and unemployment exceeds 40% of the rural labor force. Food imports have increased about 40% since 1975.

Most of the small farmers, who currently cultivate almost half of the land devoted to food crops, are already, in a sense, commercial farmers, in that they usually have some produce for sale which generates income for the purchase of other needed food items. The production of the small commercial farmer, however, falls far short of the potential, because of the scant resources available. The many and complex needs of the small commercial farmer are summarized as follows:

(1) Adequate land, water, and soil with sufficient know-how to properly manage them. The land that the small farmer works is not only small, but it is often marginal with poor soils, steep slopes, and/or inadequate rainfall.

(2) Sufficient inputs such as seeds, fertilizer, pesticides, labor, and sufficient know-how to use them properly. Credit is almost always required to purchase these inputs, but the small farmer often cannot receive credit at a reasonable rate. The government simply does not

have the financial resources to provide this credit, and the credit extended is often not paid back.

(3) Access to the market place, with adequate knowledge of the demand, and an adequate price to make the risk worthwhile. In many instances the small farmer sells to a middle man at a reduced rate -- often long before the crop is in -- while the consumer price is held artificially low by legal price ceilings.

The Mission strategy to increase food production, and thereby increase rural income and employment, will approach all three of these areas, with a major emphasis on the first -- improved management of soil and water resources. The Natural Resources Management Project is already improving the management of hilly lands to reduce extensive soil erosion in a major watershed. The On-Farm Water Management Project will improve the management of water at the farm level in the increasing amount of land now falling under irrigation. The Agricultural Resources Management Project will focus on management of forestland and rangeland, which can be productive but require careful management.

There is also a focus on input needs -- both in the areas of credit and know-how. The Rural Financial Market Project will encourage savings mobilization in rural areas through the private sector, so that the resources in rural areas themselves will eventually be sufficient to cover credit needs. The Agricultural Research and Extension Project will provide the small commercial farmer with knowledge of new crops and new techniques -- some of which will result in increased exports. Research and extension capabilities will also be improved through participant training in projects such as the Agricultural Training Program.

Agricultural Marketing alone is a multi-faceted and often complex area affecting the small farmer. Most of the aspects of agricultural marketing, however, are beyond the reach of the small commercial farmer. The predominant factor in the marketing system is the price -- both the farm gate price and the consumer price. Prices of many Dominican staples are determined by the GODR, without full knowledge of the implications of that price. If the price is too low, which is often the case, the implication to the small farmer is a very low incentive to increase production. The Agriculture Sector Policy project will attempt to provide more accurate information to the GODR decision-makers which should result in improved price policies and agricultural policies in general, and thus a greater incentive for the farmer to increase production.

b. <u>Mission Response to Priority Policy Areas:</u>
<u>Agriculture and Natural Resources</u>

(1) <u>Policy Dialogue:</u> Over the past year, key issues, such as natural resource conservation, agriculture price policy, rural savings mobilization, interest rate reforms, land tenure, and the effect of agriculture sector policies on food production have been discussed with GODR officials.

The Mission has taken an aggressive role in promoting and participating in seminars, workshops and discussion groups aimed at reviewing key agriculture sector policies; has initiated a series of studies, such as the Environmental Profile, Price Policy Analysis, and Land Reform Seminar Workshops; and has supported the development of Case Studies of agricultural policy and its effects on production through the establishment of a new rural management institute for graduate training of agricultural managers and policy makers.

The Mission is preparing an Agriculture Sector Policy Paper which will help the GODR explore the effects of various policies on the production of traditional and non-traditional commodities, and will provide the GODR with the means to analyze and recommend alternative policies which will promote long-term growth and stability of the sector.

One of the most effective and collaborative means of encouraging policy dialogue is through the use of technical assistance, which can provide analysis of policies and recommendations for changes. This process was used effectively in the Natural Resource Management Project, and will be used in the areas of water management planning, interest rates for agricultural credit, agrarian reform management, sugar diversification, commodity price policies, and agricultural export promotion.

In addition, as mentioned above, Title I continues to provide a significant vehicle for policy dialogue.

(2) Private Sector: Prior to the CBI, the private sector's participation in AID agricultural projects has been primarily (excluding the farmers themselves) by indigenous and U.S. private voluntary organizations, and universities.

Through the Title XII Strengthening Grant Program, the Mission has been successful in linking key, interested U.S. universities with counterpart schools in the D.R., which has resulted in training and research opportunities for the D.R.

The involvement of private and voluntary organizations (PVOs) in our program has steadily increased over the last two years, with a noted increase in the number of OPG proposals as well as approved OPGs. The Caribbean Basin Initiative (CBI) provided the Mission with another opportunity to support an additional $4 million of PVO activities and, at the same time, forge a link between the GODR and indigenous and U.S. PVOs. Also, a dialogue has begun with Title II Voluntary Agencies in pursuit of linking Food for Work (FFW) activities with other AID-sponsored food production activities. In addition to activities with universities and PVOs, the D.R. is providing credit to agri-business through the Credit Facility established in the Central Bank with CBI funds.

(3) Technology Transfer: Technology transfer and research in the agriculture sector have always been piviotal for successful development in the Dominican Republic. The Mission's objective of the 1960's and 1970's was to train a minimum number of people and establish the institutional framework necessary to carry out a sustained program of technology transfer.

The Mission objective of increasing agricultural production in the D.R. is presently based on the transfer of improved technology to farmers and decision-makers alike. Examples include: the Natural Resources Management project, with its components for farming systems research and soil and water resource conservation; the Swine Repopulation project (OPG), which demonstrates improved swine production techniques; the Inland Fisheries project (OPG), which teaches farmers to produce fish using modern methods and ideas; the Irrigation Water Management project, which will demonstrate modern technology for on-farm water management and institutionalize research and extension capabilities in that critical area; and the Agricultural Sector Training project, which will focus on graduate training for technical specialists who will be the future researchers of the Dominican Republic.

The Mission will continue to promote technology transfer and institutional strengthening in its future projects in the agriculture sector. Planned for 1984, for example, is a project specifically directed at strengthening the D.R.'s agricultural research capabilities. Likewise future projects will also contain components addressing key research and technology issues whenever they are needed.

(4) Indigenous Institutions: Agricultural projects in the Dominican Republic have a history of an institutional-strengthening focus, and we will continue our efforts in this area. In the agricultural sector our attention has been primarily focused on educational institutions. Under the Rural Management Training project with the Instituto Superior de Agricultura (ISA), the Mission has been instrumental in developing a university curriculum focused on developing the management skills of mid-level managers in both the public and private sector. Through case history methodology, ISA has developed the capability to focus the attention of sector decision-makers on key issues such as land reform, food price policy, and agriculture development in general.

The Mission will use the Agriculture Sector Training project as a vehicle to continue strengthening the four most prominent universities (ISA, UCMM, UNPHU, UASD)8/ in the Dominican Republic. This project will train faculty at the M.S.- and Ph.D.-degree level in critical disciplines, such as plant and animal sciences, economics, and sociology.

(5) Development Training: Training has always been a high priority for the Mission within the agriculture sector. It is only

8/ ISA (Instituto Superior de Agricultura), UCMM (Universidad Católica Madre y Maestra), UNPHU (Universidad Nacional Pedro Henríquez Ureña), and UASD (Universidad Autónoma de Santo Domingo).

through a strong intellectual base that the Agency's development objectives can be met. Beginning in the mid 60's, the Agency has trained and will continue to train a cadre of agricultural technicians capable of assessing the country's problems designing solutions, implementing programs and projects, and evaluating the results.

The GODR is convinced of the value of training as a development tool, and has requested assistance from USAID to help fund participants for short- and long-term training in U.S. universities and other international institutions. The USAID has responded to the GODR's request in several ways: the 1983 Agriculture Sector Training project plans to train over 150 persons in the public and private sector; in the Natural Resources Management project (NARMA), over 50 people will receive training in various disciplines within the category of natural resources; under the LAC Training Initiatives project, selected individuals from the public and private sector have been chosen to conduct studies in the field of agriculture and rural development at U.S. universities; and centrally funded training courses such as those in forestry, cooperatives, and irrigation management, will continue to be utilized whenever possible.

A large amount of in-country training is also used in agricultural projects, frequently utilizing graduates from our participant training activities as trainers. The Rural Development Management project is providing participant training to ISA professors, so that they, in turn, can provide graduate level short-term in-country training to rural agricultural managers. Many of our projects provide, or will soon provide, training directly to small farmers in areas such as soil conservation practices, efficient water use, rangeland and forestry management, and swine management. Many of the sub-projects funded by PL-480 Title I also involve in-country training for <u>campesinos</u>.

(6) <u>Food Aid:</u> Food aid in the form of PL-480 Titles I and II are important resources to the Dominican Republic in terms of helping to alleviate the foreign exchange deficit, fostering long-term development of the rural sector, and providing humanitarian assistance to many of the needy.

PL-480 Title I proceeds are jointly programmed by the GODR and USAID to support or initiate development activities for which funds are not available through the normal budgeting process. Examples of these activities include funding for research on small animals; development of appropriate technology to increase agricultural productivity; production and dissemination of basic seeds and planting material for basic food crops such as rice, beans, and plantains; and financial support for research in agriculture being carried out at private universities. Another example is the use of Title I proceeds to fund the construction of new facilities for the AID-supported Rural Management project at ISA. The criteria applied to proposed projects require that PL-480 Title I-funded projects relate directly to increasing food production, or will indirectly impact positively on increasing total food production. The projects also must have some objectively verifiable indicators which can be used in periodic evaluations of their progress or results.

Beginning in FY-1983, the PL-480 Title II Voluntary Agencies (VolAgs) will be more closely linked with USAID agriculture projects, thus opening some very important avenues for cooperative or collaborative projects. The VolAgs have agreed that, where possible, they will program food aid for activities supportive of AID development goals.

Further, VolAg staff members will be included in USAID-funded in-country training courses, and will have access to other AID-funded projects which share common development goals.

(7) Other Donors: The two most important "other donors" in the D.R. in terms of money and numbers of projects are IDB and IBRD. Like AID, both organizations are vitally concerned with helping the D.R. increase its food production capability. Historically, AID and the other donors have approached the D.R.'s problems from a different but complementary manner. While the USAID concentrates heavily on training and technical assistance to institutionalize problem solving capabilities, the IDB and IBRD concentrate more on the large capital projects such as dam and irrigation canal construction, construction of training centers, rural electrification, major roads, and potable water systems.

The sheer weight of numbers, $315 millions for IDB and $99 millions for IBRD (US$34.5 million for AID), provide these organizations with an opportunity to catalyze policy changes. Specific areas may be agricultural credit and interest rate policies, natural resources management and energy policy, and agrarian reform. Collaboration with IDB and IBRD to bring about key Agency policy changes should be explored at the Washington level.

c. Objectives for FY-1988

As a consequence of the USAID strategy and continued GODR commitment to improving the performance of the agricultural sector, the following conditions can be reasonably expected to prevail by 1988.

Several improvements in agricultural policy are expected, in part, as a result of our policy dialogue: (1) agricultural price policies, which seriously distort incentives (such as pegging prices below cost of production), will have been diminished. Price policy will reflect a more equitable balance between rural and urban producer and consumer interests; (2) agricultural interest rates will have been raised to a level approaching the economic cost of capital in the country. The shortfall of supply of agricultural credit relative to demand will have been reduced to no more than 20% of the effective demand; (3) a unified and economically valued exchange rate system will also be in place; (4) revisions in agrarian reform, water, forestry, export promotion, and agro-industrial incentive laws will have reduced investor uncertainties and promoted a vigorous growth rate in private investment in the agricultural sector; and (5) public investment in the agriculture sector will also have increased by 80-100% over the current level of approximately RD$150 million per year.

As a result of development activities of our projects, coupled with policy changes and increased private and public investment in agriculture, the small farmer should realize significant improvements in their living standard: (1) significant yield increases will have been achieved by 40% of small farmers as a result of improved agronomic practices, better access to inputs, and an upgraded research and extension system; (2) as a result, average net farm income of target group will have risen from RD$800 to RD$1,000 (in constant pesos); (3) the capability to create 10,000 new jobs per year in the agricultural sector will have been created; and (4) the percentage of Dominicans with sub-standard nutrition will be reduced from 75% to 60%.

Even with these considerable improvements in the sector, it will be necessary to continue our efforts in training, research, and agri-business development. By 1988, it is hoped that the GODR and other donors will have taken over the bulk of the activities in the area of natural resources.

In 1988 and beyond, in the agriculture sector, USAID will continue its efforts to catalyze greater private sector involvement, increased food production, and greater employment and income in the rural sector. This will be accomplished through projects such as: agri-business development, policy analysis, agricultural extension, and cooperative export development.

2. Employment

a. Introduction

Unemployment is probably the most critical problem in the Dominican Republic, with more than 40% of the labor force either unemployed or underemployed. As a result, practically every AID program is either indirectly or directly aimed at reducing unemployment. Indirectly, our strategy to raise food production should result in a raise in demand for rural labor; improving the human resource base -- particularly in vocational and mangement training -- and improving the health standard of Dominicans should result in a more employable labor force; encouraging a more efficient conservation of energy should make more energy resources made available for more labor intensive activities; reducing the population growth rate should result in a reduced number of people seeking jobs in the future; and export promotion should result in a higher demand for Dominican products, and thus a higher demand for the labor force to produce them.

Our strategy more directly related to employment generation is twofold: (1) to strengthen the private sector so that it can hire more people in productive jobs, and (2) to stimulate immediate employment in construction activities -- particularly housing and rural roads maintenance.

The role of the private sector in employment is quite significant, as it employs a large percentage of all employed persons. Of those employed in the private sector, the agricultural sector employs the largest single share, with 61.7%, while distribution accounts for 9.2% and manufacturing 4.7%.

Beginning in 1980, the USAID strategy concentrated on the constraints and the search for opportunities of development for the indigenous private sector. Efforts include studies under the Employment Policy project, the Industrial Sector Assessment, and the Micro-Industry study. These exercises have led to the development of a number of very important initial programs in the micro-industry and small industry sectors, involving the Central Bank, voluntary organizations, and private development banks. These programs have evolved as a direct result of the findings and conclusions of the earlier studies, the most significant of which identify legal and administrative hurdles, lack of access to credit, and lack of management capability as the major constraints faced by potential producers and exporters.

Currently, USAID's strategy involves direct interventions to improve the productivity of various key elements of the private sector. These interventions involve investment in developing the human, financial, technical, and institutional capacities to mobilize underutilized potential in the private sector. By providing resources necessary for the economic growth of the private sector, the demand for labor also grows. This has already been illustrated in the Small Business Promotion OPG, in which the Dominican Development Foundation (DDF), a local PVO, provided the needed technical assistance and credit for micro-industries to expand. Already, several hundred jobs have been created under this project, and at a very low cost per job. The Mission is currently expanding on this idea by providing a major loan to the small industry sector. An important expected outcome of this project is the linkage of private finance companies to small industries. Concurrently, the Caribbean Basin Intiative (CBI) provided $41 million in immediate balance of payments relief to the D.R. and, in turn, will generate RD$41 million in counterpart funding to be used for high priority private sector development needs, including: (1) credit, technical assistance, and training for export promotion and agri-business; (2) funding for activities of both U.S. and indigenous private voluntary and educational organizations; and (3) financing for productive infrastructure necessary for the expansion of private sector activities.

It is well-known that the housing sector is an effective and immediate generator of employment. USAID is currently negotiating a Tripartite HIG program with the Housing Institute (INVI) and the Businessman's Council (CNHE) to provide low-cost housing for workers. The program will also expand the participation of local savings and loan associations in the financing of low-cost housing. In addition to the HIG program, USAID is working with the Inter-Institutional Housing Council (CII-VIVIENDAS), an arm of INVI composed of PVO's and government entities, and Appropriate Technology Council (CETAVIP) in the area of housing improvement using appropriate technologies.

In rural roads, USAID is supporting a follow-on Rural Roads Maintenance and Rehabilitation II project. The project will directly provide both short- and long-term employment, and indirectly stimulate employment in agriculture and agro-industry. Short-term employment will be generated through the road rehabilitation component, in which private contractors are used to restore the roads to a maintainable condition. Long-term employment will be generated as people in the rural communities are hired and trained to manually maintain the rural roads. Through this loan and the Title II program, rural trails will be built by people in isolated communities where construction of rural roads is not cost-effective. Agricultural employment should also increase as the access to the markets is improved.

b. Mission Response to Priority Policy Areas: Private Sector, Housing, and Rural Roads

(1) Policy Dialogue: In the private sector, a special consultative committee was established as part of the Industrial Sector Assessment, which has served as an instrument for policy development. It has provided policy guidance during the course of the study, and has functioned as a sounding board for ideas regarding private sector development. The Employment Policy Study has served as an instrument to acquire important data, and to strengthen the GODR analytic capability resulting in important changes in policy affecting employment. The Mission has been involved in a policy dialogue regarding interest rates and the need for changes to meet market needs. We have used the small industry development loan package as a vehicle to accomplish such reforms.

In housing, through the HIG program, the Mission has been involved in constant dialogue with INVI, CNHE, and the Savings and Loans Associations, to encourage new private sector linkages in the area of low-cost housing.

The Rural Roads program has already effected a change in GODR policy and structure by establishing a new nationwide rural road agency with the necessary budgetary support. The budget for the Bureau for Rural Roads (DGCV) has been increased almost threefold, from RD$2.7 million in 1979 to RD$8.0 million in 1982 (not including counterpart for loan projects). In addition, the program has resulted in a new attitude and orientation toward the rural roads system within the Secretariat of State for Public Works and Communications (SEOPC). Under the proposed Rural Roads II program, the Mission intends to effect similar changes in GODR policy regarding its attention and support to rural trails.

(2) <u>Private Sector:</u> The main thrust of our private sector strategy is to provide needed technical assistance and credit to the indigenous private sector -- particularly to micro- and small industries. In conjunction with this, private financial institutions are being encouraged to participate, as well as the government itself, through an arm of the Central Bank. In addition, DDF has been strengthened to provide technical assistance and credit to indigenous micro-industries. A close working relationship has also been established with the Dominican Association of Industries, which was directly involved in the Industrial Sector Assessment.

In housing, the CNHE has been acting as a promoter of the HIG, while private savings and loans associations are being encouraged to participate in the financing of low-cost housing.

Under the rural roads project, it was demonstrated that the private sector can do a better job and in less time than construction by force account. This was clearly illustrated in our Rural Roads I and Emergency Rehabilitation Grant, where the opportunity to compare costs, quality, and time between private sector rehabilitated roads and those rehabilitated by force account. As a result, AID and the GODR jointly decided to rehabilitate all roads through the private sector. The new Dominican administration also views private sector participation in rural roads rehabilitation and maintenance as a means of stimulating rural employment. Implementation of the Rural Roads II project will, therefore, follow the same pattern.

(3) Technology Transfer: Within the industrial sector, the Mission is encouraging the use of the International Executive Service Corps (IESC) to assist local industry to improve management and production techniques. Appropriate Technology International (AITEC) has been providing assistance through DDF to small industries in improving management, production, and marketing techniques. Extensive research, of course, has already been conducted in the areas of industry, employment, and housing through sector assessments.

We are supporting the transfer of appropriate technology in the area of housing improvement through CARE, and we are supporting the operation of an appropriate technology center (CETAVIP). Moreover, the Mission is supporting a consortium of public and private voluntary agencies (CII-VIVIENDAS), whose mission is to seek out low-cost solutions for housing improvement using appropriate technology.

A new technology was introduced in the rural roads maintenance program, utilizing trained local personnel assigned to specific maintenance tasks on portions of road for which they were responsible. Also, a major research effort was conducted: 12,000 kms. of rural roads were surveyed and classified and the resultant data was placed into a computer. From this, cost-benefit analyses can be conducted to determine which rural roads have the highest priority.

(4) Indigenous Institutions: Within the small industry sector, the Mission is supporting the DDF (a local PVO), PROAPE (a Santiago organization in support of small businesses), and private financieras (finance companies) to provide access to credit and technical assistance to small businessmen.

The Mission is also strengthening the INVI, a consortium for housing projects (CII-VIVIENDAS), and the CETAVIP.

The DGCV in the SEOPC enjoys an improved status, as well as an improved budget, and administrative and organizational structure due to the USAID-supported Rural Roads project.

(5) Development Training: In the field of small industry, although most of the training in the areas of small industry, housing, and rural roads can best be conducted in-country, we are considering sending participants to Mexico and Colombia to observe successful small industry promotion programs.

In the Small Business Promotion project, the Dominican Development Foundation (DDF) is providing in-country training to small entrepreneurs in the areas of business management, production, and marketing. The Small Industry Loan will continue this process on a larger scale. In housing, the poor will be trained in simple, low-cost methods for home improvement. In rural roads, hundreds of rural laborers are being trained in road rehabilitation by private contractors, while the GODR will train thousands more to maintain the roads in their own communities.

(6) Food Aid: Limited PL-480 Title I counterpart funds will finance rural home improvement programs, which have a direct

relationship to the Mission's public health initiatives. These programs will be carried out in collaboration with the previously mentioned OPG funded CETAVIP-CARE appropriate technology home improvement project.

PL-480 Title II food, through the Food for Work program, will be used in conjunction with the Rural Roads II project. Some 500 kms. of rural pack animal trails, linking isolated rural communities to the road infrastructure, should result.

(7) Other Donors: In the business sector, AID grant funding channeled through the DDF has resulted in contributions by AITEC and the Inter-American Foundation (IAF), which has expanded DDF's lending portfolio. The World Bank is financing a large Sites and Services Project in Santo Domingo, and the German government is financing a Barrio Upgrading Project in the capital, which serve to complement AID's rural housing initiatives.

By and large, loans from the World Bank and IDB have concentrated on primary hard-surfaced highways and bridges, which complement our rural roads activities. Both have also provided funding for rural roads activities, but with serious implementation problems. In addition to the above-mentioned participation of Title II VolAgs (CRS and CWS) in the rural pack animal component of the proposed follow-on Rural Roads project, the GODR will request two Peace Corps Volunteer engineers to assist in the field work for this component.

c. Objectives for FY-1988

Several impacts, which should result in the direct or indirect generation of thousands of employment opportunities, are expected by 1988:

In the private sector, there would be in existence a national system of self-financing technical assistance centers for small industry. Each region of the country would be adequately served. The small industry program would be providing specialized training in management and production in countries such as Mexico and Colombia. There would be functioning a revolving fund to provide capital for loans to small business. Although we will have a follow-on project in local enterprise development, our new activities in the private sector will be predominated by our new emphasis in export promotion, described in Section 6 below.

In housing, there will be a system of transfer of technology aiding rural families in home improvement. This activity would be sponsored and administered by private voluntary organizations on a nationwide basis with financial and technical support from the GODR. INVI will be providing the financing of the home improvements resulting from the promotional efforts of the educational phase of the program. The Housing Guaranty Program for workers housing would be in its second $15 million phase, providing an additional 2,000 new units and approximately 2,500 loans for improvements of existing units, particularly in rural areas.

In rural roads, the institution for maintaining the national rural road system will have been completed with physical facilities, equipment, hand tools, and approximately 500 trained professionals, technicians, and skilled laborers. Some 1,000 hand laborers will be employed full-time maintaining 35% of the rural roads. 20% of the rural roads will have been rehabilitated by private sector contracts, supervised by contracted supervisory firms having provided short-term employment for 20,000 rural unskilled laborers. Providing that the proposed DA and ESF levels are made available for rural roads activities, fully 55% (5,500 kms.) of the rural roads will be rehabilitated and brought under regular maintenance by 1990. A pilot program of 500 kilometers of constructed pack animal trails for access to isolated mountain villages will have been completed, promoted, and supervised by PVOs using PL-480 Title II food for an estimated 45,000 person-days of work.

3. Energy

a. Introduction

The goal of the Mission's energy assistance program is as stated in Section II.C., and the following projects are designed to obtain that goal.

To assist the GODR in reducing energy consumption, the Energy Policy Development project is establishing a computer-based energy information system designed to assist the government in energy planning and policy analysis. By project's end in FY-1983, the GODR will have developed the capability to carry out detailed analysis of energy investment options, and to develop comprehensive national energy plans.

The larger Energy Conservation and Resource Development project, initiated in FY-1982, will assist the GODR to develop the institutional capability necessary for achieving energy conservation and non-petroleum resource utilization on a wide scale.

Another project, Solar Bagasse Drying, will demonstrate the feasibility of pre-drying bagasse with solar energy, prior to burning it in sugar mills, to increase its efficiency as an overall energy source. By the end of the project, a pilot plant will have been constructed, operated, and evaluated in the State-owned sugar mill at Consuelo. If successful, the plant will serve as a model for replication in other sugar mills in the D.R. or other Caribbean countries.

b. Mission Response to Policy Areas

(1) Policy Dialogue: Through support of the National Energy Commission, the Mission has contributed to the development of improved policies and policy recommendations in the energy area. The goal of the Mission's program is not so much to single out individual policies or laws for change, but rather to assist the development of institutional capacity to prepare effective energy plans and carry out sound energy analysis as the basis for improved policy. Through the National Energy Assessment and the Energy Policy Development projects, for example, we have upgraded the analytical and policy making capabilities of the Commission through data gathering and analysis, training, technical assistance, and the establishment of a computer based energy information system.

(2) Private Sector: The Energy Conservation and Resource Development project involves a program of energy audits in private industries. The audits will be carried out by private engineering consulting firms with technical and financial assistance provided by AID through the GODR. In addition, financial assistance to these industries is being provided to implement the audit findings and instigate conservation programs.

(3) Technology Transfer: Examples of technology transfer in energy include the Solar Bagasse Drying pilot project, the Small Hydro Development program, and the program of industrial conservation pilot projects, which are designed to demonstrate the feasibility of energy conservation technologies, and encourage their adoption on a wide scale. A NASA solar refrigerator is being field tested, and computer analysis utilizing a worldwide energy information system is being implemented.

(4) Indigenous Institutions: Under the energy program, the National Energy Commission is being provided with technical assistance to evaluate alternative investments in energy conservation, resource development, and electricity generation on the basis of social, economic, and technical criteria. Once this is completed, the Commission will have developed an energy investment plan, and will have the capability to do such planning on a continuing basis.

(5) Development Training: The Energy Policy Development project includes a component for participant training ($94,000), which will be fully committed by the end of FY-1983. We also send approximately 11 participants a year to energy training programs funded by AID/W (both long- and short-term) in the United States. Most of the training in energy, however, is taking place in-country: the National Energy Commission is receiving training in national energy investment planning, as well as mini-hydro installation and management; industrial entrepreneurs are being trained in energy auditing and planning; and the Superior Institute for Agriculture (ISA) and the Energy Commission will receive training in the construction and use of kilns for charcoal production to be used later by the private sector.

(6) Food Aid: Although the Title II VolAgs do not directly participate in our energy program, they are investigating ways in which the energy-saving Lorena stove may be used in some of the communities participating in the Title II program. In addition, Title I resources are financing a portion of the solar bagasse drying plant.

(7) Other Donors: Energy programs are closely coordinated with other donor programs in the D.R. For example, we jointly funded, with the World Bank, a study of problems in the electric utility with an

understanding that AID would finance a program aimed at the more immediate needs and the World Bank would address the longer term needs.

c. Objectives for FY-1988

By the end of the project in FY-1988, the following objectives will have been achieved: (1) development of a National Energy Investment Plan and improved capability in the GODR to develop, revise, and update national energy plans; (2) five pilot projects in industrial conservation to demonstrate the feasibility of energy saving measures, which could be replicated on a large scale; (3) establishment of an institutional capability in industrial energy conservation to carry out energy audits, to recommend appropriate conservation measures, to assist industries in the implementation of those recommendations, and to encourage a broader effort in industrial conservation; (4) a credit mechanism established for assisting industries of all sizes in financing energy conservation measures; (5) three or four mini-hydro pilot projects to test and demonstrate the economic, social, and technical feasibility of mini-hydro utilization in a rural Dominican setting; (6) establishment of a mini-hydro institutional capability to identify and analyze potential mini-hydro sites, to supervise the construction and installation of mini-hydro facilities, and to assist communities in the operation and maintenance of these systems; (7) a wood fuel research program to determine the most appropriate tree species for energy in the D.R., and the most efficient technologies for converting wood to different energy end uses; and (8) initiation of a program of technical assistance to the CDE to upgrade management and planning capabilities.

The two areas in which the Mission is considering additional activity are: (1) a possible follow-on and expansion of the mini-hydro program being initiated under the Energy Conservation and Resource

Development project, although this will depend in part on the success of the pilot program, as well as the possible interest of other donors in financing follow-on small hydro activities; and (2) a new project in mineral resource development. This latter activity, which is viewed as important given the potential mineral resources of the D.R., would probably take on an institution building focus through technical assistance to the Mining Directorate or a new State Mining Corporation, which is currently under discussion.

4. Human Resources

a. Introduction

The key pre-requisite to economic growth is a human resource base which has sufficient knowledge to perform more complex tasks, has an adequate health standard, and has a manageable growth rate. The Mission strategy in this area is to improve the human resource base through our education, health, and population programs.

The Mission strategy is using several approaches to attack the problem of an overall weak educational system: (1) primary education, (2) vocational training, (3) radio education, (4) management training, and (5) participant training.

The Mission has two activities in the vocational education area: (1) through the Human Resources Development project, the Educational Credit Foundation (FCE) is providing loans to needy, qualified students in various disciplines which are in demand, while local private and semi-private vocational institutions are being strengthened; and (2) through the Women's Advisory Training Services OPG, managed by APEC, local vocational schools are providing traditional and non-traditional skills training to poor women in an urban barrio. The Mission expects to have follow-on projects similar to the latter.

In radio education, there are currently two activities: (1) the Radio Santa Maria program is now benefitting from a follow-on OPG to expand its activities, and to increase its coverage in non-formal adult education; and (2) the centrally-funded Radio Education project is beginning its program of primary education for isolated areas in the southwest. This, too, is expected to show great potential for future expansion. There is still some 250,000 children in target areas who could benefit from this type of program.

The Universidad Católica Madre y Maestra (UCMM) will soon begin a Master's degree program in both public and business administration, as well as executive training and research facilities. This eight-year collaborative assistance project, which involves both Indiana University and the University of South Carolina, will provide a local capability to train leaders in both the public and private sectors.

In addition to the large amount of participant training involved in almost all of our ongoing and planned projects, the LAC Training Initiatives project is providing scholarships to highly qualified Dominican leaders for a wide variety of disciplines which are in demand. Some of the graduates of this program will provide vital support to the USAID programs, while others will return to the D.R. with other skills that are in short supply.

Unlike most AID education programs in Latin America, which have had up to 20 years of active involvement in primary education, the primary education program in the D.R., which began with the Education Sector Loan in 1979, is relatively young. This program was designed to help implement some of the recommendations from the AID-supported 1977 education reform assessment. Basic activities such as curriculum development, teacher training, and school construction have met some initial degree of success, but constitute only a beginning step in a long overdue need to improve this critical, and until recently, neglected sector. For this reason, the Mission is planning a 1984 Rural Education project which will move the national primary education reform effort into a second phase. Activities include: administrative planning, institutionalization of teacher training and supervision, creation of local financial support for some recurring school costs, construction, and use of low-cost media.

In Health, the emphasis has been and will continue to be preventive health care. Through the Basic Health Services program (SBS), supported by Health Sector Loans I and II, some 5,400 health promoters, which were leaders from the rural communities themselves, are now providing services to campesinos that previously benefitted very little from health services. Other activities from these loans included clinic and hospital staff training, health and nutrition education, and potable water and sewage systems construction in rural areas. A Primary Eye Care OPG is providing additional training for health promoters in preventive eye care. The 1983 Health Sector Loan III will strengthen the health system through management and staff training, improved management, production and control of medicines, upgraded laboratory services; as well as an expanded SBS program, providing training to promoters in the areas of oral rehydration, immunization, first aid, nutrition, family planning, surveillance and treatment of tuberculosis and malaria, and schistosomiasis.

Family planning activities will continue through the centrally-funded project involving the National Council on Population

(CONAPOFA), and PROFAMILIA, an indigenous PVO. This project was designed to assist in the creation of an Institute for Population and Development Studies (IEPD) under the administration of PROFAMILIA. It is responsible for studying and clarifying complex inter-relationships between demographic trends and socio-economic problems linked to health, education, employment, housing, agriculture, food, nutrition, and energy. This information will, then, be disseminated to key public and private decision-makers and opinion leaders so that they will regard population as an important and integral factor in the entire development process. Also, as mentioned above, family planning orientation and refresher courses for promoters in the SBS, with participation of CONAPOFA, will be imparted. Another activity involves the development of contraceptive retail sales through CONAPOFA and PROFAMILIA.

b. Mission Response to Priority Policy Areas: Education, Health, and Population

(1) Policy Dialogue: All AID public sector activities in the education area are based on a continuous policy dialogue with the Secretariat of State for Education, Fine Arts and Worship (SEEBAC), which began and continues to rely on the jointly prepared Education Sector Assessment. The USAID and GODR plan to update this effort in mid-1983, as one element in the development of the new Rural Education Loan. The update will review advances in the primary school Dominican educational reform begun four years ago and supported by an AID sector loan. The dialogue is also manifested in periodic project evaluations. One major policy reform may be a shift in the next five years to more non-traditional and non-formal interventions which demonstrate greater cost effectiveness than formal means and an opening to community financial support for schooling. AID is and will continue to support one of the GODR's highest priorities:

reform of rural primary education. Within the private sector of Dominican education, the USAID human resources policy dialogue focuses on supporting their expansion into complementary non-formal activities that fill gaps in the public sector educational system.

In Health, AID has been the major donor in the creation, expansion, and support of the country's rural health delivery system. At this time, our dialogue with the Secretary of State for Public Health and Social Assistance focuses on discussing the possibilities of having clientele benefitting from public health sector services contribute to the financing of the services they receive. USAID/DR is financing a pre-feasibility study to assist the GODR in determining the possibilities of this approach. In population, USAID/DR is also stimulating the development of a contraceptive retail sales (CRS) program, through a PVO, with the concurrence of the GODR family planning organization (CONAPOFA).

USAID/DR will continue its dialogue with the GODR, and provide the needed assistance to determine ways in which health care can be financed -- both from the public sector and from the beneficiary -- without significantly sacrificing the quality of health care.

(2) Private Sector: In education, USAID has and will continue to utilize the private sector for implementation of its programs. The Instituto Dominicano de Educación Integral (IDEI), a private non-profit institution founded by prominent businessmen, received AID funding for six years, and additional assistance to this organization for teacher training through correspondence is under consideration. Currently, IDEI offers a wide variety of educational programming which includes adult education via radio and technical vocational training. Other private sector organizations, which either implement or execute projects, include: Radio

Santa María, a PVO providing adult primary education via radio; FCE, a private educational credit bank, providing technical and vocational student loans; and UCMM, a Catholic university, providing a graduate career in business and public administration. In addition, APEC will expand its vocational training for women to other urban barrios.

It is realistic to expect that greater use will be made of the private sector in the following areas: (a) expansion of education opportunity via media, especially radio and printed materials, and (b) creation of innovative programming, particularly in regards to vocational training and educational opportunities for women.

In Health, the indigenous private sector is being utilized by Health Sector Loan II: manufacturing of handpumps, latrines, construction of aprons for wells, installation of pumps, and manufacturing of water containers. In addition, USAID has been providing technical assistance for the pump manufacture. Future activities may include assistance in the manufacture of medicines -- particularly products like oral rehydration salts, which are made from materials which are locally available.

(3) Technology Transfer: In the education sector, examples of technology transfer and research as development tools are present in the primary education radio project (RADECO), and the Management Training project. RADECO is researching the use of radio as a low-cost instructional tool, reaching an out-of-school student population between the ages of 7 and 14. This represents the first investment of AID in radio education for an out-of-school audience. An adaptation of the experience is already programmed for another geographic area. Under the Management Training project, computer technology constituting the leading edge of

computerization appropriate to the D.R., including possible satellite hook-ups to U.S. institutions, are envisioned.

Technology transfer in Health, both the public and private sector is being accomplished through assistance for the production and quality control of the handpump. Technology transfer to the communities is being accomplished through training of village volunteers in pump maintenance and simple repair. Through a centrally-funded project (PRICOR), an operational research project is being developed with a private indigenous non-profit organization (Fondo para el Avance de las Ciencias Sociales). The research is geared to investigate the most cost-effective method of training primary health-care personnel.

Different and new methodologies will be employed in the control of malaria and schistosomiasis: treatment of at risk personnel in an area (prophylactic) against treatment of those cases found through the surveillance programs.

In Population, technology transfer to PROFAMILIA will be taking place with the development of the Contraceptive Retail Sales activity.

(4) Indigenous Institutions: The education program has supported several indigenous institutions in both the public and private sectors. SEEBAC is being strengthened through the education sector loan, which provides training in the areas of curriculum development and planning, education materials development, and education statistics. Radio Santa María, an adult education program, will be provided additional AID support for technological improvements, administrative reform, and program outreach. UCMM will receive long-term institutional development support in

faculty training, and in establishing a Master's degree program in the areas of public and business administration.

In Health, the SBS program has been expanded and strengthened through AID support and, in the future, AID will continue to strengthen this program by providing additional training and technical assistance. There is a positive attitude in the Secretariat of Health toward the implementation of measures to strengthen institutions, including a contract with a U.S. consulting firm to assist in the revision, updating, or reworking previous recommendations and assisting implementation together with SESPAS' counterparts. Most of the training needed to develop the human resources to plan, staff, and manage the delivery of the basic package of health services will be done as short-term in-country training. A great part of this training will be performed on-the-job.

In Population, the Institute for Population and Development Studies was established under an AID-centrally funded grant to PROFAMILIA. This Institute is studying and analyzing demographic trends as they relate to socio-economic problems.

(5) Development Training: Under the Education Sector Loan, 23 Dominicans received at least one semester of study at the University of New Mexico. Radio Santa María will coordinate with the Acción Cultura Popular (ACPO) radiophonics program in Colombia, through the exchange of personnel and utilization of their respective training resources. Under the Human Resources Development and Management Training projects, overseas educational opportunities will be expanded and new graduate level courses will be developed. Under the proposed Rural Education Loan, SEEBAC's personnel will have access to local and off-shore

training programs. In the UCMM project, 16 Dominicans will receive Master's and/or Ph.D.'s in business or public administration.

In-country training capabilities are being strengthened in several areas: FCE is being strengthened to provide credit to vocational students and assistance to vocational institutions; APEC, in conjunction with local vocational schools, is being strengthened to provide vocational and human resources training to poor urban women; the Secretariat of Education has been strengthened to provide teacher training, and some 4,000 teachers have been or will be trained in materials preparation, curriculum development, supervision and administration; and UCMM will be strengthened to provide in-country master's level training in public and business administration. UCMM has also provided in-country legislator training for 145 legislators. Radio education projects, in both primary and adult education, are providing training for promoters from the rural communities which supplement the education classes carried out through radio broadcasts. Many of these activities will be replicated and/or expanded during the planning period.

In health, some 5,400 promoters from rural communities were given short-term in-country training in primary health care, in areas such as environmental health, health education, nutrition education, preventive medicine, family planning, and communicable disease control. A follow-on loan will add training in schistosomiasis prevention, preventive eye care, oral health, first aid, and vector disease surveillance.

(6) Food Aid: A small component of Title II food is being considered for the radio education project in the southwest (RADECO). We are attempting to investigate the impact of supplemental foods on attendance and performance in this out-of-school non-formal project. The

availability of basic nutritional foods is considered to be highly correlated with attendance, particularly in areas such as the southwest, where poverty is extensive.

In Health, under the Health & Nutrition OPG, activities of a private, indigenous Applied Nutrition Education Program (ANEP) will be shared with the Title II Maternal & Child Health Program. Title I counterpart funds are being used to support certain health interventions in the Malaria Emergency Health Program, and have been used to finance the construction of over 30 rural clinics which support the rural health service.

(7) Other Donors: AID's education program has maintained close coordination with the local assistance activities of IDB, UNESCO, and World Bank, and there has been no duplication of programming. IDB and the World Bank have expanded activities initiated by USAID. Other donor institutions' work has actually supported AID's objectives in several areas. For example, AID did the ground work for the creation of a textbook development project, and World Bank incorporated this material into a project which it intends to finance. A new IDB loan scheduled for the northeast is based on the current sector loan.

In Health, World Bank developed a health program that was coordinated with the activities of the Health Sector Loan I at the local level, in which the loan coordinator was the same for both programs and this facilitated the coordination. In addition, both IDB and World Bank have or soon will have programs that will build and equip health care facilities -- an area which complements, but does not duplicate USAID activities. Pan-American Health Organization (PAHO) has designed a malaria control program for the Secretariat of Health, and surveillance and control of malaria will be implemented under our Health Sector Loan III.

c. Objectives for FY-1988

In education, the AID-supported pilot projects to reform primary education will have taken hold, and AID-supported radio loan will have begun low-cost primary nationwide education and will have proven successful. These pilot efforts will have demonstrated to other international donors, managerial abilities of the GODR, and will have fulfilled requisites for replications. With an expanding economy, the vocational-technical loans to private sector institutions will have provided the vehicles for the entry into the workforce for thousands of Dominicans, and provided more dynamic private sector vocational schools.

New activities would focus on low-cost educational technology -- particularly radio/television for teaching and teacher in-service course work, as well as computer hardware maintenance and a software update. In vocational education, new activities would focus on: course specialization, enhancing linkages with the private sector, and teacher training. The off-shore participant training program would emphasize long-term master's degrees not available in the D.R., such as: open pit mining, curriculum development, nutrition and dietetics, and plant pathology. Short-term off-shore training would focus on acquiring practical skills in several areas of export promotion. Specialized off-shore courses will also be funded to support the growth and stability of democratic institutions. In the public sector, continued assistance would be given to complete the educational reform.

The following health objectives will have been achieved:

(1) The Primary Health Care System (SBS) will have been upgraded, both in rural and urban areas with the following indicators: (a) immunization coverage of the target population will have been over 90% of the population at risk; (b) oral rehydration therapy will have been accepted and practiced on a regular basis, both for in-hospital and out-patient treatment; (c) surveillance programs for malaria, tuberculosis, and schistosomiasis will have been in full operation; (d) the nutrition surveillance program will be operating through the SBS; and (e) promoters (SBS) will continue participating in FP programs.

(2) The Secretariat of State for Public Health and Social Assistance (SESPAS) will have the institutional capability of planning, developing, supervising, and evaluating health care activities.

(3) Research activities in PHC and schistosomiasis control will be finished, and SESPAS will be using their results as follows: (a) utilizing the most cost/effective method for training; and (b) accepting or rejecting biological control of Bionphalaria glabrata with Tiara granifera.

(4) Schistosomiasis will be under control.

Malnutrition remains to be a serious problem in the Dominican Republic and, until recently, very limited, uncoordinated interventions have been developed through the health, education, and agricultural sectors of the GODR, and PVOs and food industries of the private sector. The Mission has initiated a coordinated approach (PVOs and public sector) consisting of proper utilization of PL-480 funds. In addition, an OPG to Catholic Relief Services (CRS) for the development of a nutrition education program, and an S&T/Nutrition project concerning breast feeding promotion are in the discussion stage. The experiences gained through these approaches would facilitate the development of a comprehensive multi-sectorial nutrition program (by 1988), with the participation of the public sector (health, education, agriculture, INESPRE, etc.) and the private sector (PVOs and private food industries). A coordinating entity to manage these activities will probably be needed, and some institutional development under AID assistance will be provided towards that end.

In population, no major new projects are anticipated at this time. However, the possibility remains to fund additional OPGs in the area of family planning, such as that granted to establish the Institute for Population and Development Studies. New activities will involve strengthening existing institutions, such as the SBS or PVOs, which already have an established outreach capability but are lacking in family planning promotion methodologies. Another area of interest, which should be fully operational by 1988, is the Contraceptive Retail Sales in which the private sector will be fully involved.

5. Export Promotion

a. Introduction

Over the next five years, a new major strategy for the USAID/DR will be in the area of export promotion. We consider export promotion to be a logical next step in our program, primarily for these reasons: (1) it directly addresses the major economic problems of the Dominican Republic (foreign exchange shortage and unemployment), and is a high priority of the GODR; (2) it readily complements our current and planned activities in the areas of agriculture, education, energy, and industrial development; and (3) it directly responds to AID policy priorities in the areas of Policy Dialogue, Institutional Strengthening, Transfer of Technology, and particularly the Private Sector.

Although export promotion is only in the initial idea stage and there is much work to be done in developing the program, we believe that by FY-1988, there can be clear and measurable improvements in the increase of non-traditional exports from the Dominican Republic.

b. Relationship to Host Country Problems and Priorities

As discussed in the Macro-Economic Analysis, one of the most critical constraints to economic growth in the D.R. is the shortage of foreign exchange. The GODR response in the short-run has been the curtailment of import demand by either decreasing import costs or banning certain imports altogether. This policy, however, is counterproductive for the long-run economic development. In the future, the Dominican economy must develop alternative sources of foreign exchange.

The Dominican Republic has a comparative advantage in world trade over other developing countries: (1) it is close to major markets, particularly the United States (it is only 1,000 miles from the U.S. mainland); (2) it has a trainable, low-cost labor force; (3) it has a relatively strong private sector that readily responds to incentives; (4) it is fairly well endowed with rich agricultural land, and several important minerals; and (5) it has a relatively stable, pluralistic, democratically elected government which is in full support of the private sector.

Already, the new administration is considering long-term development policies directly related to export promotion, such as: (1) encouragement of foreign investment through revision of the foreign investment law; and (2) encouragement of non-traditional, labor intensive exports. Growth in exports of labor intensive goods will also do much to alleviate another crucial development problem which is a major concern of the GODR -- that of unemployment. Past experience, in which the GODR attempted to solve the unemployment problem through public employment, has clearly illustrated that that is not the solution, and the current administration is looking to the private sector for employment generation.

The impending passage of the trade and investment provisions of the Caribbean Basin Initiative (CBI) will be an added boost. While the counterpart funds from the ESF can be used to support the private sector export activities, the trade and investment component will serve to encourage the U.S. investment in the D.R. as well as exports of Dominican goods to the U.S.

c. Relationship to USAID Programs

Many of the ongoing, planned, or proposed activities of the Mission are already closely related to export promotion, and with only slight adjustments they can become supportive of the strategy.

In agriculture, both the human and natural resource bases are being strengthened. Although the emphasis is currently on production of domestically consumed goods, the environment will be ripe for USAID to shift from food production to non-traditional cash crop production, which can be processed for exports (the GODR has already taken steps to encourage agro-industry).

In education, the Human Resources Development program can upgrade vocational training to meet the skills needed to produce export products. The UCMM Management Training program can provide technical assistance to the private sector to meet the needs of export production and marketing. Also, short-term participant training can be provided, whereby Dominican exporters can receive on-site training with regard to the art of international trade. Meanwhile, the primary education program will continue to strive to raise the literacy rate, which will have long-term implications for the human resource base of the future. The health programs will continue to fight malnutrition and vector induced diseases and our housing program will continue to increase availability of safe, healthy, low-cost housing, all of which directly and indirectly effect the productivity of the workforce. The population program will focus on the population growth rate, so that progress made in economic growth will not be "eaten up" by an rapidly growing population.

Our private sector strategy, which already is strengthening small industries and financial institutions, can begin to introduce new products which are in demand in the export market. Technical assistance can be provided to encourage producers to improve quality of their products, and provide adequate and dependable supply to meet the demand of off-shore importers. Trading companies can be established, strengthened and linked to successful trading companies off-shore, particularly the U.S. The Mission will also encourage the GODR to reform policies in the areas of foreign exchange, credit, and foreign investment to encourage exports of goods with high labor content.

The export producers will also need an inexpensive and reliable supply of energy for production purposes. By 1987, through our energy program, the Dominican Energy Commission will be able to plan and manage better the production of energy, while the participating industries will consume energy more efficiently.

d. Relationship to AID Priority Areas

(1) Policy Dialogue: There are several areas in which policy reform, as it relates to export promotion, will be encouraged: (a) import substitution policies, which artificially make the domestic market

more attractive and which, in effect, encourage inefficiencies, will be discouraged; (b) economic policies recommended by the IMF will be fully supported by the Mission; (c) retention of earned foreign exchange for exporters will be encouraged; (d) continued availability of credit from the Central Bank to exporters will be encouraged; (e) pricing and exchange policies, which make imports artificially inexpensive (particularly in the case of INESPRE), will be discouraged; and (f) the proposed reform of foreign investment law, which should make foreign investment more attractive, will be encouraged.

(2) Private Sector: The private sector will be the major direct beneficiary of the export promotion strategy. Small and medium industrialists, as well as small and medium commercial farmers, will benefit from technical assistance and training in the areas of production, packaging, and marketing. Their products will be adapted to meet the needs of the off-shore importer.

Commercial banks will be encouraged to finance and facilitate credit needs in all aspects of export activities. Where necessary, technical assistance, training, as well as the availability of funding for credit, will be part of our program.

Private and voluntary organizations, such as the Dominican Development Foundation (DDF), will be strengthened to provide technical assistance, training, and credit to the small export producers. Also, organizations such as the International Executive Service Corps (IESC) and Appropriate Technology International (AITEC), will be called upon to provide short-term, specialized technical assistance.

(3) Technology Transfer: As the needs become more apparent, several types of technology will be introduced into the export

promotion program. The Mission will seek out the most appropriate technology, wherever it be in the U.S., or in some other successful off-shore countries. Technologies will be needed in: (a) production techniques, (b) management, (c) marketing, (d) finance, (e) international trade, and (f) other unforeseen areas. Most of these areas apply to both the agricultural and industrial sectors.

In production, once the product is identified, technical assistance from organizations such as IESC and AITEC, can help streamline and modify the products in line with market needs. Agricultural products will be introduced and adapted to local conditions as well as market needs, and a significant research and extension effort will be required.

Efficient and effective management of firms will be required if the products are to be, and to remain competitive. Training and consultant services for experienced and emerging businessmen in our Management Training program, can play a significant role in this.

Marketing is perhaps the most significant technology which will be required. Identifying markets for the export products is an area in which the U.S. has a comparative advantage. Feedback to the producer, which should result in product modifications to meet the market demands, will be crucial to the success of export promotion.

Finance applies to both the startup financing for the export producers, and the actual financing of the exports themselves. In the case of the first, the Central Bank has already set aside funds for export products, and we will continue to support this policy. In the case of the second, there are already several commercial banks in the D.R., many of which are branches of major U.S. banks, which can be effectively used to finance exports. If any weaknesses are detected in the finance area, the Mission will seek technical assistance to meet determined needs.

If skills shortages appear to be an obstacle, the Mission will encourage vocational training in the shortage areas. If the skills training will not be locally available, participant training in the U.S., and/or technical assistance providing training in the D.R., will be considered.

Of course, there will be other unforeseen technology needs in the export promotion program. As these arise, the Mission will adapt the program accordingly.

(4) Indigenous Institutions: As mentioned above, the Mission will continue to strengthen such indigenous entities as the small and medium industries, small and medium farmers, the financial institutions, private and voluntary agencies working in this sector, and appropriate public institutions.

The greatest thrust of our institution-building strategy, however, will be the establishment and/or strengthening of Dominican trading companies. Only recently, one such company has been established, while a second company is about to be formed. Linkages will be established with successful U.S. trading companies, and perhaps an exchange/training program will be introduced. If deemed appropriate, Dominican traders may visit successful U.S. and non-U.S. trading companies to provide on-site learning experience.

(5) Development Training: No large amount of long-term, degree-type training activities are envisioned under this strategy. However, short-term training in the U.S., and possibly other countries, will be the main use of participant training in export promotion.

Most of the training in the export promotion program will take place in-country. Technical assistance will be brought in to provide on-site training in production and marketing techniques for local entrepreneurs pursuing export markets. Trading companies will also receive in-country training in export marketing and management.

(6) Food Aid: The Mission will encourage the GODR to use counterpart funding in the PL-480 Program, towards activities which relate to agri-business -- particularly in the area of non-traditional agricultural exports. This can take place in two areas: (a) pilot projects that will introduce new cash crops, and test them in the field under varying conditions; and (b) credit and technical assistance to strengthen infant agro-industries.

(7) Other Donors: The other donor community is already involved in some of the activities contemplated in our export promotion program, but most of these activities will serve to complement, and not duplicate our strategy.

By far the greatest involvement of other donors in the export sector is in the area of tourism. Japan and IDB have assisted in small projects promoting artesanry; the OAS provided training in tourism; and the World Bank has provided two major loans for the development of tourism in Puerto Plata. The Mission does not contemplate involvement in tourism in the proposed strategy.

Secondly, UNDP has done a pre-feasibility study for agro-industry development, and IDB has provided funding to FIDE (Central Bank) for the development of small industries. This serves to complement our activities in that area.

Third, UNDP has provided training in the areas of Investment in Export Production and in Foreign Trade. This will serve to give us a headstart in our program.

Over the course of the export promotion program, the Mission will take into consideration the capabilities of other donors, and will consider their participation in areas where they have a comparative advantage. The World Bank and IDB will be considered when there are needs for large loans -- particularly in the area involving the development of physical infrastructure. OAS and UNDP will be considered when particular expertise, which they can provide, is needed.

e. Objectives for FY-1988

Although the export promotion strategy is only in its initial stages, some expectations of a successful export promotion program can be made here. The major impact will be seen in two problem areas: balance of payments and unemployment. The balance of payments deficit should be helped considerably if the non-traditional exports reach the levels of average sugar exports, at about $400 million. Based on 1982 figures of $100 million, the non-traditional exports should increase at an annual growth rate of 22% (in current prices) to reach the $400 million level by 1989. A rough estimate of job creation due to the increase in exports can be made based on assumptions in inflation and labor productivity increases. For example, if a 22% growth rate is achieved and there is an 8% inflation rate and a 6% growth in productivity, this would mean an 8% growth in employment in the non-traditional export sector.

We are exploring many possible activities and funding sources under the export promotion strategy, as illustrated in the table below:

Funding Source	Purpose
1. Development Assistance	
a. Agriculture	- Research & Dev. of New Products - Agri-Business Development - Agricultural Export Marketing - Cooperative Export Development
b. Education	- Vocational Training - Management Training - Participant Training (short-term, off-shore, on-site)
c. Special Dev. Activities	- Small Industry Export Production - Trading Company Dev. & Support - Mineral Export Promotion - Export Financing
2. PL-480 Title I	- Agro-Business Credit - Non-traditional crop pilot projects
3. Economic Support Funds (CBI)	- Export Finance Credit
4. Other Donors	
a. World Bank, IDB	- Infrastructure Development
b. OAS/UN	- Technical Assistance

IV. PROPOSED RESOURCE LEVELS

Reflecting the strategic location of the Dominican Republic and its central role in the Caribbean Basin Initiative (CBI), we project a continued high level of ESF assistance throughout the five-year planning period. Initially, the funds will be needed to directly address the balance of payments deficit; however, in the final three years of the planning period, increasing amounts of ESF will be projectized. We envision most of the projectized funds as being used in the area of export promotion -- particularly export financing and export infrastructure.

Many of our proposed projects funded through our development assistance accounts are highly visible, and will have a significant impact in addressing many of the key development constraints in the Dominican Republic -- particularly balance of payment problems, an eroding resource base, and lack of full participation of the private sector. Many of our projects, which will have the greatest impact in reducing these development constraints, contain significant amounts of technical assistance and U.S. training, and are high cost in nature -- in particular, projects improving management of natural resources, development and expansion of agri-business, rural roads rehabilitation and maintenance, implementation of the primary education reform, and export promotion. Most costs are loan funded.

Continuing high levels of Title I are a principal priority of the GODR, as President Jorge Blanco indicated in his recent visit to President Reagan. The Title I program provides desperately needed relief in the critical balance of payments situation, and provides a source of nutritional foods for many Dominicans. Equally important, it serves as a local currency source for many of our USAID-supported programs, as well as support for other GODR development activities.

The Title II voluntary agencies (VolAgs) have an invaluable outreach capability directed toward improving the quality of life for the poor, particularly in areas where public services are either inadequate or non-existent.

With the recently completed Title II evaluation and the Three-Year Plan (FY's 1984/1986) which is being developed, a renewed high level of interest and cooperation has evolved between the VolAgs and all pertinent divisions within the USAID Mission. To support this intensified collaboration with USAID, as well as to increase the development impact of Title II supported projects, increased levels of both food and non-food resources are required.

Although the USAID budget, including most sources of funding (DA, ESF, Titles I and II) has increased almost tenfold from FY-1978 through FY-1982, our direct-hire staffing level has remained relatively constant. Although our program presented here will require an increased staff level, we also recognize that with declining Agency personnel levels, an increase in USDH is highly unlikely. Therefore, we see no alternative but to utilize contract assistance in the proposed expansion areas such as export promotion, human resources, and Title II. This, in effect, will require increased levels of project development and support funds in the upcoming years.

It may be appropriate to mention here, moreover, that the increasing reporting and documentation requirements in contracting and reporting are placing a burden on the already extended USDH staff. Therefore, further reporting requirements of any magnitude may begin to seriously affect the available time of our staff to attend to their other duties. Furthermore, although we welcome the large number of centrally funded projects coming to the D.R., they place additional implementation and evaluation responsibilities on the staff.

PROPOSED FUNDING LEVELS BY FUNCTIONAL ACCOUNT
($ Millions)

	FY-1985	FY-1986	FY-1987	FY-1988	FY-1989
ARDN					
Natural Resources Management		20			
Water Management				10	
Agricultural Resources Mgt.			15		
Agri-Business	20		15		
Policy Analysis				8	
Rural Roads	6	10		6	
Agricultural Training			5		6
Agricultural Extension				12	
Cooperative Export Marketing					10
Rural Financial Markets					10
OPGs and PD&S	1	1	1	1	1
POP					
OPGs			1		1
HE					
Research and Vector Control		3			
Multi-Sector Nutrition Dev.					3
OPGs and PD&S	1	1	1	1	1
ED					
Vocational/Technical/Private Sector				7	
Rural Education Sector			10		
Participant Training	4				5
Democratic Institutions	1				
Media-Based Education		4			
Management Training					5
OPGs and PD&S	1	1	1	1	1
SDA					
Rural Shelter					5
Export Financing		10	10		8
Local Enterprise Dev.				5	
Export Promotion	10				8
Mineral Resources Dev.				12	
OPGs and PD&S	1	1	1	1	1
SUB-TOTAL	45	51	60	64	65

	FY-1985	FY-1986	FY-1987	FY-1988	FY-1989
HIG	–	20	–	20	–
PL-480					
Title I	30	30	30	30	30
Title II	4	4	5	5	5
ESF	60	60	60	60	60
GRAND TOTAL	139	165	155	179	160