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ON DEVELOPING THE CENTER FOR ADMINISTRATIVE AND ECONOMIC RESEARCH
AT UNIVERSIDAD CATOLICA MADRE Y MAESTRA

A Report Prepared By

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A. INTRODUCTION: CONSTRAINTS ON ECONOMIC POLICY ANALYSIS

The lack of adequate economic policy analysis has been apparent in Dominican governmental affairs for some time. Complex and often socially sensitive economic problems have, as a matter of course, been dealt with ad hoc. Politics and crisis-management dominate the policy process. Only limited organizational and professional capacity exists in government to analyze economic problems and to develop sound policy options for decisionmakers. The policy analysis that is available to government generally emanates from international agencies like the World Bank and the IMF. Studies produced by these organizations are helpful, but national policymakers are put in a position where the only well-analyzed options presented are those reflecting the current interests of these foreign institutions.

There are investigations of policy matters being conducted outside of government. One example is the recently created Foundation for Economic Development directed by Professor Andres Dauhajre. Several other private organizations also provide one kind of analysis or another of economic data. Many of the most highly trained economists in the country are involved in these private research efforts. But the kind of analysis that is undertaken by these organizations is limited in scope and discernment, being mainly oriented toward editorial comments in local newspapers. More rigorous analysis and longer-term perspectives of policy issues are often brushed aside in these exercises for lack of resources or journalistic imperatives.

Many government officials and members of the private business and university communities are convinced that a number of important economic policies must be adjusted over time if a wide range of sectoral programs are to achieve their goals of increasing productivity and employment generation. In the Dominican Republic, it has become apparent that current macroeconomic policy is a serious threat to economic stability and the implementation of a long-run strategy for export-led growth. Similarly tax, tariff and other fiscal measures have engendered a highly distorted system of production incentives. And also financial regulations have reduced effective intermediation of national savings. However, without improved local capacity to analyze and formulate policies, leading to policy changes in these areas that are consistent with the needs of the country, decisionmakers will be forced to operate in an environment devoid of well thought out alternatives or will continue to be dependent on foreign advisory missions that may have their own policy agendas.

Improved analysis of economic issues is also important in two other respects. First, it is vital that debate over economic policy outside of government be well informed. Private sector and nongovernmental institutions can play an important role in formulating and lobbying for new policy directions and more effective policy implementation. Second, there is a need for research to support teaching in educational institutions. Professors become better instructors and students, who will eventually go on to become the country's future policymakers, learn how to appreciate and use research information in deliberations about important economic and

social issues. There is an urgent need to address the constraints that limit the country's ability to support research activities and to generally analyze and formulate the alternatives available to those responsible for making important economic policy decisions.

1. Technical Capacity to Undertake Economic Policy Research

Only limited professional capacity exists in the Dominican Republic to address complex economic policy problems. Most of the country's trained professionals - approximately 12 to 13 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 and does not have the time or the opportunity to become involved in analytical economic work. The result is that information reaching policymakers is, for the most part, descriptive rather than analytical.

In the institutions where the existing trained professionals are employed, such as the universities, serious inquiry is constrained by limited resources. Economic and business departments of the country's universities are devoted almost exclusively to classroom instruction because of lack of research funds. Worse, low teaching salaries and the inability to supplement incomes with on-campus research work drive the few well-trained, competent professionals into the private sector and strip faculties of full-time teachers. Classes are commonly taught by part-time instructors that take responsibility for only a single course. Furthermore, in view of the lack of local research materials, the content of classroom instruction is mainly limited to theoretical exposition, with practical examples confined to the experience of other countries.

Addressing the problem of limited capacity for economic analysis requires first off, initiatives to train more individuals to increase the overall supply of skilled professionals together with programs to upgrade the technical expertise of existing personnel. But, perhaps more important in the short-run, it also requires initiatives to organize and efficiently utilize the highly trained and experienced professionals that are currently underemployed because of the lack of complementary research resources to employ them productively in universities and research institutions.

2. Availability of Data

Economic research and analysis in the Dominican Republic is constrained by a lack of accurate 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 experts. Data on important variables like employment are almost non-existent. Moreover, the accuracy of international trade statistics is affected by such problems 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.

Part of the data problem is political. Government officials consider current economic data, as one local expert puts it, "as a political weapon that can be used by the opposition to bring down unwarranted criticism on the government." But part of the data problem also stems from lack of policy research itself. The demand for quality data is, in essence, a derived demand, emanating from the needs of researchers and policymakers. Hence, initiatives to foster more policy analysis will also affect the data availability problem. Of course, data availability in Dominican Republic is also constrained by resource availability - both human and monetary. Therefore, strengthening the government's capacity to gather and process accurate data should also be the target of separate initiatives.

3. Organization and Management of Information in the Policymaking Process

In any country there needs to be an orderly, well-managed process by which 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 analysis of current economic problems or for developing policy options for consideration by high level policymakers. Each agency is responsible for marshalling information in its area of responsibility and responding to requests for analyses through its own research unit. Integrated analysis (interlinked effects) of economic problems is 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 analytical system also means that the work that is done by local and foreign consultants 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.

B. APPROACHES TO THE PROBLEM OF IMPROVING ECONOMIC POLICY ANALYSIS

It is evident that the policy analysis problem in the Dominican

Republic requires initiatives in at least three areas:

1. To build more analytical capacity;
2. To provide resources to employ existing analytical capability more effectively;
3. To encourage better organization and management of information in the policy decision process.

In programmatic terms, this will mean mounting initiatives that work both directly with government and its agencies, as well as initiatives aimed at private institutions, such as universities and private business research centers. Programs working directly with government and programs aimed at nongovernment institutions are not mutually exclusive. As the earlier discussion points out, building private sector capacity to analyze policy problems will have important effects on the impetus for policy change and the effectiveness of policy implementation. But there are some important pros and cons in working with one sector or the other that one should consider when formulating programmatic interventions to address the policy analysis problem in the Dominican Republic.

1. Pros and Cons of Working Directly with Government and Government Agencies

Pro

- i. The ultimate objective of initiatives to ameliorate the policy analysis problem is to improve government policy decisions. Programs to build analytical capacity in government ministries and to upgrade management of the system in government agencies that brings important information into the decision process are the most straightforward ways to achieve this objective.
- ii. Moreover, improved information management and improved analytical capability go together. Experience gained from other countries indicates that organizing a more effective information management system in government is most easily achieved as greater analytical capacity is being brought onstream. Again, working directly with government agencies is the most effective way to achieve the desired end.
- iii. There is also the question of policy implementation. Achieving a tax reform, for example, is both a function of new tax laws and more effective tax administration. Reaching the desired objective is a matter then of both formulating better policies and better policy implementation. This prerequisite for more effective implementation accompanying policy change is most expediently accomplished by working directly with government agencies.

- iv. Finally, the sequence running from policy analysis to policy reform to policy implementation is an iterative process that requires both technical expertise and effective human interaction. Policymakers must learn to trust the advice of analysts and analysts must learn that the policy-decision-and-implementation process takes more into consideration than simply economic variables. Effective interaction for both sides requires building relationships that go beyond placing "one-shot" studies on the Minister's desk. Consideration of this requirement means that programs must have a long-term perspective and must be aimed at both development of analytical capability and effective interaction between analysts and decisionmakers.

But there are also problems that arise when trying to build policy analysis capability by working directly with government agencies.

Con

- i. Given civil service pay scales and (inflexible) employment regulations in most governments, it is almost impossible to develop and retain high quality analysts. Many well-designed, well-executed projects to improve policy analysis capability in developing countries fail because at the end of (x) number of years of policy advice, training fellowships, short-courses and counterpart on-the-job instruction, they are still at square-one in terms of ministry capacity to sustain the effort, having lost all the project-trained people to the private sector. An added twist in the Dominican Republic is the fact that a permanent civil service doesn't exist. Every four years, with the election of a new administration, the possibility exists that all ministry personnel will be changed.
- ii. There is also the problem of trying to cultivate the notion of improved analytical capability in a less than fertile environment. Given no tradition of having research brought into the policy decision process, many officials may view organized analysis as not necessary, or worse, an unwanted intrusion. Any initiative to upgrade policy analysis in such a setting may become marginalized in the bureaucracy before it can prove its worth. It is interesting to note that one of the recognized determinants of success of donor-funded policy projects has been the extent of the country's current economic crisis and the government's willingness to do something about it. Accordingly, it is important to assess the absorptive capacity of government before initiating efforts to work directly with such agencies on policy analysis problems. In some cases, it may be more effective to initiate such efforts outside government.
- iii. Governments change every four years. A well-functioning policy analysis project with one administration may become a

disappointment with another. Added to this is the political sensitivity problem that bilateral donors, such as USAID, often face. In the economic area, many governments do not want to appear to be taking policy directions from foreigners.

- iv. Correspondingly, policy reforms proposed by foreign economists are rarely enacted if local political leaders are not active advocates of the reform. While the role of foreign experts may be helpful in making the case for reform, brief visits and expositions by such experts rarely build solid domestic support for reform. Support is more likely to be forthcoming if a convincing case can be made by local figures. Therefore it is important to build up an indigenous research and analysis capacity that can present a continuing case for reform. As mentioned above, a policy analyst, whether he or she is foreign or domestic, is more likely to exert a positive influence if he or she enjoys a long-term relationship with host country technicians and leaders and can gain their confidence.
- v. Lastly, the policy analysis that is undertaken by government agencies can often be less than totally objective. Moreover, the research results are often thought of as proprietary and thus not publicly available for objective scrutiny.

C. A PROJECT TO FURTHER THE DEVELOPMENT OF THE CENTER FOR ADMINISTRATIVE AND ECONOMIC RESEARCH (CAER) AT UCM

In discussions with government officials, businessmen, university faculty and private policy analysts, this author found unanimous agreement that any effort to address the policy analysis problem in the Dominican Republic today, should be organized in the private sector. It was the consensus of those interviewed (some 25 community leaders) that policy reform could best be orchestrated in the current Dominican political environment through a concerted joint effort by the private sector (business and the academic communities), the Church, and the donor community - specifically, USAID, the World Bank, IMF and the IDB. And further, that this effort would benefit substantially from research organized at a private institution. Most of these community leaders do not believe that initiatives aimed solely at government will have the desired effect. They argue that "current political decision processes limit government absorptive capacity for a policy analysis project. In any event, local capability to undertake policy research is all located in the private sector".

In view of such pessimistic assessments of the possibilities for initiatives aimed solely at government, it would seem most efficacious for USAID to address the policy analysis problem by means of a two-track approach. One track could focus on initiatives working directly with government agencies, whilst the second track could operate through the instrumentality of private sector institutions. The logic of the second

track being that increased private capacity to analyze policy issues and to lobby for policy reforms will ultimately have an indirect beneficial effect on the government's disposition towards policy reform and the policy analysis problem. The remainder of this report describes an approach to the second-track option.

Considering that USAID has already made a substantial, and as the Management Training project evaluation notes, highly successful, investment in establishment of a Graduate Faculty of Business Administration, including a Center for Administrative and Economic Research (CAER), at UCMM, it would seem logical that an additional infusion of resources to support further development of economic research at CAER would both enhance the benefits to be gained from the existing project and make an additional contribution to Dominican economic policy reform efforts. There are several reasons why investments to further the development of policy research capability at CAER make sense.

First, CAER already exists: human resource-building sunk costs have been incurred that can be enhanced by further investments in research capability. As the Graduate Management Training Project paper stated, "No truly effective business or public administration program can be operated without active participation of faculty and students in applied research and consultation. The regular contact with real problems, as distinct from theoretical ones, that require study and analysis to resolve is essential to professional education." To date the research component of the Graduate Management Training Project has received less attention than developing classroom instruction. Now that the physical plant and instructional programs have been successfully completed, additional resources are needed to effectively implement an applied (policy-oriented) research program.

Second, UCMM, Department of Economics, has a track record of authoritative involvement in Dominican economic policy debates. Department faculty have organized a series of important seminars over the last few years on current economic issues that have been influential in promoting policy reform (for example, their recent seminar on the abolition of exchange controls; see other examples in Appendix I). Moreover, UCMM, in conjunction with the Church and private industry, is today playing an important role in facilitating discussions between government, business and labor unions to resolve pressing social tensions. The university has also shown that it can work effectively with other segments of society. After the last elections UCMM conducted a week-long seminar for newly elected officials to help them polish up their legislative skills. Similarly, UCMM, through the graduate business administration school, runs executive training courses, and, through its connections with the Church, holds religious convocations.

Third, UCMM, Department of Economics, has the best economics faculty in the Dominican Republic (see Appendix II). Although many of its instructors are part-time, they represent the best economic talent in the country, as evidenced by the economic advisory and management positions they hold outside the University. Any policy research effort with a quality orientation would have to work with these individuals in any case.

Fourth, it makes good sense to develop a policy research center that works jointly on both business and economic matters. CAER, at UCMM, is a natural way to implement such a program. Cooperative business and economic research should help to foster interaction between business experts, who focus mainly on firmlevel problems, and economists, who, by training, generally gravitate towards investigation of more macrolevel policy issues. Putting these approaches together in one institution should help to keep research focused on practical, "applied" policy matters.

Summing up, there is no other private institution in the Dominican Republic with the connections, human resources, physical infrastructure, and administrative capacity of UCMM that can offer the same potential return on investment in the policy research area. Given the requirement for authoritativeness and credibility, one cannot avoid in this case making investments that "build on the best."

1. CAER Development Needs

Creating a respected business and economic policy research center in the Dominican context will require a substantial investment over at least a four to six year period (the latter probably being the relevant time horizon). The sizable resource commitment needed to commence such a project is related to several factors, namely:

- i. the need to generate, fairly quickly, high quality policy studies in several areas to build credibility with government and the private sector;
- ii. the need for foreign technical assistance, in the first few years of the Center's development, to help plan, conceptualize and execute the research program, with a focus on quality control.
- iii. the need for foreign technical assistance in the short-term to help build the Center's reputation with the government, donor community and private sector. A few "big names" can work wonders in the early stages of such a project. Additionally, these technical experts can do double duty. They can be used in other policy reform efforts, working directly with government agencies.
- iv. the need to provide support for local researcher salaries over the life of the project, given the current lack of resources available for such salaries at the University.

UCMM officials have indicated that after the Center's initial phase of development (3 to 4 years), the University would begin meeting some of the institutions recurrent operating costs. The University's proportion of recurrent funding would thereafter rise until the end of the final phase (the sixth year) when an endowment raised by the University, together with

government and private research contracts, would meet all the operating costs. UCMM and others predict that after several years of providing useful research studies, CAER will be able to raise a research endowment from private, government and donor agencies. The university's notion that supply (of quality policy research) will create its own demand is not without precedent in the Dominican Republic. The story behind the recently created Economic Development Foundation is a case in point. As described to this author, after a couple of long newspaper articles commenting on current economic policy, private sector donors were eager to provide funding for future efforts. The Foundation now operates solely with private sector support.

i. Assessment of current Capacity for Research in the Department of Economics and the Graduate Business Administration School at UCMM

Although CAER was established several years ago under USAID's Management Training project, today, but for a name plate on the door and a designated Director, the Center is largely a nonfunctioning institution. Several research proposals have been drawn up under the auspices of CAER, but no studies have begun. For sound reasons the Management Training project, so far, has concentrated its resources on developing a program of graduate business instruction and organizing executive training courses. Research at CAER has largely been left to develop on its own. Unfortunately, resource constraints at UCMM have inhibited progress in mounting the research program.

The chief problem in getting research going is neither lack of motivated, qualified economic researchers, nor a deficiency of research equipment at UCMM, it is, as one senior Dominican economist put it, "a problem of time, and money for salaries." Because the University cannot afford to pay salaries equivalent to those paid in the private sector, most economics and business professors teach only part-time, as stated earlier; their remaining hours are spent in private business and consulting or, at times, in government advisory positions. For those few that work full-time at the university (there are currently 3 full-time professors in the Department of Economics), teaching and administrative functions take up most of the day. Small research efforts are undertaken from time to time but available hours and resource limitations constrain this activity. What is needed to develop a credible research program at UCMM is enough resources to bring some of the best-trained professors back into full-time teaching-research positions. This means providing funds to pay salaries almost equivalent to the private sector (with the normal discount for academic pay differentials). It also means freeing professors from burdensome administrative responsibilities and lengthy teaching schedules when working on research projects.

Adequate research personnel to begin a credible program at CAER would be five or six full-time professionals with advanced degrees. That is, economic and business professionals that could spend at least seventy-five percent of their time doing research and approximately one-quarter time with teaching and administrative responsibilities. These permanent members

of staff, perhaps designated as "Research Fellows" would not be allowed to do outside consulting. There would also be positions for collaborating "Research Associates" that could be hired from time to time as consultants for research topics in which CAER has only limited expertise, or for special research projects. The ability to bring in experts from outside the Center can be an important instrument for creating local networks of researchers on particular topics, for bringing highly trained Dominicans working abroad back to the country to participate in the development process, and, for insuring research quality. In addition to its core of senior researchers, CAER would need two or three full-time "Research Assistants" and several "Student Assistants."

Building up a cadre of experienced researchers is the most critical resource requirement for CAER's development. Space and equipment, in the form of offices, classrooms, computers and the like, as well as library books and other research materials, have already been provided by earlier University and donor programs. Likewise, administrative capacity at the UCMM Santo Domingo campus is adequate to support CAER's start up needs. Perhaps an additional bilingual secretary would be needed for support as CAER's activities expand to the full-complement of five to six research fellows.

ii. The Need for Technical Assistance

Foreign technical assistance in the early years will be crucial for the success of any program to develop CAER. Most well-trained Dominicans in business and economics received their degrees only recently or are currently working on degrees abroad. The research experience of these individuals is limited and will need the collaborative input of more experienced academics from U.S. and other Latin American institutions to help plan and execute an authoritative policy research program. As stated earlier, foreign technical assistance will be important for assuring early research quality and CAER's creditability with government officials.

On the business administration side, a mechanism already exists for providing the necessary technical assistance input - the Management Training project. Under this project the University of South Carolina, School of Business Administration, has been contracted to provide technical assistance in the form of long-term and short-term personnel for teaching and research. UCMM indicates that it would like to encourage USC to reorient most of its future technical assistance towards support for CAER's development. If funds can be found to support salaries for the required complement of local research fellows at CAER, USC could be asked to develop a program of collaborative research with the Center. On the economic side, the answer is not so readily available. One possibility is a "buy-in" to the ongoing, USAID-funded, Employment and Enterprise Policy Analysis project at the Harvard Institute for International Development. The FEPA project is charged with providing research and technical assistance support to USAID missions in the areas of macroeconomic and industrial policy (including small and medium enterprises). Although the buy-in capacity has been depleted somewhat, there is still room for up to \$1 M over the next two years.

Whatever mechanism for economic technical assistance is ultimately chosen, it is important that some institution be given responsibility for helping CAER in this area, particularly in the first few critical years of its operation. Also, as already suggested, foreign experts in business and economics can be contracted to do double duty in both CAER and in the ministries. Foreign consultants could be used to support additional research efforts in government agencies and for "policy dialogues" and/or policy seminars.

iii. Additional Requirements for CAER Development

Two other requirements are necessary for CAER's operation - funds for (local) outside research contacts and funds for research seminars and publications. The first of these has already been discussed under personnel requirements, but it bears further discussion. A relatively small amount of resources should be made available for CAER to hire researchers from other local institutions when needed. This will help to insure that the best professionals available are brought into the research program. It will also help to alleviate potential problems conflict between local institutions. If CAER is encouraged to bring researchers from other institutions into the program, all institutions can potentially benefit from the new policy research effort.

The second requirement - funds for seminars and publications - speaks for itself. In order to disseminate policy research results, a well-managed program of research seminars and publications (aimed at policymakers and the general public) must be launched. The authoritativeness of CAER will rest on how well this job is done and on the Director's ability to "market" the Center's research product in government and private business circles.

2. Suggested Operating Procedures for CAER

Appendix III reproduces the Management Training project's "Development Plan for CAER." As set out, there is little with which to disagree in the plan. The only addendum that might be attached to the plan as written is a restatement of CAER's primary orientation toward applied, "policy" research. The plan stresses the point that applied vs. basic research should be the chief orientation, but its ranking of priorities under this overarching goal is first to "support teaching and continuing education." This author's first priority for CAER would be policy-oriented research to influence public sector and private sector client groups, putting teaching and continuing education second.

One addition UCM has proposed to insure CAER's applied, policy focus is an overseeing Board of Directors. This Board would be made up of representatives from government, business, labor unions, academia (and/or private research institutions) and the donor community. It would be involved in helping CAER establish its research priorities over the short- and long-term. The Board would also be importantly involved in

dissemination of the Center's research results.

In order to accomplish its research objectives 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 "dialogues" should be followed at CAER. This research process can be divided into three important components:

- selecting and defining the studies;
- execution of the studies;
- policy discussion and recommendations.

Each component is discussed in some detail below.

i. Selecting and Defining Studies

a. Formulating Relevant Policy Questions

Research to be undertaken by CAER will be guided by the needs for current and long-term economic and business analysis of client groups in government and the private sector, as well as recommendations by the overseeing Board of Directors. Therefore, the research questions that the Center addresses must reflect these needs. In other words, and as much as possible, CAER's work should be demand-driven, especially in terms of urgent, short-term studies (those requiring a few days to a month or two to accomplish).

When questions and issues are posed by clients in the public and private sectors, the Board of Directors, the Director of CAER, and perhaps, long and short-term consultants hired for the CAER development effort, should be active in specifying the goals of the study or studies to be undertaken and the policy relevance of the questions expressed. A consensus should be developed about the degree of urgency and priority assigned to the topic.

It is clear that in practice research questions will arise not only when policymakers are faced with an unexpected economic problem, but also when it is evident that there is a need to improve the quality of technical inputs in the day-to-day decisions made by business and government and in analysis of long-run issues of importance to the economy. In the definition of such issues, there will be a close interaction throughout CAER's research system: previous study results obtained by the work of CAER and other local institutions probably help in opening up new demands, and the relationship between members of the Board of Directors and members of CAER staff and client groups 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 government and private sector client groups, the Board of Directors and CAER.

In addition, there are general questions of economic policy that CAER

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 CAER. A suggested list of studies is presented in the next section of this report. The accomplishment of these studies will also provide an important basis for responding to the more immediate needs of high level policymakers.

b. Translating the Question into a Workable Project

Questions must be translated into well defined studies. This task is a joint responsibility of the board of Directors of CAER, CAER's Director, consultants and the research staff. The Director of CAER will have primary responsibility for thinking through the implementation of a study, so that an appropriate scope of work, budget, methodology, and analytic framework are developed to undertake it. The Board of Directors, the Director, and the consultants must seek to ensure that each study is related to the issues of policymaking for which CAER has been created. They must ensure that the research project poses questions that can be empirically and analytically addressed during the planned period of time.

ii. Execution of the Study

Both ~~urgent~~ urgent short-term and in-depth, longer-term studies will be carried out at CAER, provided that there is in-house capability, or outside local and foreign consultants can be brought in to help. In the latter case, CAER would be responsible for managing and/or coordinating the study, providing its own expertise and, where appropriate, contracting these local or foreign experts. In making the decision about how the research should be accomplished, the Director should consider: i) whether CAER or has comparative advantage in the expertise and personnel required for the study; and ii) how urgently the results are needed by policymakers or other clients. Practicalities of research management suggest that when in-house capacity exists, urgent short-term studies can be most effectively carried out with CAER staff, calling on the assistance of contracted experts only when absolutely necessary.

The Director of CAER 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 clients and the Board of Directors. 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 Fellow 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 CAER and the public, 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 should 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 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 research 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 should 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.

iii. Policy Recommendations and Dialogue

Studies undertaken by CAER should generally be widely circulated and publicized. Exceptions might arise when a study is done for a client, such as a government agency, that requires confidentiality. But it is important to stress that CAER's work should be aimed at providing analysis to inform and influence ongoing policy debates. As such, research results should be publicized and more fully aired in public seminars. An important role for CAER's Director, as well as the senior Research Fellows, would be to communicate and market research findings. Without this effort, the work of CAER may acquire academic attention and importance, but it would not achieve its principal goal of influencing economic policymaking and/or the general policy debate. The ability to play a vital role in policy debates is therefore a central criteria against which the success of CAER should be measured.

a. Summary Policy Paper

Effective policy discussion must begin with high level professional competence within CAER and effective management by the Director. It will be furthered by analyses that are effectively shaped into policy relevant recommendations and options. The development of CAER will play its most important role in more effective decisionmaking when it can increase the technical component of ongoing discussion 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 Board of Directors and subsequently submitted in print -- and presented orally on request--to the public (or perhaps a press release).

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 CAER by the client.

b. Other Inputs into Policy Discussions

To enhance its professional reputation and to encourage broader public discussion of policy issues, CAER 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 CAER might be invited to submit analytical articles that are particularly relevant to policy analysis.

In addition, CAER 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.

3. Suggestions for Early Study Topics

In discussions with government officials, businessmen and researchers, suggestions for CAER's first (5-year) research agenda were forthcoming. These proposals are presented in summary form below.

I. Trade and Exchange Rate

1. Exchange rate policy (some studies have been completed but additional work is needed).
2. Effective rate of protection, effective exchange rates and domestic resource costs. How is current trade policy affecting the system of industrial and agricultural production incentives?

II. Fiscal Policy

1. The incidence of direct and indirect taxes.
2. Real effective taxation and its impact on industrial structure and export competitiveness.
3. Tax administration.
4. Tax and tariff harmonization.

III. Monetary Policy and Financial Market Regulation

1. Monetary policy and the budget. (e.g. impact of deficit financing).
2. Monetary policy and the balance of payments.
3. Interest rate and credit policy.
4. Financial market regulations (economic, legal, etc.) impact on efficient intermediation, and savings mobilization.

IV. Industrial Policy and Employment

1. Impact of prevailing structure of incentives on industry competitiveness and growth.
2. Export promotion policies and programs.
3. Promotion of technological capability in industry.
4. Enterprise policies, particularly those related to small and medium industries.
5. Labor market policies (constraints to employment, labor mobility, and wage structures.)

V. Studies of Process of Policy Liberalization.

1. A macroeconomic stabilization program for the Dominican Republic - options and probable effects on employment and income distribution.

2. The order of liberalization - e.g. current account, capital account - timing and degree of liberalization.
3. Sectoral price adjustments - timing and degree of liberalization.
4. International debt adjustment problem.

VI. Public Enterprises

1. Privatization and/or reforming management.

VII. Land Reform

1. Study of the results of previous land reform and directions for future efforts.

Some of these studies were suggested by HIID in an earlier review of the need for economic policy analysis in the Dominican Republic in 1985. A list of these study suggestions along with a discussion of each topic is reproduced in Appendix III.

ESTIMATED COST FOR FURTHER DEVELOPMENT OF CAER POLICY RESEARCH
(FIRST THREE YEARS)

	<u>UCMM</u>	<u>Outside Contribution</u>
Staff:		
*6 Senior Research Fellows, full-time @ \$1000/mo.	\$54,000	\$162,000
3 Research Assistants, full-time @ \$400/mo.		43,200
3 Student Assistants, half-time @ \$150/mo.		8,100
Local Research Contracts:		
24 person months @ \$1000/mo.		24,000
Foreign Consultants:		
Business Studies (from USC-see Management Training Project Budget)		---
Economic Studies (Assuming Consultants from HIID, EEPa, 18 person mo. @ \$15,000/mo.)		270,000
Policy Seminars:		
Assuming 6 seminars per year @ \$2,000 ea.		36,000
Publications:		
Assuming some publications covered under seminar cost and that an average of 6 publications are produced per year @ approximately \$500/ea. series.		10,000
Equipment and Office Space:		
Provided by UCMM	---	
TOTAL ESTIMATED	\$54,000	\$553,300

* Cost estimate based on 75 percent research and 25 percent teaching.

APPENDIX I
MAIN SEMINARS AND SPECIAL COURSES OFFERED BY THE UCMM
IN THE LAST FOUR YEARS

Objective: Create the foundation for a research center

1. Exchange rate systems in small economies.
2. Foreign exchange/problems in Dominican Republic.
3. Futures markets.
4. El programa de ajuste del FMI.
5. El sector azucarero dominicano: problemas y perspectivas.
6. Impacto de las medidas del FMI sobre el sector industrial.
7. Algunas suposiciones ante la crisis económica actual.
8. Production and operations management.
9. Strategies in developing and marketing new products and services.
10. Governmental accounting and auditing.
11. Advanced governmental accounting.
12. Innovation and creativity in the organization.
13. Forecasting as a factor in strategic planning.
14. Introduction to the construction of statistical decision models.
15. Ideas, concepts and practices in marketing.
16. Future of the Dominican foreign exchange rates.
17. Privatization and deregulation.

APPENDIX II

PARTIAL LIST OF TRAINED ECONOMISTS IN THE DOMINICAN REPUBLIC

<u>Name</u>	<u>Specialty, if known</u>	<u>Degree, if known</u>
*Jose Luis Aleman	Economic policy	Ph.D., Germany
*Julio Aybar	Fiscal policy	Ph.D., U.S. South Carolina
*Osvaldo Cabrera		M.A., U.S.
Miguel Ceara		M.S., CIDE, Mexico
Leonardo Conde		Ph.D., Boston College
Manuel Jose Cahreel		Ph.D. Holland
Marino Chaulatte	Agricultural Economics	Ph.D.
Frank Castello		M.A. Louvain, Belgium
*Andres Dauhajre	Exchange rate systems and policy; international economics and financial reforms; macro and monetary theory.	Ph.D., Columbia
Carlos Despradel		M.A. U.S., Yale
Gustavo Diaz		M.A., Mexico
Freddy Dominguez	Monetary policy, fiscal policy	
*Jose Antonio Herrero		Ph.D. McGill, Canada
*Arturo Martinez Moya	Trade and development	Ph.D. U.S. Boston University
*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	International economics, fiscal policy	M.S., CIDE, Mexico
*Gustavo Volmae	Macro and monetary theory; financial systems	Ph.D. U.S., Fordham
Gladys de Jesus		Ph.D., Ohio State
Raul Feliz	Monetary policy; open macroeconomics and econometrics	M.S. CIDE, Mexico
Enrique Leyba		Ph.D. U.S. Pittsburg
Pedro Silverio	Fiscal policy	M.S., UCMM
Diogenes Fora		Ph.D., Francia
*Hector Guilliani		Ph.D., Cand.

* Affiliated with the Department of Economics, UCMM.

STUDIES SUGGESTED IN EARLIER 1985 HIID REPORT

6/3

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

21

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 licensing, 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~~ 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

28

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

74

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
- 23

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

7R

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.