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ECONOMIC POLICY ANALYSIS

AND TRAINING PROJECT

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PREFACE

This report presents recommendations for the design of the Economic Policy Analysis and Training Project that is to be set up through an agreement between the Government of the Dominican Republic and AID. It is based on our analysis of the current system of economic policy making and represents our best judgement about how the Project should be structured to expand and improve technical input into the decision making process, particularly with regard to macro-economic policy.

In the report, we have specified in considerable detail the distribution of functions and responsibilities among the entities that will implement the Project. However, we have not specified aspects of the Project we consider to be most appropriately decided by Dominican government officials or those that should be determined through discussions between AID and officials of the government. Specifically, the following items are not detailed in the report:

- Nomenclature in Spanish of the entities to be created under the Project. These should be determined by the government in conformity with national practice.
- Salaries of officials to be employed in the Policy Analysis Unit. While we recommend that such salaries be suitable for attracting the most highly qualified personnel that exists within the country, specific amounts should be set by the government in conformity with national practice.
- Legal status of the entities to be created. This should be determined by the government in accordance with national practice.
- Detailed mechanisms for budgeting, disbursement of funds, and accounting that should be specified in an agreement between the government and AID.
- Detailed mechanisms for reporting and Project evaluations that should be specified in an agreement between the government and AID.

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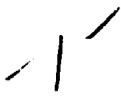
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ECONOMIC POLICY ANALYSIS AND TRAINING PROJECT

A. INTRODUCTION: CONSTRAINTS ON MACRO-ECONOMIC POLICY ANALYSIS

At a time when high level policy makers in the Dominican Republic are struggling with complex and often sensitive problems of internal and external financial imbalances, rising unemployment, and the long-run need for structural adjustment, only limited organizational and professional capacity exists locally to analyze these macro-economic difficulties and to develop sound policy options for decision makers. The policy analysis that is undertaken generally emanates from international agencies like the World Bank and the IMF. Studies produced by these organizations are often helpful, but national policy makers are put in a position in which the only well analyzed options presented are those that reflect the current interests of these foreign institutions.

Development specialists as well as government officials are increasingly convinced that macro-economic policies must be adjusted over time if a wide range of sectoral policies are to achieve their goals of increasing productivity and employment generation. In the Dominican Republic, it has become apparent that the macro-policy environment is a serious constraint on the implementation of the government's strategy for export-led growth, including its ability to stimulate the generation of foreign exchange, the

expansion of medium and small enterprises, and the creation of employment opportunities. However, without improved local capacity to analyze and formulate policies leading to macro-economic adjustments that are consistent with the needs of the country, decision makers will continue to be disappointed with the results of sectoral policy decisions or will continue to be dependent on foreign advisory missions that may have their own policy agendas. There is an urgent need to address the constraints that limit the country's ability to analyze and formulate the alternatives available to those responsible for making important economic policy decisions.

1. Organization and Management of the Policy Analysis and Decision Process

In any country there needs to be an orderly, well-managed process by which macro-economic information is gathered, organized and enumerated, analyzed, and finally marshalled and presented in the form of policy options to those making critically important policy decisions. In the Dominican Republic, these organizational processes are not working properly. Policy analysis and formulation is presently fragmented among several governmental institutions. There is no systematic process for sharing technical information among units carrying out studies of current economic problems or for developing policy options for consideration by high level policy makers. Each institution is responsible for marshalling information in its area of responsibility and responding to requests for analyses through its own research unit. Integrated general equilibrium studies of macro-economic problems are often overlooked in this fragmented process of study and

analysis. As a consequence, policy recommendations have a tendency to exclude examinations of important interactions among economic variables. The recommendations are therefore limited in their capacity to respond to the critical nature of current economic problems and have the potential to increase rather than resolve these problems.

A fragmented and disjointed research system also means that the analytical work that is done by local and foreign consultants and by experts from international agencies does not receive wide circulation and many times remains buried forever in the files of the institutions that commissioned it. Further, the research of local and foreign experts is not carried out as efficiently as it might be, given the unorganized system of information retrieval and lack of coordination of their activities. Particularly in a country with limited research resources, more coordination is needed to make optimal use of local and foreign expertise.

2. Technical Capacity to Undertake Macro-Economic Policy Research

Only limited professional capacity exists in the Dominican Republic to address complex macro-economic policy problems. Most of the country's trained professionals—approximately five Ph.D.s and perhaps two or three times as many M.A.s—are employed outside public institutions in universities, private consulting firms, and private companies. The small cadre of individuals with sufficient training in economics that does work in the public sector is almost completely absorbed in the necessary tasks of data collection and enumeration--the Monthly Central Bank Report is a relevant example--and do

not have the time or opportunity to become involved in analytical macro-economic work. The result is that information reaching policy makers is, for the most part, descriptive rather than analytical. For example, policy makers may be informed that a balance of payments gap exists this month of X amount of pesos, but are not exposed to analyses of the reasons for this situation or options that might be undertaken to deal with it. The analytical work is generally left to the international agencies.

Addressing the problem of limited capacity for economic policy analysis requires an initiative to train more individuals to increase the overall supply of skilled personnel and to upgrade the technical expertise of existing staff. Moreover, efforts are needed to attract and keep competent individuals in public service. Low pay and the bureaucratic mode of operation reduce the attractiveness of government research work. Ways must be found to overcome these factors so that highly trained and experienced researchers can be brought into the system and their expertise retained.

3. Availability of Data

Macro-economic research and analysis in the Dominican Republic is constrained by a lack of good data. Accurate figures on monetary variables and fiscal matters are available, but the reliability of GDP data and domestic price information is questioned by most local researchers. Data on important variables like employment are almost non-existent. Moreover, the accuracy of international trade statistics is affected by problems such as over- and under-invoicing.

The problem of insufficient and poor data hampers the quality of work undertaken by both foreign and local technical experts and should be a focus of government efforts to address the policy analysis problem. Part of the data problem, of course, stems from the lack of policy research itself. The demand for quality data is, in essence, a derived demand, emanating from the needs of researchers and policy makers. However, data availability is also constrained by supply-side factors, such as the lack of resources, both physical and human, for data collection.

4. Financial Resources for Research

In a small developing country with limited resources like the Dominican Republic, research is often relegated to the bottom of the priority list for public funding. This general problem has been made worse in the case of the Dominican Republic by financial crises that have required the government to shift resources completely away from low priority areas. Today, almost no resources exist for economic research in the public sector or in the country's universities.

B. THE ECONOMIC POLICY ANALYSIS AND TRAINING PROJECT

The Economic Policy Analysis and Training Project is designed to address four constraints on the capacity to carry out macro-economic policy research and analysis in the Dominican Republic: (i) the lack of a coherent organizational and managerial system for macro-economic policy analysis that can respond to the needs of decision makers; (ii) the limited technical capacity to undertake macro-economic policy studies; (iii) the lack of appropriate data for policy analysis; and (iv) the limited financial resources available for carrying out economic studies. The project is designed to achieve the following goals:

- Respond expeditiously to the needs of key government policy makers by providing analysis and alternative policy options for macro-economic and sectoral policy decisions.
- Create an institutional mechanism for responding to information and policy analysis requirements of decision makers at the highest levels.
- Increase the technical capacity for macro-economic policy analysis within the country.
- Coordinate and facilitate economic research activities in the country.

- Increase the capacity for coordinating foreign economic advisory missions with national needs and local research efforts.

- Increase the availability of high quality data on economic conditions in the country.

When successfully implemented, the Economic Policy Analysis and Training Project should result in more informed economic policy decision making. Improved decisions can be expected to encourage the economic growth sought by the government in its export-led development strategy and increase the potential of the economy to generate the employment, foreign exchange, and investment so badly needed in the Dominican Republic.

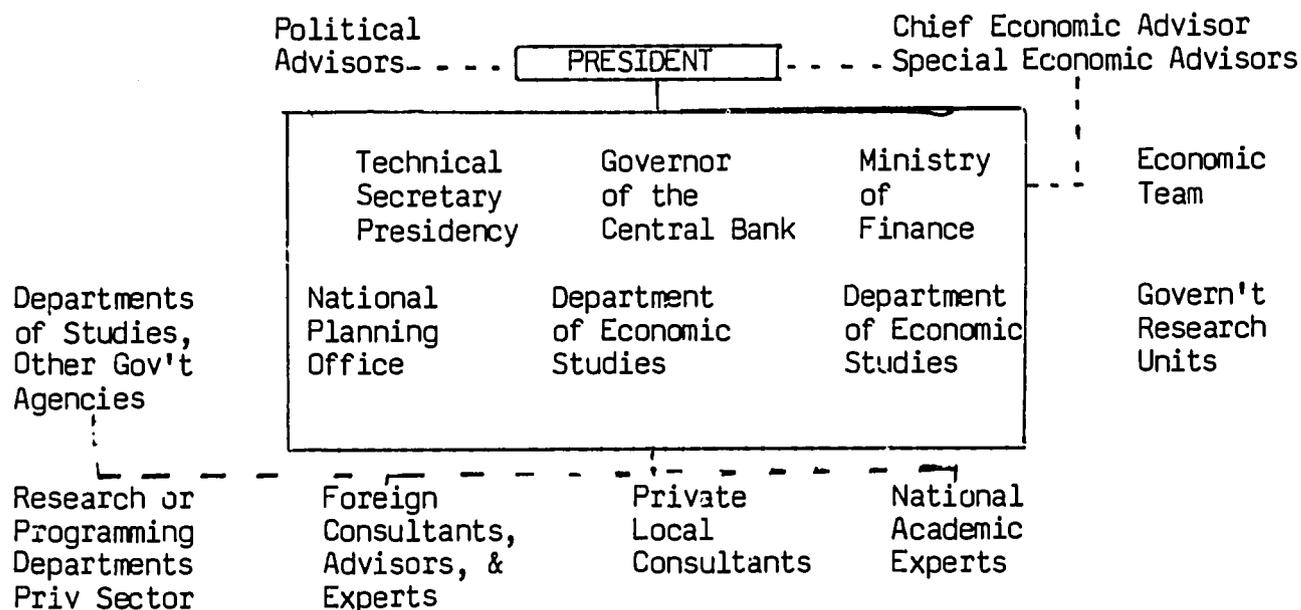
1. Current Economic Policy Making System

Economic research and policy making in the Dominican Republic has evolved over the past two decades through the creation of a relatively institutionalized set of public organizations. During this period, a series of governmental units has been established with the intention of increasing the capacity of the government to make sound economic policy decisions, particularly at the sectoral level. During this period, most ministries and other public agencies established economic study units to respond to their needs for particular information. By the late 1970s, the government had become concerned about integrating economic policy making at the highest

levels. Reflecting this concern, a high level Economic Team (Equipo Económico) was created in 1978, consisting of the Governor of the Central Bank, the Technical Secretary of the Presidency, and the Minister of Finance. At the present time, this body meets frequently with the President; its meetings are regularly attended by the President's chief Economic Advisor, and, at times, by economic advisors for particular sectors. The Economic Team has been particularly important in bringing together high level economic policy makers in the government to negotiate with international agencies, such as the International Monetary Fund and the World Bank. The current structure of economic policy making, described below, is summarized in Figure 1.

FIGURE 1

CURRENT ECONOMIC POLICY MAKING SYSTEM
IN THE DOMINICAN REPUBLIC



Three institutions--the Central Bank, the Technical Secretariat of the Presidency (STP), and the Ministry of Finance--compose the core of the economic policy making system within the government. Their leadership forms the most institutionalized part of the Economic Team, the most important advisory group to the President on economic policy matters. In addition, the President relies upon the advice of the Economic Advisor to the President, usually a trusted personal associate, whose role has become semi-institutionalized in recent years, and upon that of the Minister of the Presidency. The President has also appointed a series of special economic advisors who have an input into decision making with regard to specific issues or problems. Often these advisors are representatives of particular economic interests in the country. At the sectoral level, various ministries have developed their own economic research units. In a recent innovation, the National Agricultural Council (CNA) has been reorganized to provide more effective policy analysis and recommendations for the important agricultural sector.

a. The Central Bank

The Central Bank is an autonomous organization, directed by the Monetary Board, a directorate composed of individuals appointed by the President--the Governor of the Central Bank, the Minister of Finance, the Minister of Industry and Commerce, and seven representatives of the national private sector. The Bank operates with a budget that is separate from the central government budget. It is prominent among institutions engaged in economic policy making because it has achieved greater technical capacity, has

maintained greater stability in staffing, and has responsibility for overall monetary policy. Nevertheless, its ultimate influence in decision making is determined by the closeness of the Governor of the Bank to the President, a factor that sometimes means that the leadership of other institutions is more powerful. Since 1982, the Central Bank has had three different Governors, a situation that has led to considerable disorganization in management and decision making and that has limited the influence of the Governor in decision making. Within the Bank, the Department of Economic Studies has developed competence in the analysis and formulation of monetary policy and has earned a reputation for technical and professional ability. In recent years, however, its expertise has been weakened because a number of its analysts have been appointed to more senior level positions in the government.

b. Technical Secretariat of the Presidency

The Technical Secretariat of the Presidency (STP) was established in 1965 by bringing together four pre-existing institutions: the National Planning Office (ONAPLAN), the National Budget Office, the National Statistics Office (ONE), and the National Personnel Office. With the exception of the National Budget Office, STP has generally not played a leading role in making technical contributions to macro-economic policy analysis. The National Budget Office has tended to be more prominent because of direct Presidential interest in the allocation of budgetary resources. In general, however, the Secretariat's resources have been limited and it has focused on a series of ad hoc economic studies, training courses, and publications. Nevertheless, its staff is regarded as technically competent and it has developed some capacity

for broader economic analysis. In particular, professional capacity within ONAPLAN can be strengthened to bring the Secretariat into a more central role in economic policy decision making. In contrast to the limited role of the Secretariat as an institution, the Technical Secretary as an individual has played an important role as an advisor who meets frequently, often on a daily basis, with the President.

c. Ministry of Finance

The Ministry of Finance is composed of a number of offices, among which are the National Income-Tax Office, the National Internal Revenue Office, the General Directorate of Customs, and the Superintendency of Banks. The Ministry has traditionally been in a relatively weak position in economic decision making. This tendency has been exacerbated in the 1980s because of frequent turnover of ministers; in the past three years, there have been four Ministers of Finance. In spite of this instability in leadership, however, the Department of Economic Studies recently began to improve the technical capacity of its staff and began to gain a reputation for greater efficiency. As with all government offices, however, this unit has suffered from an inability to retain qualified personnel because of low public sector salaries and the imperative to devote all available time to the accomplishment of routine tasks.

d. Economic Advisor to the President

The Economic Advisor to the President meets regularly with the Economic Team. His assigned role in these sessions is to represent both the President and general government concerns in policy discussions. His participation, which has become more formalized in recent years, is important because of his close personal relationship with the President and his capacity to influence presidential decisions. In addition to this individual, the President often names a series of economic advisors on special issues who consult with the Economic Team on pertinent matters. These advisors are generally drawn from the private sector and they often speak for important interest in the country.

e. Ministerial Units

Most ministries have established economic study units to deal with routine matters, carry out short-term studies, and collect data. These units are generally overburdened by the demands of routine operations and have little time or capacity to design and carry out the kind of studies that might lead to improved policy decision making. In the agricultural sector, a recent initiative has been made to overcome such problems by setting up an agricultural studies unit outside of the Ministry of Agriculture.

f. National Agricultural Council

The National Agricultural Council (CNA), composed of representatives of the private and public sectors, has recently established an Agricultural Policy Analysis Committee that oversees a newly-created Agricultural Studies Unit. This unit is responsible for short-term studies of the agricultural sector. Such studies are expected to lead to more coherent policy making for the sector by providing analysis of problems and policy options to the CNA. The CNA serves in an advisory role to the government.

2. Problems of the Current System

Improving the quality of economic policy decision making in the Dominican Republic means improving the quality of information, analysis, and advice available to the Economic Team. As the core of economic policy making in the country, the Economic Team is constrained in its ability to make sound policy choices by a number of aspects of the current system for decision making. The Team itself has suffered from a high rate of turnover of officials and its deliberations have been marked by considerable internal divisions over policy choices and even greater conflicts among personalities and tensions resulting from institutional jealousies. Ultimately, and despite strong Presidential support, it has not been able to work effectively or to decide on critical economic issues in a way that reflects systematic understanding of the relationship of macro-economic policies to issues of growth and employment. In the end, economic policies are chosen on the basis

of immediate pressures; appreciation of the consequences of the policies that are chosen is generally lacking. Frequently, the Economic Team has not been able to mobilize sufficient expertise to deal effectively with negotiators from international organizations.

Critical to the inability of the Economic Team to formulate coherent and consistent macro-economic policy has been the lack of an effective organization for data collection and analysis that could propose viable policy options and assess the short- and longer-term implications of particular policy choices. Currently, this high level advisory team is particularly constrained in its role by the fragmentary organization of economic study units that exist within the government and by the lack of attention within existing units to issues of macro-economic analysis. The information made available to the Economic Team from technical study units is concerned more with specific economic problems or sectoral issues than with broad macro-economic analysis and policy recommendations. Issues of monetary, trade, and fiscal policy—all of which have direct and indirect consequences for economic growth and employment generation—are ignored at the level of economic analysis.

A large number of foreign economic advisors have been contracted to provide expertise to the economic research units described on previous pages. Often their work is funded by international organizations. In general, foreign assistance is provided to respond to pressing issues and the work of advisors is often accomplished in isolation. Their tasks tend to be defined in ad hoc fashion by the international organizations themselves or in response

to critical problems identified by government officials. The international organizations are generally unfamiliar with prior or concurrent studies being carried out by other institutions, nor are they aware of sources of information generated or used in prior studies. Inefficiencies and duplication in the process of data collection and processing are an obvious outcome of this system. Studies are completed and remain unpublished or undisseminated, further adding to the failure of research to provide a cumulative basis for policy decision making within the government. Little of an institutionalized nature remains once the foreign expert has left the country. Moreover, low salaries in the public sector contribute to a loss of institutional memory when well-qualified researchers leave the government for jobs in private businesses and consulting firms.

In summary, then, there is a clear gap between the capacity for policy analysis and the needs of the Economic Team for informed advice about available policy choices. A large number of institutions is responsible for economic analysis within the Dominican government. Unfortunately, there exist no mechanisms for horizontal coordination among the units in the government's study departments or between them and university or private study units. This is particularly true of the units that are technically responsible for supporting the activities of the Economic Team, that is, the Department of Economic Studies of the Central Bank, the National Planning Office within the Technical Secretariat of the Presidency, and the Department of Economic Studies of the Ministry of Finance. The Economic Policy Analysis and Training Project is designed to overcome this weakness.

3. A More Effective System for Economic Policy Analysis and Technical Input into Policy Decision Making

The most important gap in the existing structure of economic policy analysis is the lack of a unified and highly motivated team that is able to: (i) collect data relevant to macro-economic policy making; (ii) analyze it with regard to particular policy issues; (iii) respond to short-term needs of the Economic Team for informed analysis and policy recommendations; (iv) carry out longer term studies on issues of major importance to the national economy; (v) coordinate the activities of foreign economic advisors; (vi) and assist economic study groups in various ministries to design and carry out high quality analysis of policy relevant issues. The creation of a Policy Analysis Unit, coordinated by a Macro-Economic Policy Coordinating Committee, is intended to fill this critical gap in economic policy formulation.

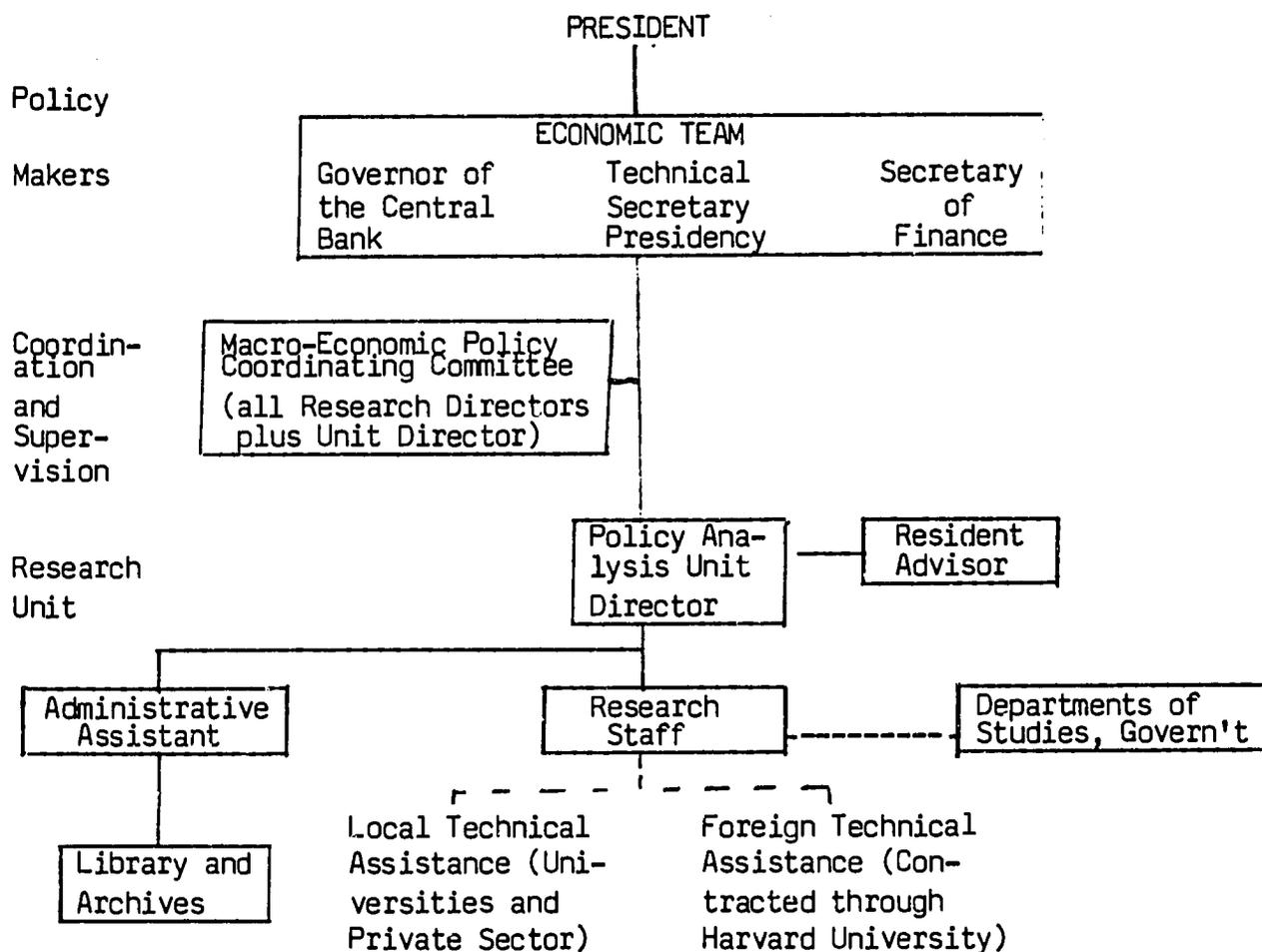
The Unit will be established as an autonomous organization within the government. It will be headed by a highly qualified economist who will serve as the Director and principal study team leader. The Unit will begin with a modest number of research associates and assistance and will gradually increase to full capacity by the end of its third year of operation. During the first year of the project, the Unit will consist of the Director, the Resident Advisor, four to five Research Associates, two to three Research Assistants, and Administrative Assistant, two to four additional support staff. During the following two years, the staff will gradually be increased. Thus, by the end of the third year, the Director will have eight

to ten qualified economists under his/her direction. These individuals—preferably with M.A. or Ph.D. degrees—will be selected on the basis of their expertise in particular areas of macro-economic policy analysis. When the Unit is fully operational, the Research Associates will have available to them a cadre of four to six research assistants with demonstrable capacity to pursue economic research projects. Appropriate support staff will also be integrated into the Policy Analysis Unit. Working closely with the Director will be a Resident Advisor employed by the Harvard Institute for International Development (HIID).

The activities of the Policy Analysis Unit will be overseen by a Macro-Economic Policy Coordinating Committee, formed of representatives from the three principal economic policy units in the government—the Central Bank, the Technical Secretariat of the Presidency, and the Ministry of Finance. The representatives selected to serve on the Committee will be the heads of the economic study units within these three organizations. In addition, the Director of the Policy Analysis Unit will sit on the Committee. His/her presence will increase the potential for clear direction and communication between the study Unit and the Committee, improve the identification of appropriate studies for the Unit to carry out, and facilitate the upward flow of policy analysis and advice to high level decision makers.

The Committee, the Director, and the Policy Analysis Unit will be responsible to the Economic Team and will respond to expressions of their need for well-formulated policy proposals, advice, and technical analysis. The project will be situated within the government in order to increase the apparent legitimacy of its analyses and recommendations for high level government officials and to avoid suspicions that its work and advice are made in response to particular economic interests, whether domestic or foreign. The Macro-Economic Policy Coordinating Committee is limited in membership to the heads of the most important economic study units in the government in order to increase its effectiveness and the speed with which it can respond to the needs of high level policy makers. The structure of the proposed Unit and its relationship to the Macro-Economic Policy Coordinating Committee and the Economic Team is indicated in Figure 2.

FIGURE 2

STRUCTURE FOR MACRO-ECONOMIC POLICY ANALYSIS

The principal activities assigned to the Policy Analysis Unit and the Macro-Economic Policy Coordination Committee respond directly to the weaknesses in the existing system of economic policy decision making. The new study Unit will:

- Carry out short- and long-term study and analysis of important economic policy issues as directed by the Macro-Economic Coordinating Committee and the Economic Team, or identify and carry out complementary studies where important gaps in existing knowledge occur. These studies will be carried out within existing economic study units or within the Policy Analysis Unit.
- Work closely with economic study units within the government, the university system, and the private sector to upgrade the quality of research being carried out, to ensure the more effective utilization of results and analysis, to increase local technical capacity for economic policy analysis, and to contribute to public discussion of important economic issues.
- Act as a base for the work of advisors and negotiators from international organizations and as a coordination unit for collecting, distributing, and utilizing the results of studies carried out by foreign economic advisors.

Linked closely to the concerns of the Economic Team as well as to the needs of the most important economic study units in the government, the Project has considerable potential to upgrade the coherence of economic policy decision making. Equally important is its longer-term impact on the quality and extensiveness of technical expertise available to assist in the making of informed macro-economic policy choices. The Project, then, focuses both on the importance of providing immediate practical solutions to major national problems of economic policy and on the need to create enduring institutions and a broad base of human capital in the Dominican Republic.

Clearly, the creation of a high quality study unit does not in itself lead to more informed and coherent economic policy making. High level decision makers are, and will continue to be, strongly motivated by the need to consider political factors in the choice of policies to be pursued; this dynamic is inherent in the nature of democratic government. Recognizing this reality, it is the intention of the Project to link the decision making apparatus in the Dominican Republic to greater technical capacity to understand policy choices and their consequences. Technical information, analyses, and recommendations can play an important role in widening the 'policy space' available to decision makers by providing them with better understanding of the costs and benefits of alternative policy choices and of the variety of measures available for policy adjustments in order to create a more supportive macro-policy environment for economic development. The Policy

Analysis Unit will have an impact on policy decisions when it becomes a tool available to the decision makers, enabling them to formulate more coherent policies with greater appreciation of both the economic and political impact their decisions will have on Dominican society.

C. HOW THE NEW SYSTEM WILL OPERATE

The system for macro-economic policy analysis presented in Figure 2 is described in detail in the following pages, along with a summary of the skills required and responsibilities assigned to individuals and units within the new system. It is important to stress that the new system will function most effectively if it is allowed to operate with a maximum of flexibility and a minimum of bureaucratic constraints prescribed through procedures and regulations. At the same time, of course, it is important to establish clear responsibilities for management, reporting mechanisms, financial operations, and productivity.

1. Macro-Economic Policy Coordinating Committee

The Macro-Economic Policy Coordinating Committee, composed of the heads of the economic study units in the Central Bank, the Technical Secretariat of the Presidency, and the Ministry of Finance, in addition to the Director of the new Policy Analysis Unit, is responsible for coordinating the research and analysis that is undertaken. Its membership is composed of the following officials:

MACRO-ECONOMIC POLICY COORDINATING COMMITTEE

a. Functions of the Macro-Economic Policy Coordinating Committee

The principal functions of the Macro-Economic Policy Coordinating Committee are to:

- Assume an active role in identifying priorities and setting the agenda for studies to be undertaken by the Policy Analysis Unit, in response to the needs of the Economic Team.
- Coordinate and facilitate the ongoing research activities of the Policy Analysis Unit.
- Facilitate coordination of foreign advisory missions within the Policy Analysis Unit.
- Facilitate coordination of the activities of study units in various public institutions.
- Communicate study results and the policy options that follow from them to the Economic Team.

- When appropriate, facilitate dissemination of the results of macro-economic policy studies to the wider professional community and solicit informed discussion of policy options.
- Discuss and ratify the annual budget elaborated by the Director of the Policy Analysis Unit, in consultation with AID.
- Ensure the quality of the studies that are undertaken, including the appropriateness and quality of important locally contracted studies.

b. Mode of Operation of the Macro-Economic Policy Coordinating Committee

The Macro-Economic Policy Coordinating Committee should operate in a way that encourages coordination and collaboration among the economic study units of the government and the Policy Analysis Unit. It should meet frequently and have the capacity to call upon the advice of experts to pursue its goals effectively. The Macro-Economic Policy Coordinating Committee should therefore:

- Select one of its members to serve as chairperson and general coordinator of the activities of the committee, and to convene meetings as required or as specified below.

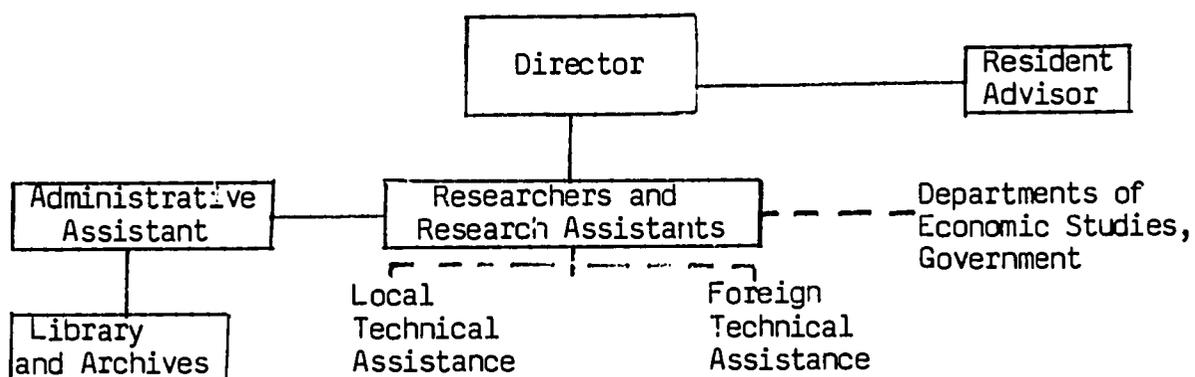
- Meet on a regular basis at least once a month to coordinate and facilitate study activities, to assess the progress of ongoing projects, to deal with problems as they arise in the work of the Policy Analysis Unit, and to perform its other functions as described above.
- Meet as requested by the Economic Team to consider issues of concern to the Team.
- Meet at the request of the Director of the Policy Analysis Unit to consider issues of concern to him/her.
- Call upon the Resident Advisor as needed for inputs into its decision making and coordinating activities.

2. Policy Analysis Unit

The Policy Analysis Unit will be composed of a group of Research Associates, who are professionals skilled in fields related to macro-economic policy analysis, and Research Assistants to aid them in their work. The Unit will be managed by a Director who will work closely with a Resident Advisor employed by the Harvard Institute for International Development. The Policy Analysis Unit will be an autonomous unit within the government and will manage its own budgetary resources and personnel. It will have the capacity to offer salaries and other incentives, such as opportunities to study in degree programs abroad, to attract and keep qualified economists.

The Policy Analysis Unit will be responsible for carrying out studies and for improving the long-term capacity for economic policy analysis in the government. In carrying out its activities, it will have the capacity to contract consultants from local universities and the private sector. Through HIID, it will also be able to contract with a variety of short-term foreign technical advisors where and when particular expertise is required.

POLICY ANALYSIS UNIT



a. Functions of the Policy Analysis Unit

The Policy Analysis Unit will carry out short- and long-term research projects identified as priorities through the deliberations of the Economic Team, the Macro-Economic Policy Coordinating Committee, the Unit Director, and the Resident Advisor to the Unit. More specifically, it will:

- Assume responsibility for coordinating and carrying out studies in applied economics in order to provide policy makers with technical information, options, and advice in various areas of macro-economic analysis where policy decisions need to be made; assist the Economic Team and the Macro-Economic Policy Coordinating Committee in identifying necessary projects and setting the study agenda for the Unit.

- Increase the technical capacity for macro-economic policy analysis in the Dominican Republic by: (i) identifying and coordinating research activities related to macro-economic policy analysis to be carried out in other government organizations; (ii) holding seminars to present study plans and results and to discuss economic policy issues; and (iii) coordinating training courses for its staff and for other technical personnel in the government.

- Coordinate studies conducted by the International Monetary Fund, the World Bank, the International Labour Office, and other such international organizations. This will ensure that: (i) studies are not duplicated and are integrated into ongoing concerns of the country; (ii) study results are centrally located in a single organization responsible for macro-economic policy analysis; (iii) studies of the international organizations are supported and expedited through the provision of information and contacts; and (iv) the Unit staff gains experience and ideas for future activities by working with international experts and coordinating their efforts.

- Serve as a repository and library for reports and basic data sets relevant to macro-economic policy in the country. In some cases, the Unit should undertake projects to collect data relevant to macro-economic policy when they do not exist.

- Ensure that appropriate methodologies for particular studies are identified and pursued, and that studies meet the highest criteria of professional standards.

- Where appropriate, utilize qualified researchers from local universities and the private sector to carry out essential studies.

It is important to note that the Policy Analysis Unit will not substitute for any other government study unit. Rather, a principal aspect of its activity is to complement existing units and to improve their capacity for effective analysis and their institutional stability. More concretely, researchers will do many short- and long-term studies through existing research units, acting as technical advisors and/or study supervisors. In addition, the Unit will ensure that, where appropriate, long-term studies generating valuable analytical tools (such as an input-output matrix) will be located in the institutions that in the future will take the responsibility for such tools, thus increasing the overall capacity for economic analysis within the country.

b. Staff of the Policy Analysis Unit

i. Director

The Policy Analysis Unit will be managed by a Director who will work closely with other members of the Macro-Economic Policy Coordinating Committee and with the Resident Advisor. His/her specific responsibilities are to:

- Respond to the Economic Team and the Macro-Economic Policy Coordinating Committee in organizing and overseeing appropriate studies related to macro-economic policy issues.

- Report on ongoing studies and plans to the Macro-Economic Policy Coordinating Committee on a regular basis. This is essential to ensure the upward flow of policy relevant information, analysis, and advice.

- Establish and oversee appropriate systems for managing the organization, its personnel, and its budget; appoint appropriate research and support staffs.

- Elaborate annual budgets for the Unit, in consultation with AID and subject to ratification by the Macro-Economic Policy Coordinating Committee and the final approval of the Economic Team.

- Approve study designs and budgets and delegate responsibilities for specific studies to qualified professional staff. Disseminate study results to appropriate publics.

- Identify and contract with qualified local researchers, in consultation with the Macro-Economic Policy Coordinating Committee. When contracted research requires more than three months to accomplish or exceeds \$_____ in costs, Committee approval must be obtained.

- Work closely with the Resident Advisor on technical matters and aid in the identification of needed foreign technical assistance.

- Seek AID approval for contracted research when costs exceed \$_____.

- Identify, in consultation with the Economic Team, the Committee, and the Resident Advisor, appropriate topics for training courses for Unit staff and other professionals.

The Director of the Policy Analysis Unit should be appointed by the Economic Team in consultation with the Macro-Economic Policy Coordinating Committee and AID. His/her professional record should meet high technical standards, he/she should be a person able to interact well with high level policy makers, and he/she should be an experienced manager. In addition, he/she should be dedicated to producing economic analyses of high quality and to increasing the store of macro-economic expertise in the country. More specifically, an individual should be selected who has the following qualifications:

- A Ph.D. in Economics.
- At least five years of experience in economic research.
- Experience at high levels of public or private administration.
- Fluency in spoken and written Spanish and English.

ii. Resident Advisor

A long-term Resident Advisor will be appointed for three years. He/she will be employed by the Harvard Institute for International Development on approval from AID and the Economic Team.

The principal functions of the Resident Advisor are to:

-- Work on a daily basis with the Policy Analysis Unit Director in providing technical assistance:

(a) Help develop a research agenda for the Unit.

(b) Provide technical advice on matters related to the conceptualization of economic studies, appropriate study design and methodology, and quality of study results.

(c) Identify the necessity for short-term technical assistance in carrying out studies on topics such as trade and exchange, fiscal policy, employment and industrial analysis, monetary policy, and macro-economic planning.

(d) Identify Dominican researchers to be provided with short-term training opportunities locally or abroad.

(e) Through HIID, facilitate placement of Dominican researchers in short-term courses abroad.

(f) Identify Dominican researchers who are eligible for long-term training abroad through other AID-funded projects.

(g) Ensure that studies carried out in diverse units within the government are coordinated with the broader study agenda of the Policy Analysis Unit and that they contribute to the policy decision making process.

(h) Stimulate the dissemination of study results.

(i) Infuse the Analysis Unit with intellectual stimulation and rigor.

-- With the assistance of HIID, assume responsibility for managing short-term foreign technical assistance missions for specific studies and short-term training courses.

(a) Develop scopes of work for specific studies and courses, in consultation with AID and the Director of the Policy Analysis Unit.

(b) Identify appropriate individuals to be contracted for such missions.

- (c) Oversee contractual relations with such individuals.

 - (d) Ensure that schedules, accommodations, facilities, support staff, collaborators, and trainees for specific studies and courses are provided and are coordinated with each other and with the work of the Policy Analysis Unit.
- Serve as the principal liason with AID
- (a) Ensure that AID is kept informed of Unit activities.

 - (b) Ensure that the Unit Director is familiar with AID reporting and budgeting practices.

 - (c) Consult with AID on matters related to the provision of short-term foreign technical assistance.

 - (d) Provide AID with candidates for long-term training courses abroad funded by other AID projects.
- Serve as a Consultant to the Macro-Economic Policy Coordinating Committee and the Economic Team when required.

(a) Provide technical information important to economic policy decisions.

(b) Present information and analysis of alternative courses of action for economic policy.

(c) Discuss the study agenda, short-term foreign technical assistance, and other matters.

(d) Encourage the broader dissemination of study results related to issues such as trade and exchange, fiscal policy, employment and industrial analysis, monetary policy, and macro-economic planning.

-- Play an active role in stimulating discussion of macro-economic policy alternatives in the Dominican Republic.

(a) Establish and maintain contact with important decision makers.

(b) Establish and maintain contact with the local community of professional economists, planners, and development specialists.

(c) Contribute to the intellectual vigor of policy related discussion and policy dialogue.

The Resident Advisor must be a person of the highest professional credentials and reputation who is able to interact well with Dominican researchers, managers, and policy makers. He/she should have:

-- A Ph.D. in Economics.

-- Demonstrated research capability in macro-economic policy analysis (experience in university teaching of economics is desirable).

-- At least three years of work in macro-economic policy analysis in developing countries.

-- Fluency in spoken and written Spanish and English.

iii. Research Staff

A Research Staff of Research Associates and Research Assistants will carry out and/or coordinate specific studies. The individuals appointed to the Research Staff must be highly motivated and dedicated professionals and apprentices with specialties in fields that are particularly relevant to macro-economic policy analysis. For instance, the Research Associates should ideally include specialists in trade policy, fiscal policy, monetary policy, econometrics, labor economics, and industrial organization (especially with regard to small and medium enterprises). It would also be appropriate to

include some expert in agricultural economics. The Research Assistants should be able to process information, especially in terms of the manipulation of statistical data and the use of computers.

The qualifications of personnel selected to serve on the Research Staff must be high, including evident dedication to the objectives sought by the Policy Analysis Unit. Once they have demonstrated their professional skills and commitment through service within the Unit, they should be provided with opportunities to pursue professional training leading to Masters and Doctoral degrees abroad. It should be understood that such opportunities would be contingent upon an agreement to return to the Policy Analysis Unit for a specified period--three to five years--after foreign training has been completed. In addition, personnel in the Research Staff should participate fully in short-term training courses organized by foreign advisors to the project. The general qualifications for Research Associates and Research Assistants will be as follows:

Research Associates:

- At least a Masters degree--and preferably a Ph.D.--in Economics.
- Demonstrated experience in economic research.
- Three or more years of professional experience.
- Working ability in reading and understanding English.

Research Assistants:

- At least a B.A. degree in Economics and/or Statistics.
- Knowledge of micro-computer use is desirable.
- Some demonstrated professional experience related to research activities.

iv. Other Staff

The Policy Analysis Unit will require an Administrative Assistant who will be responsible for managing support staff and maintain the accounting system for the unit. The support staff should include two to four secretaries and other staff, as appropriate.

A small Library and Archive, consisting of basic data, documents, and reference books, is critical to the work of the Policy Analysis Unit. This Library and Archive must also include reports of all studies in which the Unit has been involved, and reports by international agencies and foreign consultants carrying out economic studies in the Dominican Republic. The Administrative Assistant will oversee this unit and will be responsible for collecting, organizing, and archiving written materials and data sets relevant to macro-economic policy.

iv. Short-term Foreign Technical Advisors

In each year of the Economic Policy Analysis and Training Project, eight months of short-term foreign technical assistance for specific macro-economic studies are provided. In addition, 1-2 months of short-term training by foreign advisors is provided.

Short-term foreign technical advisors will be contracted by the Harvard Institute for International Development. They will be hired when a need for foreign technical assistance has been identified by the Policy Analysis Unit Director and the Resident Advisor and agreed to by AID and the Macro-Economic Policy Coordinating Committee.

Short-term foreign advisors will provide technical assistance for approximately six to eight studies each year related to trade and exchange, fiscal policy, employment and industrial analysis, monetary policy, and macro-economic planning. The training courses will deal primarily with the use of computers in applied economics, including statistical analysis and methodological issues related to the specific studies of macro-economic policy issues that are carried out under the project.

Short-term foreign technical advisors will normally spend from 15 to 30 days in the Dominican Republic. Their general task is to fulfill the specific terms of reference established for them under contractual agreement with the Harvard Institute for International Development. These terms of reference will generally require foreign advisors to:

- Provide technical advice to Dominicans engaged in specific studies of macro-economic policy issues, including conceptualization of research issues, study design and methodology, and presentation of results.
- Oversee technical aspects of data collection and analysis to ensure that professional standards are achieved and maintained.
- Increase professional capacity in the Dominican Republic through the teaching of short term courses on topics such as use of personal computers, software, and economic data analysis.
- Impart professional training to Dominican researchers through co-participation in specific studies.
- When required, consult on technical issues with the Macro-Economic Policy Coordinating Committee, the Economic Team, and AID/D.R.

- Present seminars on topics related to current economic policy issues to the professional community of economists, planners, and development specialists in the Dominican Republic.

Individuals hired must:

- Have a Ph.D. and specialization in fields related to macro-economic analysis (for example trade economics, industrial economics, taxation, public administration, public enterprise analysis, cost-benefit analysis, labor economics).
- Be well established professionally.
- Have professional experience in developing countries.
- Speak Spanish.
- Demonstrate good ability to work easily with others.
- Have considerable experience in effective teaching and/or demonstrated ability to communicate ideas and technical information to others.

c. Timing of Initial Activities of the Policy Analysis Unit

The creation and initial activities of the Policy Analysis Unit and the Macro-Economic Policy Coordinating Committee must be sensitive to issues of political timing. The Unit will probably begin operating four to six months prior to the national election of May 1986. During this time, it is unlikely that its work will have any potential to influence national economic policy making; it is unlikely that major new initiatives or needed reforms will be undertaken by a government that is concentrating on political campaigning and the mobilization of electoral support. The Policy Analysis Unit will be able to use these months to good advantage, however, if it works quickly to initiate issues that can result in the presentation of concrete policy options to the government that takes office in August of 1986. The development of suitable policy recommendations will require focused management of research and analysis and considerable political astuteness on the part of the Unit Director and the membership of the Macro-Economic Policy Coordinating Committee. It is, however, an opportunity that should be seized because of its potential to bring the new unit into an effective technical advisory role with the new government. In the initial months of the project, studies of exchange rate policy, effective rates of protection, incidence of taxes, and monetary policy, especially as they relate to export promotion and employment issues, can be carried out and appropriate policy recommendations formulated.

3. Local Contract Research

Requests for long- and short-term analysis of particular issues emanating from the Economic Team, the Macro-Economic Policy Coordinating Committee, other study units in the government, or ideas for studies generated within the Unit may require the skills and time of local professionals outside the government--in the university sector or among private consultants. In such cases, projects may be contracted out to qualified organizations or individuals. In such cases, appropriate scopes of work, including attention to issues of problem definition, research design, methodology, and reporting requirements, will be developed by the Policy Analysis Unit. In addition, a study project budget will be prepared by the Unit. When the contracted study requires more than three months to accomplish or exceeds \$_____ in costs, the scope of work and the budget will be submitted to the Macro-Economic Policy Coordinating Committee for approval. When the total cost of the study exceeds \$_____, the approval of the Economic Team and AID must be sought.

The selection of appropriate local researchers or study units to carry out contracted work is the responsibility of the Director of the Policy Analysis Unit, in consultation with the Coordinating Committee and the Resident Advisor. In cases in which contracted research requires more than three months to accomplish or exceeds \$_____ in costs, Coordinating Committee approval of the contractors should be required. In some cases, it may be deemed appropriate to open contracts to public bidding. Procedures

established by the Policy Analysis Unit for reporting on the results of research and submitting a Summary Policy Paper (see Section D of this report) will be applied to contracted research also.

It is important that proposals and scopes of work for contracted long-term (over three months) studies be carefully considered to ensure the quality of the work to be accomplished and the capacity of outside institutions and individuals to fulfill contract obligations satisfactorily. To facilitate this kind of quality control over contracted studies, the Policy Analysis Unit will maintain files on the professional skills and performance of private consultants and consulting firms and of researchers and research units in the university system.

4. Foreign Technical Assistance

Foreign technical assistance may take three forms:

a. Direct Involvement in a Study

In order to provide the Unit with the levels of expertise required to perform its functions successfully, including those related to building local capacity in macro-economic policy analysis, short-term foreign technical assistance will be contracted. In contracting such foreign assistance, the Resident Advisor will work closely with the contracting unit, the Harvard Institute for International Development, in identifying, hiring, and scheduling the required expertise from abroad.

Experts with experience in the studies undertaken will temporarily join the Research Staff as Technical Advisors or, if necessary, will become involved directly in projects coordinated by the Unit but located in other government research units.

It should be clear that a very important part of the role performed by foreign technical advisors is to help build local capacity. Therefore, it is essential that their knowledge and experience contribute to each study in a clear and didactic way. Foreign Technical Advisors should participate in seminars and discuss methodologies and findings as requested.

b. Training Courses

i. Short-Term Training Courses

Short-term training courses, lasting from one week to three months, can take place either in the country or in a foreign institution. These courses should help increase the technical capacity of the Policy Analysis Unit, particularly with regard to data management, computer utilization, and methodology. Personnel from other economic study units should also be eligible to participate in such training courses.

ii. Long-Term Training Courses

The provision of scholarships for degree courses abroad represents an attractive incentive for good professionals to join the Policy Analysis Unit. It is also an important tool for building economic analysis capacity in the country. Technical personnel in the Policy Analysis Unit should be provided with opportunities to acquire M.A. and Ph.D. degrees when their commitment and intellectual potential has been demonstrated through their work within the Unit. Scholarships for degree courses should be available only for work in areas related to the fields covered by the Unit. The Harvard Institute for International Development will be responsible for selecting appropriate institutions where Unit personnel will pursue their studies. Those awarded scholarships for study abroad should enter into contracts with the Policy Analysis Unit to return to the Unit for a specified period of time after their studies are completed--three to five years, depending on the degree obtained.

c. Seminars

Members of the Research Staff should be encouraged to attend local or international seminars related to their field of expertise, when such meetings are considered helpful in furthering the goals of the Unit and improving its capacity. The Unit itself will also sponsor seminars of this type.

8. Capacity Building

Increasing local capacity represents a critical aspect of the project as a successful result in this area implies that the project has become self-sustaining when AID funding is reduced and eventually withdrawn. Thus, the assurance of a genuine technical improvement in macro-economic policy analysis and its application to decision making must be an important principle in the operations of the Unit. Capacity building will take place through several activities of the project:

a. Research Activities

The project provides means for expanding the pool of human and physical resources available for applied economic analysis in the Dominican Republic. It provides: (i) an organization structure that helps coordinate efforts related to macro-economic analysis and policy making; (ii) opportunities for local researchers to gain experience in questions of applied economics and for the transfer of knowledge from foreign technical assistance; (iii) opportunity to translate economic studies into viable policy options for policy makers and others; and (iv) an improved data base and source of information for subsequent studies.

b. Training Activities

Local expertise and foreign technical assistance will be involved in providing training in applied economics through the project. They will provide added capacity through: (i) short term training courses that will take place within the country or abroad; (ii) long term training courses abroad made available to personnel in the Policy Analysis Unit through scholarships to study for M.A. and Ph.D. degrees in specialties related to macro-economic policy; and (iii) seminars taking place within the country or abroad that will increase local analytical capacity.

c. Technological Development

The project will result in the development of greater applied economic analysis capacity in the Dominican Republic through the provision of tangible assets such as: (i) computer equipment, programs, and files; (ii) files describing local and foreign technical assistance capabilities; and (iii) a library containing information needed to carry out applied economic studies and an archive of important studies accomplished by the Unit, other economic study units in the government, and international institutions.

6. Data Base and Related Equipment

Some basic equipment will be needed in order to store and process information. The Unit should have at least two IBM AT or similar computers, each with a capacity of 512K that is expandable to 640K. It is advisable to have one of the Research Assistants highly knowledgeable in computing systems, especially if an AT system is adopted. There should be a diskette library with basic software, consisting mainly of a statistical and econometric package (TK SOLVER, TSP, SAS, SPSS), programming languages and packages (FORTRAN, BASIC), programs used by the Unit, and the data files that they require.

The Policy Analysis Unit is not intended to serve as a universal data bank, so most statistical information will remain in the institutions where it is currently being utilized or stored. Even though some of the studies will deal with improving and making compatible economic information available in the country, it will not be necessary to incorporate all statistical systems in the computerized data set maintained by the Unit. The Unit should maintain only the data needed to run its in-house programs.

The administration of the Policy Analysis Unit should be accomplished with the aid of a personal computer. The software should include directory and budgeting programs (DATA-base, MULTIPLAN). Each secretary should be able to work with a word processor.

D. RESEARCH PROCESS

The most fundamental tasks of the Economic Policy Analysis and Training Project are to carry out effective analysis of macro-economic issues of importance to the country and to develop viable policy options for high level decision makers. In order to accomplish these tasks successfully, a regularized process of identifying research issues, developing appropriate study plans, carrying out the studies, reporting on conclusions, and turning studies into appropriate policy dialogue must be followed. The research process can be divided into three important processes:

1. Selecting and Defining Studies

a. Formulating Relevant Policy Questions

The principal objective of the research to be undertaken by the Policy Analysis Unit is to respond to the needs for macro-economic policy analysis and recommendations by high level decision makers in the government. Therefore, the research questions that the Unit addresses must reflect these needs. In other words, and as much as possible, their work should be demand-driven, especially in terms of urgent short-term studies (those requiring a few days to a month to accomplish).

The Unit should respond expeditiously to questions and issues posed by the President, the Economic Team, or the Macro-Economic Policy Coordinating

Committee. When such needs are expressed, the Committee, the Director, and the Resident Advisor must be active in specifying the goals of the study or studies to be undertaken and the policy relevance of the questions and issues posed. They must develop a consensus about the degree of urgency and priority assigned to the topic.

It is clear that in practice research questions will arise not only when policy makers are faced with an unexpected economic problem, but also when it is evident that there is need to improve the quality of technical inputs in the day-to-day decisions made by the government. In the definition of such issues, there will be a close interaction throughout the government's research system: previous study results obtained by the work of the Unit will probably help in opening up new demands, and the relationship between members of the Economic Team and members of the Committee will result in an upward and downward flow of ideas, affecting the definition of relevant questions. Setting a research agenda is therefore an ongoing and interactive activity of the Economic Team, the Committee, and the Policy Analysis Unit.

In addition, there are general questions of macro-economic policy that the Unit should be studying in order to provide information and advice on complex interactions in the national economy and their relationship to external factors. For the first years of the project, these studies should form part of a basic agenda for the Policy Analysis Unit. A suggested list of studies is presented in Section E of this report. The accomplishment of these studies will also provide an important basis for responding to the more immediate needs of the high level policy makers.

b. Translating the Question Into a Workable Project

Questions must be translated into well defined studies. This task is a joint responsibility of the Macro-Economic Policy Coordinating Committee, the Director, the Resident Advisor, and the Research Staff. The Director of the Policy Analysis Unit will have primary responsibility for thinking through the implementation of the project, so that an appropriate scope of work, budget, methodology, and analytic framework are developed to undertake it. The Committee, the Director, and the Resident Advisor must seek to ensure that the each study is related to the issues of policy making for which the Unit has been created. They must ensure that the project poses questions that can be empirically and analytically addressed during the planned period of time.

2. Execution of the Study

Both urgent short-term and in-depth longer-term studies can be carried out inside the Unit, provided that there is in-house capability, or such studies can be carried out through an appropriate government study unit. In the latter case, the Policy Analysis Unit will be responsible for managing and/or coordinating the study, providing its own expertise and, where appropriate, contracting either local or foreign experts. In making the decision about how the research should be accomplished, the Director should consider: (i) whether the Unit or some other institution has comparative advantage in the expertise and personnel required for the study; and (ii) how urgently the results are needed by policy makers. Practicalities of research

management suggest that when in-house capacity exists, urgent short-term studies can be most effectively carried out within the Unit, calling on the assistance of contracted experts when necessary.

The Director of the Policy Analysis Unit is responsible for the execution of all studies and the translation of their analytical results into applicable policy options, in response to the needs of the Economic Team, other policy makers, or the Macro-Economic Policy Coordinating Committee. In practice, the operational management of particular studies may be delegated to a member of the Research Staff. It is expected that studies requiring specialized economic training will be managed by the Research Associate with that expertise, with other researchers and assistants becoming directly involved in the work as needed. All members of the Research Staff will eventually be involved in the studies, if not directly, then indirectly through their participation in seminars and training activities.

Seminars should be presented during the course of each long-term study, presented by the research group responsible for its execution and attended by the members of the Research Unit and others, when appropriate. These seminars will help to unify criteria and improve methodology, as well as increase the analytical utility of the results. There may be as many seminars as needed, but at least two should be made a requisite for studies that extend for three months or more.

a. A Pre-Study Seminar on Methodology

A pre-study seminar on methodology is to be presented at the outset of the study. The purpose of this seminar is to clarify methodology and discuss the feasibility of the study. The seminar should address the following issues:

- Definition of the objectives of the study and their importance for macro-economic policy analysis.
- Analysis of alternative methodologies that might be applied and a discussion on which one(s) will be used.
- Definition of roles and responsibilities of the people involved in the project and clarification of the time, scope, and location of the study.
- Definition of the need for outside technical assistance and training.
- Clarification of the information needs and definition of the strategy for data gathering and processing.

b. Post-Study Seminar on Findings

A post-study seminar on results of long-term studies is to be presented when quantitative and/or qualitative results have been analyzed and related to policy issues. The research experience and results should be related to the issues addressed in the pre-study seminar.

3. Policy Discussion and Dialogue

Studies undertaken by the Policy Analysis Unit should feed directly into national policy discussion and decision making. It is important to stress that effective policy discussion is critical to the success of the Economic Policy Analysis and Training Project. Without it, the work of the Policy Analysis Unit may acquire academic attention and importance, but it will not achieve its principal goals of influencing economic policy making and improving the quality of decision making so that important consequences of accelerated growth and employment creation can be achieved. The ability to play a vital role in effective policy discussions is therefore a central criteria against which the success of the overall Project should be measured.

a. Summary Policy Paper

Effective policy discussion must begin with high level professional competence within the Policy Analysis Unit and effective management by the Director. It will be furthered by analyses that are effectively shaped into policy relevant recommendations and options. The Project will play its most important role in effective decision making when it can increase the technical component of ongoing discussions of policy options. To achieve this, each

study that is undertaken and completed should result in a Summary Policy Paper that is orally presented and submitted in print to the Coordinating Committee and subsequently submitted in print--and presented orally on request--to the Economic Team for its consideration. As determined by the Economic Team and the Coordinating Committee; the Summary Policy Paper should be made available to the President. Wider dissemination of the paper should be determined by the Coordinating Committee with the approval of the Economic Team.

The Summary Policy Paper should be a brief document, outlining the major conclusions of the study undertaken and describing the implications of different policy options that emerge from the analysis. Where appropriate, the paper should cogently address the issues posed to the Policy Analysis Unit by the Economic Team, in the terms defined by the Committee in the second part of the research process.

b. Confianza

Influence in policy decision making cannot be achieved on the basis of technical competence and reporting mechanisms alone, however. In fact, the most important conditions for effective discussions are generally established through personal relationships, informal processes, and political sensibilities. It is therefore critical to the potential success of the Economic Policy Analysis and Training Project that the Director and Policy Analysis Unit acquire and maintain the confidence of the President, the Economic Team, and the Coordinating Committee. Only then will policy makers be inclined to listen well to their analyses and recommendations. In part, of

course, confidence is built upon the professional reputation of the researchers. Attention to a number of factors can help ensure that both confidence and professional prestige are established and maintained by the Unit.

- The Director of the Unit must have the highest professional qualifications available. A salary competitive with private sector employment options for professional economists will help ensure that excellent candidates are attracted to the position.
- The Director of the Unit must have a reputation as an effective and dedicated research manager.
- The selection of the Director should be subject to the approval of the Economic Team and the ratification of the Coordinating Committee. While such a selection process opens up the potential for the use of political criteria in hiring the Director, to ignore the concerns of the Economic Team and the Committee opens up the much less desirable potential for the Unit and its work to become and remain marginalized from the economic policy making process. If high quality professional and managerial criteria are maintained, the political acceptability of the Director can only enhance the Unit's potential to play a central role in policy advising. As elsewhere in government, "confianza" is an important criteria for successful performance and influence, even on a technical

level. A Director without the "confianza" of policy makers is an ineffective advisor, no matter how professionally skilled he/she may be. To ensure that the Director has the confidence of the policy makers, his/her tenure in the position should not be fixed.

- The Director should have the ability to interact well with high level policy makers.

- The Research Staff must have the highest professional qualifications available and be individually and collectively dedicated to research.

- The Resident Advisor must be a person with an excellent professional reputation who is familiar with appropriate modes of behavior and social interaction in the Dominican Republic, and whose reputation and personal style allows him/her to interact well with middle and high level officials in the country.

c. Policy Dialogue

The work product of the Economic Policy Analysis and Training Project can be expected to enhance the effectiveness of the policy dialogue carried out between policy makers in the government and AID. The studies produced by the Policy Analysis Unit will provide technical information and analysis related

to exchange rate policy, tax reform, industrial promotion, employment, tariff levels, and other matters of ongoing concern. They should provide analyses of feasible policy options and provide both government officials and AID with concrete and realistic goals for decisions that need to be made by the government. Policy makers will benefit from better understanding of the feasible options they have and the consequences of various policy choices they might make; AID will benefit from increased ability to specify realistic objectives and conditionalities in its negotiations with the government.

d. Other Inputs into Policy Discussions

To enhance its professional reputation and to encourage broader public discussion of policy issues, the Unit should establish a publication series for the dissemination (where appropriate) of its findings and analysis. Publications should appear regularly and attention should be given to the quality of the work and its presentation.

An appropriate task for the Unit would be to produce an Annual Report on the Economy, in which analytical articles and other aspects of economic policy research could be covered and the country's general economic situation cogently summarized. This would be an important contribution to informed discussion since the publications periodically made available by other local study units usually report only statistical information, not economic analysis. The Research Staff would be in charge of writing most of such a publication, particularly in terms of annual reviews of economic developments in specific areas such as fiscal policy, monetary policy,

exchange rate policy, labor markets and employment, etc. Specialists from outside the Unit might be invited to submit analytical articles that are particularly relevant to policy analysis.

In addition, the Unit should consider establishing a regular seminar series in which it presents the results of its own work or invites local and foreign specialists to make presentations. This seminar series should be open to the broader professional community. Such activities can increase informed discussion of various policy options and indirectly increase the 'policy space' available to decision makers by providing feedback on the political feasibility of various options discussed.

E. INDICATIVE LIST OF STUDIES

The Dominican Republic is facing a critical economic situation in which there is a lack of foreign exchange coupled with excess capacity in most sectors of the economy and high rates of unemployment. This situation is a result of past demand management policies, current stabilization policies, and an import substitution industrialization strategy discriminating against non-traditional exports. The crisis was triggered in the final years of the last decade by a drop in the price of sugar, the main export, and an increase in the price of oil; this situation was aggravated by an increase in interest rates in the 1980s, after the Dominican Republic had borrowed heavily in order

to keep the growth rate at the high levels previously registered. A new development strategy is currently being proposed in order to solve these problems in the medium term. It consists of stimulating private sector investment and employment, export promotion, and a more selective import substitution strategy. Changes in the system of incentives are important if this new development strategy is to be successful. An analysis of the structure of incentives can lead to informed discussion of the policy adjustments that need to be made in the country. Below is an indicative list of studies suggested for the first two years work of the analysis unit. While the topics suggested are critical to the economic policy environment in the Dominican Republic, it is important to remember that the study agenda for the project must remain responsive to the needs of high level policy makers for informed analysis of issues of trade, fiscal, monetary policy, and employment.

INDICATIVE LIST OF STUDIES
(First Two Years)

<u>Policy Analysis Unit Studies</u>	<u>Foreign TA Skills</u>	<u>Estimated* P/M</u>	<u>Estimated Year of Study</u>
I. <u>Trade and Exchange Rate</u>			
1. Exchange Rate Policy	Trade Economist	1	1
2. Effective rate of protection, effective exchange rates and domestic resource costs. What are the ramifications for industrial structure (scale of firms, commodity composition, and location) and export orientation.	Trade Economist and Industrial Economist	1	1 and 2
II. <u>Fiscal Policy</u>			
1. The incidence of direct and indirect taxes	Tax Expert	1 1/2	1
2. What is real effective taxation and its impact on industrial structure and export competitiveness.	Industrial Economist	1	1
3. Tax Administration	Tax Administration Expert	1	2
4. Tax and tariff harmonization	Fiscal Economist	1	2
III. <u>Monetary Policy</u>			
1. Workings of monetary policy -- is monetary authority being used to "facilitate" development? How much deficit financing, etc.? Are monetary disturbances affecting inflation and the balance of payments?	Monetary Economist	1	1
2. Interest rate and credit policy. Issues of savings mobilization and investment.	Monetary Economist and Banking Expert	1 1/2	1
IV. <u>Employment and Industrial Analysis</u>			
1. Sectoral price and growth policies	Industrial Economist	1	1 and 2
2. Employment Policies	Labor Economist	1	2
3. Enterprise or Industry policies, especially those related to small and medium scale enterprise.	SME Specialist	1	2
V. <u>Studies of the Process of Liberalization</u>			
Trade, Fiscal System, Employment mostly in Year 2. Will require several experts -- trade and employment particularly. 2 P/M in Year 2 and 3.			

*The P/M's estimated here are for foreign technical assistance. It is expected that the studies listed will be completed by local researchers in the policy analysis unit and jointly with other research units in other ministries. Foreign technical assistance will help to conceptualize the studies and guide the work to completion. Hence it is contemplated that only 8 P/M of foreign technical assistance will be needed each year.

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I. TRADE AND EXCHANGE RATE

A. Exchange Rate Policy:

The appropriateness of a particular exchange rate level should take into consideration a country's production, consumption, and trade and payments structure, including tariffs, subsidies, various forms of exchange controls, and development in foreign exchange reserves.

Two aspects of the exchange rate issue should be studied: (1) an assessment of the appropriateness of the prevailing level of the exchange rate; and (2) choice of the appropriate level, if the present level is found to be inappropriate by some criteria. In the first case, there should be an analysis to explain how past exchange rate policies, along with other economic policies and with changing exogenous forces, brought the economy to its present position. Investigations should be conducted into price competitiveness, the economic viability of production (measured in terms of profitability) and its trends, and the distortionary nature of the past and present exchange regime. These investigations will measure the recent movements in the various indicators with possible implications for the appropriateness of the exchange regime and the exchange rate. In order to reach a conclusion regarding the sustainability of an exchange rate at the existing nominal level a forward-looking analysis must be performed.

What is important is whether the prevailing rate is compatible with reasonable economic growth and a viable balance of payments position in the

medium term. In the forward-looking investigation, the search procedure for the appropriate exchange rate level involves specification of the underlying adjustment mechanisms that follow a hypothetical exchange rate action. Different aspects of rate/price transmission mechanisms, allocation of resources, and terms of trade effects should be considered. Consequent effects on the balance of payments and the government budget should be estimated to determine the overall sustainability of the exchange rate, given appropriately designed accompanying demand management policies.

Recommended Studies:

1. A short history and assessment of the appropriateness of prevailing exchange rate levels.
2. Determination of an appropriate (sustainable) exchange rate level and an exchange rate policy.

B. Effective Protection and Domestic Resource Costs:

The purpose of this study, or studies, will be to quantify the net impact of government measures ("incentives") that affect the allocation of resources among economic activities and their orientation between foreign and domestic markets. Incentives in this respect are defined to include protective measures and credit and tax preferences.

In its trade and exchange rate studies, the Unit would be primarily interested in protective measures, such as tariff-type policies -- ad valorem tariffs, specific duties, import taxes and subsidies, requirements for advanced deposits in payment for imports, and

differential indirect taxes — as well as quantitative restrictions in the form of import licencing, quotas, or import promotion. In addition, export incentives such as taxes or subsidies would be studied. In studies of the fiscal and monetary systems the incidence of direct and indirect taxes would be considered plus interest rate and credit policies.

Various indicators may be used to quantify the incidence of incentives on particular economic activities. The rate of nominal protection expresses the effect of protective measures on the price received for a product by its domestic producers. The rate of effective protection relates the joint effects of protective measures on the price of the product and on the prices of its inputs to value added in the production process. The combination of effects of protective measures and credit and tax preferences on value added is measured by the rate of effective subsidy.

The net impact of subsidies, other incentives and tariff and non-tariff measures can also be quantified by a mathematically related index called the unit Domestic Resource Cost (DRC) of earning or saving a unit of foreign exchange. DRC measures the value in local currency of the domestic resources (notably labor and capital) that go into earning or saving a unit of foreign exchange, net (after deducting the foreign exchange cost of inputs), by means of production and sale of a particular commodity.

The level of exchange rate regarded as adequate to clear a country's foreign exchange market is the criterion value for evaluating a given value of unit DRC. If an economic activity is surviving with a unit DRC below the criterion exchange rate this often means that it is

earning or saving foreign exchange even though the impact of government policy is to push the remuneration of its factors below the level dictated by the exchange rate. The policy question that arises is whether or not by allowing these producers to earn the full exchange rate government could (through changes in policy) stimulate increased production and employment. Conversely, if an activity's unit DRC is greater than the criterion exchange rate, this means the country is using relatively more domestic resources to earn a unit of foreign exchange in that activity than in ones with a low unit DRC. The policy objective should then be to shift resources away from those inefficient activities to more efficient ones, thus earning or saving more foreign exchange for a given expenditure of domestic resources.

Recommended Studies:

1. Calculation of effective rates of protection, effective exchange rates and domestic resource costs of industries and firms both large and small.
2. Using the calculations above, plus information on non-tariff barriers, a general assessment of the effect of trade policy or the structure of incentives between foreign and domestic markets and between large vs. small enterprises should be conducted.

II. FISCAL POLICY

Taxes and tax policies affect the incentives for individuals and firms. Of interest to government policymakers is the question of how to best use the tax system to induce individuals and firms to act in ways more consistent with the development objectives of the economy, while at the same time producing adequate revenues for the public sector. A related question, especially in analyzing indirect tax policies and related foreign trade policies, is how some inappropriate tax policies with strong unintended incentive effects have led to the substantial waste of economic resources (labor and capital) and the frustration of development objectives. We have already mentioned above that the rate of effective subsidy measure captures the incentive effects of taxes and other government policy instruments. A primary concern of unit analysts will be to calculate these incentive effects and recommend policy changes to achieve government development goals.

Recommended Studies:

1. The incidence of direct and indirect taxes should be evaluated (including invisible taxation of agriculture vs. industry) for its effects on individual and enterprise incentives.
2. Tax and tariff harmonization should be assessed to see that no unintended incentive effects are occurring. For example, using tariffs to collect government revenues may bias the structure of incentives towards import substitution. The preferred approach is to have a uniform tariff and use a sales tax (on both domestic production and imports) to collect revenue.

III. MONETARY POLICY

Inflation and the overall balance of payments in the Dominican Republic are importantly affected by monetary forces in the economy. Disequilibrium in the money market (that is, mismatch between the demand for real balances and the real value of the outstanding money stock) will be resolved by a combination of changes in the price level, the nominal rate of interest, the level of economic activity, and the net foreign assets account. In a small, highly open economy like the Dominican Republic monetary disturbances will fall most heavily on the balance of payments (net foreign asset account).

Given the country's current balance of payments crisis, monetary policy assumes great importance. The government's spending policy should be assessed for its effect on total domestic credit and the share of public borrowing in outstanding credit. In the first instance, Central

Bank financing of the public deficit may be adding to inflation and balance of payments difficulties and, in the second, the government may be crowding-out private sector borrowers, reducing investment and economic growth.

Recommended Studies:

1. Implications of monetary policy for domestic price level, balance of payments disequilibrium, and production.
2. Interest rates and credit policy as it affects investment and growth. Implications of these issues for export promotion and the growth of large vs. small enterprises should be evaluated.

IV. EMPLOYMENT AND ENTERPRISE ANALYSIS

Historically employment has been one of the more intractable problems faced by Dominican policymakers. While it is difficult to define unemployment in a country like the Dominican Republic, estimates put it at approximately 20 percent. Further, the problem may grow worse. The World Bank, using moderately pessimistic assumptions about export volumes and prices of sugar and minerals, projects that in the years of 1984-86 Dominican unemployment could rise to nearly 30 percent of the labor force. Clearly the unemployment situation needs much closer attention.

As in most LDC's, an enormous potential for generating additional employment rests with dynamic medium- and small-scale enterprises, which

already provide jobs for the largest segment of the work force. These firms largely produce consumer goods and services for domestic and foreign consumption, although in some cases they are also important capital goods producers -- agricultural inputs most notably. In the rural sector small- and medium-scale non-farm activities are, to a large extent, dependent on incomes generated in agriculture (and to a smaller extent foreign trade and modern sector growth). In the urban areas, modern sector and public service incomes, as well as foreign trade, provide the stimulus.

Given the predominance of rising aggregate demand in stimulating development of the small- and medium scale sector and thus employment, sectoral price and growth policies are likely to be the most important single employment policy in the Dominican Republic. Of particular importance in this respect will be removal of policy-imposed distortions which produce a structure of incentives favoring an inward-oriented growth strategy based upon import-substitution. Proximity to the U.S. market, excellent land resources and potentially high quality labor force should respond well once the export bias is removed.

A second employment policy will be to address the problem of distorted factor prices. Exchange rate overvaluation and other policies, such as minimum wage laws and payroll taxes, which artificially cheapen capital have reduced absorption of labor in nonagricultural growth. These policies must be reviewed to assess their employment impact.

Finally, policy-imposed distortions and other factors which create bias between large- (presumably more capital intensive) and small-scale enterprises, or the location of enterprises, are important. In most

cases these policies favor the development of large firms, limiting employment potential.

Recommended Studies:

The Employment and Enterprise Analysis of the Policy Analysis Unit should focus on three areas:

1. Sectoral price and growth policies: Particularly policies that determine the level and distribution of sectoral incomes. Much of the work included in this category will be completed in studies already listed under trade, fiscal, and monetary policy, or studies undertaken in the agricultural policy analysis unit. It will be the job of the Unit staff to bring these studies together and relate them specifically to questions of employment policy.

Suggested further work:

Updated input/output model to include medium-scale and perhaps small-scale enterprises.

2. Employment policies: Especially policy-imposed distortions of relative factor prices. Again, studies in other areas relating to credit and interest rate policies, exchange rate policies, tariffs and quotas, etc., will be important and Unit staff will need to marshal this information and relate it to employment policy.

Suggested further work:

Examine labor market policies and government activities that impinge on labor markets and on the structure of wages and employment:

- (i) minimum wages
- (ii) payroll taxes
- (iii) government pay and employment activities
- (iv) regulation of employment contracts

3. Enterprise or Industry Policies: Especially policies which create general bias in scale and location of firms.

- (a) Availability of industrial infrastructure
- (b) Business taxation and regulation
- (c) Technology regulation policies
- (d) Access to resources (licensing/permits)

APPENDIX I

A More Disaggregated View of the List of Indicative
Studies for the Policy Analysis Unit

- i. Diagnose the current incentive system by subsectors, regions, and firm sizes, incorporating analyses of:
 - Tariff and export subsidies
 - Labor costs
 - Credit policy
 - Taxes and production subsidies
 - Real, effective, and commodity exchange rates
 - Price controls

- ii. Study employment distribution, considering:
 - Sectoral allocation
 - Rural-urban distribution and migration
 - Skilled and unskilled labor
 - Formal and informal sectors
 - Small, medium, and large enterprises

iii. Analyze export potentials and import competitiveness, by subsector, regions, and size of firms and define policy target groups, considering:

- International competitiveness and domestic costs of foreign exchange generation
- Potential growth and current constraints
- Possible demand for potential exports (CBI)
- Need for technological and financial support to expand activities and/or gain competitiveness

iv. Define alternative incentive systems and other supporting programs, considering:

- The option of liberalization for all markets
- Calculations of targeted incentive systems, based on efficiency (static and dynamic, including needs for technical change), employment absorption, and foreign exchange generation
- Options to provide incentives indicated above, such as tariff and export subsidies, labor costs, credit, tax and production subsidies, technological support, and combinations of these

- v. Indicate effects of possible adjustment patterns (shock vs. gradual) on different incentive systems by sector, region, income groups, and size of firms (where possible), considering:
 - Growth
 - Employment and income distribution
 - Foreign exchange availability and service on the debt
 - Inflation

In order to carry out this type of work, an initial step is to build up the necessary data base. When defining the needs for information, it is possible that several other analyses can benefit as a by-product of any particular long-term project. In the case of incentive systems, the following sources of information would be required:

- Industrial (and other sector) surveys or censuses, at firm or establishment level with: (i) identification, by size, subsector, region, and other relevant categories; (ii) production detailed by type of product and by market of destination (domestic, regional, or foreign), identified by NAB classification and with corresponding information on tariffs or international price; (iii) inputs, by NAB, market of source, and customs payments, including non-tradeables and other costs; (iv) assets, capital stocks, and inventories, separating information on real

depreciation and credits and contrasted with the balance sheet;

- Description of the industrial sector by subsector, region, and size of enterprises, with information such as: (i) output composition and growth potential that could be useful in determining supply for exportables in contrast to potential demand for them; (ii) employment absorption and potential for increasing labor demand, especially considering small and medium, urban and rural non-farm activities; (iii) import requirements and generation of foreign exchange; (iv) capital needs; (v) cost structures; (vi) number of employees and their wage bill, considering if they are skilled or unskilled; (vii) taxes and subsidies; and (viii) information on potential capacity;

- An input-output matrix that would separate sectors by size of enterprises (small, medium, and large), capital payments (working and fixed), and wages (skilled and unskilled workers);

- Calculations of effective incentives, including: (i) effective rates of protection on value added; and (ii) effective rates of protection on profitability (the former type of calculations has traditionally been carried out in the Ministry of Finance with IDB experts and the World

Bank has also participated in such studies at a more aggregate level);

- Studies of labor, capital, and foreign exchange markets in order to obtain opportunity costs important to calculations of efficiency in real economic terms;
- Calculations of domestic resource costs of generating foreign exchange as a measure of total, direct, short-term, and long-term comparative advantage, including the differentials among small, medium, and large enterprises;
- Household surveys of income, employment, and consumption by region, subsector of occupation, and size of enterprise (when applicable) in order to build up data for the construction of a Social Accounting Matrix (SAM) that can be used in a planning model;
- Social Accounting Matrix and planning model to measure the effects of macro-policies from the perspective of fiscal and balance of payments effects, income distribution, employment, expenditure pattern by subsector, and size of enterprises (such as those used by the International Labour Organization in other Latin American countries to calculate multipliers and linkage effects important in analyzing macro-policy measures;

- Definition of optimal incentive systems and effects of adjustment patterns in accordance with the overall objective of the Project outlined in previous sections of this report.

b. Other In-Depth Studies

i. Fiscal Sector Policies

This study should cover the composition of the budget, considering its revenues and expenditures. On the revenue side, there should be a focused analysis of indirect taxes in terms of the application of the value added tax or others and of direct taxes. The possibility of increasing the tax burden—currently very low by international standards—should be studied. An analysis of taxes on wealth should also be included. Such a study would complement other research projects, as when considering tariffs and export subsidies. On the expenditure side, public sector enterprises should be given considerable attention. Methodologies exist for this kind of research project, but attention needs to be given to improving the data base in terms of unifying accounting systems among public enterprises and fiscal accounts.

ii Money and Credit Policies

This study would focus on monetary and credit policy decisions in order to improve the use of different policy instruments. With regard to

monetary policy instruments, there should be an analysis of the effectiveness of resource requirements, rediscounts and advance policy, stabilization bond sales, and feasibility of open market operations. With regard to the credit sector, the study should focus on the structure of credit markets and effective interest rates. The study should include an analysis of the financial market structure, considering formal and informal markets and credit for small and medium enterprises by regions.

APPENDIX II

PARTIAL LIST OF TRAINED ECONOMISTS IN THE DOMINICAN REPUBLIC

Name	Specialty, if known	Degree, if known
Jose Luis Aleman	Economic policy	
Julio Aybar	Fiscal policy	
Oswaldo Cabrera		M.A., U.S.
Miguel Cearre		M.S., CIDE, Mexico
Leonardo Conde		Ph.D., Boston Col.
Marino Chaulatte	Agricultural Economics	Ph.D.
Andres Dauhajre	Exchange rate systems and policy; international economics and financial reforms; macro and money theory	Ph.D., Columbia
Gustavo Diaz		M.A., Mexico
Freddy Dominguez	Monetary policy	M.S., Ohio State
Luis Garcia Recio	Fiscal Policy	
Hector Guilliani-Cury	Industrial policy, fiscal policy	
Jose Antonio Herrero		Ph.D., MIT
Arturo Martinez Moya	Trade and development	Boston U.
Jose Jaime Molina		M.A.
Jaime Moreno	Trade theory and policy; cost-benefit analysis; development	ABD, B.U.
Jose A. Munguia	Macro-economics, public enterprises, agriculture	
Ruben Nunez	Agricultural economics	Ph.D., Maryland
Miguel A. Roman	Financial systems	
Alberto Veloz		M.S., Ohio State
Cesar Veloz		M.S., CIDE, Mexico
Gustavo Vohmar	Macro and monetary theory; financial systems	Columbia