USAID/DOMINICAN REPUBLIC
COUNTRY DEVELOPMENT STRATEGY STATEMENT
FY-1987

FY-1987 COUNTRY DEVELOPMENT STRATEGY STATEMENT

(CDSS)

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

(USAID/DR)

SANTO DOMINGO, DOMINICAN REPUBLIC

Henry H. Bassford, Director

January 28, 1986

TABLE OF CONTENTS

Page

LIST OF ACRONYMS OR ABBREVIATIONS USED IN THE USAID/DR FY-1987 CDSS

ADOEXPO:	Dominican Association of Exporters
BAGRICOLA:	Agricultural Bank
CACI:	Chicago Association of Commerce and Industry
CARE:	Committee for American Relief Everywhere
CBI:	Caribbean Basin Initiative
CDE:	Dominican Electrical Corporation
CEA:	State Sugar Council
CEDOPEX:	Dominican Center for Export Promotion
CORDE:	Dominican State Enterprise Corporation
DA:	Development Assistance
ESF:	Economic Support Fund
FEDOCA:	Dominican Private Sugar Growers Federation
GDP:	Gross Domestic Product
GODR:	Government of the Dominican Republic
HMO:	Health Management Organization
IAD:	Agrarian Reform Institute
IBRD:	International Bank for Reconstruction and Development (World Bank)
IDB:	Inter-American Development Bank
IDIA:	Dominican Institute of Agricultural Research
ILANUD:	Latin American Institute for the Prevention of Crime and Treatment of the Offender
IMF:	International Monetary Fund
INESPRE:	Price Stabilization Institute
INTEC:	Institute of Technology
IPC:	Investment Promotion Council
ISA/CADER:	Superior Institute of Agriculture/Center for Rural Development Administration
ISI:	Import Substitution Industries
JACC:	Joint Agricultural Coordinating Council
OAS:	Organization of American States
OPIC:	Overseas Private Investment Corporation
PL-480:	Public Law 480
PSC:	Personal Services Contract
PVO:	Private Voluntary Organization
SESPAS:	Secretariat of State for Public Health and Social Assistance
SMEs:	Small and Micro Scale Enterprises
UASD:	Autonomous University of Santo Domingo
UCE:	East-Central University
UCMM:	Catholic University
UNFPA:	United Nations Fund for Population Activities
UNPHU:	Pedro Henríquez Ureña University
USAID/DR:	U.S. Agency for International Development Mission to the Dominican Republic

I. EXECUTIVE SUMMARY

In January 1985, the GODR initiated a difficult economic adjustment program which should provide the framework for future economic growth. Austerity measures which the government implemented have stabilized the foreign exchange rate, lowered the rate of inflation, increased savings, and reduced the domestic budgetary deficit. But, further policy changes are required to move toward sustained non-inflationary growth. The U.S. and the Dominican Republic share a common goal of ensuring a growing and stable democracy and an open economy which can successfully manage the current economic difficulties, implement reasonable economic adjustment programs, and initiate economic recovery and development. A new Government will be inaugurated in August 1986, and it will face the continuing need to balance two fundamental development policy objectives: (a) the need to maintain monetary discipline without being overly contractionary so as to prevent needed investment, and (b) the need to implement reforms and adjustments leading to export-promoting investments and production opportunities.

The Dominican Republic enjoys a number of factor endowments which will support a much more rapid expansion and diversification in the country's economy. The export-oriented industrial and agricultural sectors have the greatest potential for expanding employment opportunities in the short term, for increasing per capita income, and for stimulating growth throughout the economy. But, a series of policy, institutional, resource, and infrastructure constraints must be addressed to achieve this. For the country to maximize its long-term development potential it must diversify and reorient its productive base, and increase its exports of labor intensive non-traditional agricultural, agro-industrial and manufactured products.

Our strategy is to support the Dominican Republic's recovery and growth through a private sector-led expansion and diversification of the country's economic base. We will help achieve this through:

a. Continued progress in implementing the ongoing economic stabilization program.

b. Expanded private investment in the industrial and agricultural sectors and the development of a broader base of non-traditional exports.

c. Rapid diversification of the agricultural sector into non-traditional crops with foreign exchange earning potential.

d. Improved access to needed health care and family planning services by reinforcing the private sector's capacity to meet these needs.

This strategy emphasizes the productive sectors of the economy which can lead to broadly-based self-sustaining growth. Increased private sector investment in agroindustry and free zone development, along with a rapid diversification of the agricultural sector into non-traditional crops with export potential will expand employment and income opportunities for Dominican workers. This should enable the poor to procure directly social services and other improvements in their standard of living they cannot now afford. Growth in the export-oriented industrial and agricultural sectors will have a direct impact on increasing foreign exchange earnings as well as domestic revenues, which will serve to maintain economic stability, broaden the country's economic base, and attract additional investment necessary for sustained long-term growth. This strategy will make the greatest possible use of domestic and foreign investments in the private sector. We will limit our involvement in government programs since the public sector cannot adequately support the services which it is now committed to providing.

AID resource levels are projected to remain relatively constant over the CDSS time frame. We propose an average annual Development Assistance level of $34 million, ESF of $50 million, and PL-480 Title I of $30 million. All local currency resources generated by PL-480 and ESF will finance activities supportive of the AID strategy, and the majority of these funds will go directly to the private sector. Over the five-year CDSS period approximately 54% of the total projected AID resources will be allocated to support private sector industrial development, and 42% of the resources will be allocated to diversified agricultural development.

II. ANALYSIS

A. Macro-Economic Environment and Background

1. Background

As with most oil importing development economies, the Dominican Republic has suffered a serious long-term decline in its terms of trade as a result of the 1973 and 1979 oil shocks and the steady decline in global commodity prices, especially for sugar. However, the country's economic problems originate, in part, from Dominican policy decisions dating back to 1965. Traditionally an agrarian society, the Dominican Republic only began to develop a domestic industrial capacity with the 1968 enactment of the Industrial Incentives and Protection Law (Law 299), which stimulated the development of import substitution industries (ISI).

Between 1968 and 1974, the Dominican economy experienced rapid economic growth with an average annual GDP growth of 11%. High industrial investment coincided with expanding world trade and high prices for traditional agricultural exports. As more ISIs were established, additional white-collar jobs were created, a middle class began to emerge, and the demand for middle-class consumer products increased, leading to more foreign imports. Demand for foreign exchange increased more rapidly than traditional exports (sugar and coffee), and the parallel exchange market began to show a 10% premium for U.S. dollars.

The drastic increase of oil prices in 1974 further increased the demand for foreign exchange. Fortunately, rising world sugar and coffee prices, new gold exports, and a drawdown on foreign exchange reserves provided sufficient foreign exchange to maintain a precarious external balance with an average 20% parallel market premium. However, because of a relatively small domestic market, opportunities for ISI investment began to decline. Reduced industrial investment brought the average GDP growth rate down to 5%. Throughout the period, however, external debts were low. Public sector deficits rarely exceeded 0.5% of GDP, and there were even some years of budget surpluses. Nevertheless, the economy contained two basic weaknesses: agricultural output, under the burden of price controls, stagnated to less than 2% a year growth, and national unemployment exceeded 20%, even with annual GDP growth of over 10%.

When oil prices doubled in 1979, and sugar prices dropped in 1981, the Dominican economy went into a tail spin. Externally, trade imbalances became increasingly severe, and internally, the country was unable to adjust spending to income. Rising public spending was not supported by an adequate revenue base. Public sector deficits mounted rapidly. A major contributing factor to the government's fiscal deficit problem were the losses incurred by public sector enterprises. Much of the deficit was financed with expensive short-term external borrowing. By 1984, the country's external debt burden reached $3 billion. Structural imbalances in the private sector import-substitution industries further inhibited export growth needed to generate more foreign exchange. Price controls, inappropriate and unrealistic exchange rates, import-substitution and anti-export trade policies, and other structural inefficiencies also exacerbated the problem. As a result, by the end of 1984, the parallel market exchange rate increased from a 20% premium to 200%, real GDP growth declined to less than 2%, and official inflation reached more than 25%.

2. Recent Adjustment Measures

In an effort to stabilize the Dominican economy and create an environment within which non-inflationary growth could take place, the GODR in January 1985 concluded a process of selective devaluations by unifying the exchange rate from its previous level of one peso to one dollar to a freely determined market rate. The GODR took measures to pass on the higher cost of imports to consumers through price increases of petroleum products and electricity. At the same time, it froze public sector credits from the banking system, limited monetary emissions, reduced some public subsidies, and began to liberalize interest rates to encourage domestic savings. The GODR also succeeded in rescheduling its national debt repayments with the Paris Club and international commercial banks.

As a result, some measure of economic stability has been restored. The rate of inflation has fallen from 37% to an annual rate of 15% during the second half of 1985. The free market exchange rate has stabilized at about RD$3.00 = US$1.00. Public sector deficits have been kept under control. Nevertheless, the cost of achieving this stability has been high, resulting in lower production levels, higher production costs, zero growth in the GDP, and a worsening unemployment situation.

Although short-term stabilization appears to have been achieved, in order to establish a firm foundation for sustained growth the Dominican Republic needs to maintain the monetary and fiscal discipline evidenced over the past year, as well as to make further progress in price and subsidy adjustments, diversify its agricultural and industrial base, and reduce the role of public sector enterprises in the Dominican economy. Additional measures to expand the amount of government land available to private investors are also needed, along with an elimination of export restrictions and a reduction of export taxes.

Based on the initial adjustments taken this year and the apparently strong demand for credits in support of export projects, the post-1985 period could be one in which non-traditional exports grow in absolute and relative importance, thus permitting the nation to enter the next decade with a strong, efficient export base. This export orientation is considered fundamental to achieving economic recovery from the current economic crisis, while moving the Dominican Republic toward broad-based, self-sustaining growth and development.

3. Advantages/Opportunities

Despite its current economic difficulties, the Dominican Republic has the potential to increase significantly investments and exports in agriculture, industry, and tourism. Some of the Dominican Republic's attributes are shared with its Caribbean and Central American neighbors; others are unique. The principal advantages enjoyed by the Dominican Republic include:

-- The Dominican Republic is a beneficiary under the CBI.

-- Its semi-tropical climate is favorable to the production of fruits and vegetables consumed in the United States, particularly during the winter months. It has sufficient geographical diversity to enable the country to provide a wide variety of agricultural produce and tree crops.

-- It is close to the United States, enjoys improving air and sea transport services, and is well positioned to market its exports to the

U.S. Its location also enables it to increase its exports to Puerto Rico and the Caricom countries.

-- The Dominican Republic has a relatively well-developed physical infrastructure; irrigation systems, road networks, and port facilities generally are in place.

-- The country has well-developed entrepreneurial skills, and a labor pool that is eager to work and highly trainable.

-- The Dominican Republic has a package of export and investment incentives that is, on the whole, competitive with other Caribbean and developing countries.

-- The Dominican Republic traditionally has welcomed foreign investment and has promoted private sector development.

-- Tourism shows excellent promise (it has grown at 19% per year over the last three years) due to the Dominican Republic's natural resource base, location, favorable exchange rate, and increased tourist facilities.

With the IMF, Paris Club and commercial debt rescheduling agreements in place, and the unification of the exchange rate on a free-market basis, a number of the uncertainties about the future of investment in the Dominican Republic have been removed. Because of the unification of the exchange rate, Dominican exports are more competitive in world markets, which makes the country more attractive to export-oriented foreign and domestic investors--provided they are assured that the rules of the game will not change frequently in the future.

B. Development Problems

Even though the GODR is addressing its immediate stabilization needs, fundamental longer term development problems remain. Seventy six percent of Dominicans have a standard of living which is below the poverty level, as defined by the World Bank. The distribution of income is skewed significantly, with the bottom 45% of the population earning only 17% of all income. Open unemployment totals 27% of the workforce, and underemployment and disguised unemployment total an additional 25%. Thus, an estimated 34% of the population is unable to procure sufficient food to maintain a diet meeting minimal acceptable standards. Infant mortality averages 70 per 1,000 live births, and life expectancy is only 63 years. The population is currently growing at a rate of 2.6%, although this rate is declining. Some 31% of the population is still illiterate and while primary education is free, a large portion of Dominican families cannot afford to buy the books and uniforms which are pre-requisites to attending public schools. While serious fiscal problems preclude any significant increase in public sector investments in the social sectors, expanding employment and income opportunities created by increased private sector investment in agroindustry and free zone development, along with a rapid diversification of the agricultural sector into non-traditional crops with export potential, could enable the poor to procure directly social services and other improvements in their standard of living. Also, growth in these two sectors will have a direct impact on increasing foreign exchange earnings as well as domestic revenues, which will serve to maintain economic stability, broaden the country's economic base, and attract additional investment necessary for sustained long-term growth.

A growth model in which an efficient private sector plays the leading role would permit the GODR to focus its attention on maintaining a macro-economic policy environment necessary to stimulate and sustain that growth, and on allocating its public resources toward ensuring both an equitable distribution of the benefits of that growth, and providing the supporting social services and physical infrastructure which the private sector cannot effectively provide.

1. Economic Adjustment

In order to ensure a stable, non-inflationary economic environment conducive to private sector investment, the GODR must continue to adhere to the economic stabilization program initiated in January 1985. This will require that:

-- A single, unified market-determined rate of exchange be maintained.

-- Petroleum prices and electricity rates be adjusted to reflect the real cost of energy.

-- Interest rates be adjusted to reflect the real cost of credit, taking inflation into account.

-- Reserve deficiencies in the Reserve Bank be limited.

-- Fiscal deficits continue to be reduced and eventually eliminated.

-- The rate of growth in net domestic assets should be commensurate with the rate of real growth in the economy.

In addition, in order to stimulate recovery and growth in the near term, a series of other important policy issues must be addressed. These include:

a. Monetary Policy

Monetary policy should be reoriented to direct larger amounts of credit resources toward the private sector with a commensurate reduction in public sector credit. However, overall credit allocated must be within ceilings on monetary emissions that permit real economic growth within a non-inflationary environment. Interest rates also must be increased to positive real rates within the formal banking system, more streamlined procedures for processing credit applications must be developed, and greater priority for credit should be given to longer term new productive investments.

b. Fiscal Policy

A restructuring of tax laws, tariff regulations and customs administration is required.

(1) Taxation

Currently the GODR applies a 36% exchange tax on traditional exports and services, a 5% tax on non-traditional exports, and a tax of 18% plus a surtax of 3% on the repatriation of earnings from foreign investments. These taxes discourage exports.

The GODR has agreed to reduce the 36% exchange tax on traditional exports before the end of the first quarter of 1986. We understand that it will drop to 20% at first, and then be phased out by the end of 1986. Further, the GODR has agreed to remove the 5% exchange tax on non-traditional exports no later than March 31, 1986. Nevertheless, the 18% tax and 3% surtax on profit repatriation from foreign investments remain. These taxes and surcharges create uncertainty in the business community, contribute to a lack of confidence in equitable government administration, cause economic distortions, and deter foreign investment in the Dominican Republic compared to other countries not imposing such taxes. Legislation is required to remove the taxes and surtaxes.

(2) Import Tariff Structure and Customs Administration

Import prohibitions and quantity restrictions, together with a system of high tariffs, have provided monopolistic protection to many inefficient import substitution industries. This has resulted in high prices for domestically produced consumer goods and local components of exports. The tariff system is also complex to administer as it is based on a large number of cumulative laws dealing with specific and *ad-valorem* tariffs modified by special industrial incentive exonerations, draw-back schemes, and similar inefficient practices.

The process of customs classification, valuation, and assessment is often arbitrary due to the complexity of the tariff structure. Guidelines to reduce the discretion of customs officials in applying existing laws need to be developed and enforced. More importantly, customs administration needs to move from its focus on revenue generation to a perspective that supports the rapid processing of imports to support export expansion as well as accelerated processing of foreign exchange earning exports.

c. Role of State Enterprises

The economic role of state enterprises needs to be reduced. The overall deficit of the principal state-owned enterprises in 1985 exceeded RD$300 million and could approach RD$500 million in 1986. This deficit must be covered by Central Government and other public sector resources, and in 1985 was financed primarily through the investment distorting 36% exchange surcharge on traditional exports. The major enterprises relying on central government subsidies are the Dominican Electrical Corporation (CDE), State Sugar Council (CEA), Price Stabilization Institute (INESPRE), and the Dominican State Enterprise Corporation (CORDE). (CEA and INESPRE are discussed in the Agriculture section below). Together these enterprises employ about 80,000 persons.

CDE currently is implementing a series of programs which, in the long-term, will reduce generation costs through the substitution of coal for oil and the greater use of hydro-power. Further, the tariff structure is being adjusted substantially, and efforts are being made to improve collection and reduce illegal connections so that CDE may eliminate the need for subsidies by the end of 1987. Nonetheless, in the short term, CDE needs to focus attention on the maintenance and repair of existing equipment, which will improve its generating and transmitting efficiency.

The CORDE companies were reorganized during 1984, and the price structure of most companies was adjusted to eliminate overall net losses for the holding company. Highly profitable enterprises, such as the cigarette company, currently subsidize losses of less efficient enterprises, such as the cement company, and CORDE registered a slight surplus in 1985. However, because these enterprises receive tax incentives and credit benefits not available to private enterprises, they are, in effect, receiving a hidden government subsidy. A number of CORDE companies compete with private businesses, which are at a disadvantage because of the more favorable incentives provided to state enterprises. This has permitted the state enterprises to operate inefficiently, has prevented private sector investment, and has led to increased prices for domestically produced goods. Given the large subsidies, both hidden and open, required by the state enterprises, and their inefficiencies and market distorting effects, the GODR should evaluate their economic role and the feasibility of divesting or privatizing them.

2. Constraints to Private Sector Industrial Growth

The private Dominican industrial sector encompasses a wide spectrum of enterprises and activities. It includes free trade zone companies, producing exclusively for the international market, along with many relatively large and protected companies organized under Law 299 which produce primarily for the domestic market. Agribusinesses that process non-traditional crops principally for export are a growing element of this sector. Light industry, which is labor-intensive and capitalizes on an adaptable and easily trainable labor force, is also growing in importance, as is tourism, now the country's largest foreign exchange earner. Outside of agriculture, small businesses which range from individual entrepreneurs and micro-enterprises to companies having up to ten employees, are the largest source of employment in the country.

While growing at the present time, the Dominican Republic's industrial sector is neither realizing its potential nor expanding at a sufficient pace to have significant impact on employment and income. Most existing industrial enterprises are operating at only a fraction of their potential capacity. Many are focused on a captive domestic market, are generally inefficient, and require large amounts of imported raw materials. Quality standards are often inadequate and unacceptable in the international market even if management were interested in exporting. In the recent past, government policies affecting the sector have changed significantly and unexpectedly, decreasing the confidence of investors. Credit has often not been available to the sector, or has come at very high cost. Finally, because Dominican industry enjoys only a limited domestic market, it needs to reorient its focus to include foreign markets. However, this will require that it become more efficient in order to compete effectively.

The following outlines the major problems inhibiting the growth and competitiveness of the country's industrial sector:

a. Policy

(1) Industrial Incentives and Foreign Investment Regulations

The Industrial Incentives Law 299 granted large tax and tariff exonerations on the imported raw materials and intermediate inputs of import substitution enterprises. This stimulated the use of imported inputs and discouraged the use of domestic inputs. The law also grants long-term income amd import tax exonerations which are almost always extended automatically upon their expiration, eroding the country's tax base. High cost import substitution activities are, therefore, relatively more profitable than export activities. While similar benefits are available to exporting firms, given the relatively new focus on foreign exchange generating activities, they are frequently difficult to secure and transaction costs are high, particularly for new exporters or firms without a track record.

Under Foreign Investment Law 861, foreign investors that registered investments in order to have access to foreign exchange at the official rate (which was applied until January 1985) were excluded from several key activities reserved for domestically controlled enterprises. Law 861 permitted an annual repatriation of up to 25% of the registered investment amount and only a 20% repatriation of annual capital gains. In May 1984, the Monetary Board required all foreign investors desiring access to foreign exchange to register new investments at the unified rate of exchange. The extent to which registered investments are now governed by Law 861 and other regulations is not clear with respect to qualification for certain incentives, restrictions on remittances, and limits on local borrowing. Law 861 needs to be reviewed carefully in order to clarify obvious inconsistencies with respect to its applicability in light of Monetary Board decisions.

(2) OPIC

In May 1984, the GODR decreed that it would no longer provide dollars for profit remittances at the official rate of exchange of 1:1. It applied this decision retroactively to funds on deposit awaiting conversion. At that time, U.S. companies with OPIC inconvertibility insurance had some RD$15 million on deposit with the Central Bank awaiting conversion into foreign exchange. These companies filed claims against OPIC which paid out US$15 million to them. OPIC has attempted to get the Central Bank to convert the pesos OPIC now holds into dollars at the official rate of exchange. Since the Central Bank refused to convert the pesos at the official rate and would not seriously negotiate this issue, OPIC suspended new operations in the Dominican Republic in November 1984.

Lack of OPIC insurance is a serious barrier to new investment as many U.S. businesses and individual investors normally require it before they will initiate new overseas operations. We have raised this problem repeatedly with GODR officials, urging them to submit a proposal to OPIC to resolve the impasse. The Central Bank has recently offered OPIC what it considers a suitable compromise, but OPIC has major problems with the GODR position and will be presenting a counterproposal soon. The GODR will need to give higher priority to resolving this issue so that OPIC can resume operations in the country.

b. Credit

There was little growth in the money supply during 1985, in contrast to expansionary policies before the unification of the exchange rate on January 23, 1985. Throughout 1985 the Central Bank pursued extremely tight monetary policies which severely constrained the amount of credit available for working capital and productive investment. Commercial bank credit to the private sector declined by 1% during the first six months of 1985. There were no credit increases to commercial merchants and a 3.6% reduction to exporters during January-October 1985, compared to liberal credit available in the last half of 1984. Credit to manufacturers was about 50% of the expected level. However, during the 1985 period of credit restrictions, inflation was some 50% greater than originally forecast, averaging 37% during the first half of the year. Thus, in real terms, credit was even more restricted during 1985 than it appears on the surface.

The lack of credit for short and long-term loans and deficiencies in the delivery system pose significant obstacles to the growth of the country's private sector, particularly for project investments in the export area. The current credit demand-supply imbalance highlights the impact of restrictive Central Bank policies, which include controls on lending and discount rates, overly restrictive regulations, and excessive dependence on externally financed Central Bank credit lines. These policies have inhibited the capture of domestic savings by the formal banking systems, resulted in the misallocation of credit resources, and limited the ability of financial institutions to serve small and medium-sized enterprises, agribusinesses, and new export industries.

Faced with limited funds for lending due to ceilings on interest rates and because of their dependency on the restrictive Central Bank discount facility, financial institutions have resorted to credit rationing mechanisms. These include excessively high collateral requirements, onerous loan approval procedures, and generally risk-averse lending practices. These institutionalized practices limit the borrowing ability of existing or new small businesses and bias lending toward traditional borrowers.

c. Inadequate Technologies/Standards

Since most Dominican industries have been protected from competition and enjoy a captive domestic market, they have given little attention to efficient production. Costs are high, technologies are capital intensive or outdated, and quality control is lacking. Dominican enterprises often are not able to compete internationally in terms of price and quality. With the increasing loss of exonerations and tax benefits, stiffer competition, and encouragement to look toward external markets, many industries must produce efficiently. Yet, most firms spend only limited amounts on research and development. Universities, as well as research and standards institutes, are not well-staffed or organized to assist Dominican firms to improve their productivity and ability to compete on the basis of factors other than low cost labor. Government policies which have protected the domestic industries need to be revised and incentives provided to encourage export orientation in the manufacturing sector. At the same time, key institutions which could serve private sector research and development requirements need to be upgraded.

d. Lack of Access to Markets

Except for the free zone companies, most Dominican industries suffer from a lack of secure markets for their products. Export sales are often sporadic and in small quantities; except for traditional exports and free zone industries, no long-term markets have been developed. Joint ventures with foreign and U.S. partners could increase market access for Dominican firms, transfer information and new technologies to them, help identify markets for their production, advise them on quality requirements, and arrange distribution at wholesale and retail levels. The lack of access to markets can only be overcome through a long-term, sustained export drive and market development undertaken by the GODR and private businessmen.

e. Human Resources

Dominican educational institutions at all levels have grown remarkably in the past two decades, and are providing much of the training needed to meet the industrial sector's needs. But, there are critical areas where Dominican institutions are unable to provide the quality of education or to train sufficient numbers of specialists needed for the country to compete in international markets. Major gaps exist at the graduate level, in the ability to provide specialized training focused on exports and marketing, and at the technical level, particularly in the area of maintenance and repair. Consequently, there is a scarcity of qualified personnel to serve as managers, planners, production supervisors, quality control technicians, mechanics, and maintenance personnel. In addition, such diverse fields as food processing, international banking, and financial services also lack trained personnel. Demand for specialized technical training is even greater. While there are many Dominican professionals currently unemployed, they are in career fields with little employment potential and should be retrained to participate in export-related industries.

The Dominican public educational system cannot mobilize the resources to meet the needs of the private sector. Already education absorbs over 15% of the government's budget, and it is hard pressed to meet increasing recurring and maintenance costs for existing facilities. Measures to address the country's human resource needs should make use of the large number of existing private training institutions by upgrading the quality of instruction. Further, greater cost sharing arrangements between benefitting private industrial concerns and the recipients of training need to be developed.

f. Deficient Physical Infrastructure

While the country has a relatively well-developed basic physical infrastructure, several bottlenecks limit the country's future growth. Selected improvements are needed in the following areas:

(1) Energy

Availability of reliable electric power is critical to new private investment and productivity. But, the existing power generation system is not reliable, producing at less than 60% of its rated capacity. As a result, "blackouts" are common throughout the country with obvious implications for the productive sector. The principal cause is that the state-owned Dominican Electricity Corporation (CDE) does not have the resources or capacity to repair and maintain its plants. Inadequate revenue collection, due in part to the large numbers of illegal connections to the system, and subsidized tariffs prevent CDE from securing the resources it needs to maintain the electrical power system.

(2) Factory Space

The country has four operating Free Trade Zones, plus two new zones under construction and scheduled to begin operations during 1986. The four operating zones currently contain space for about 130 firms, all producing for the export market. They employ about 28,000 workers. There are also several industrial parks whose occupants produce mainly for the domestic market. Even with the establishment of the new zones, factory space is inadequate, and thus new investments have been held back. Government policies often have emphasized the creation of new free zones throughout the country on the basis of political considerations without reference to the availability of needed infrastructure, access to markets, experienced management, or resources to develop. Space in the industrial parks is also in short supply, and the structural conditions of buildings and public utilities need upgrading.

3. Constraints to Diversified Agricultural Growth

The agricultural sector accounts for one-quarter of the Dominican Republic's economic output. Over 45% of the country's labor force is employed in agriculture, and improvements in this sector's productivity, employment, and income can have an immediate and direct impact on large numbers of poor Dominican workers. Sugar still plays a dominant role in the economy and accounts for 35% of total export earnings. However, reduced U.S. import quotas and continued low international sugar prices demonstrate the need for the country to identify new non-traditional export crops to earn foreign exchange, provide employment, and increase domestic revenues. The country enjoys a number of factor endowments and advantages that should enable it to compete effectively in new product areas. A more diversified agricultural export base will increase the amount of domestic value-added and will help absorb the increasing number of new labor force entrants. Rapid growth in non-traditional agriculture will complement private industrial and export growth. It will provide a market for products from urban light manufacturing enterprises as well as larger domestic industrial operations, including chemicals and fertilizers. It can provide the primary materials for agribusinesses, and increasingly should provide inputs to free zone manufacturers.

A more diversified agricultural base can be achieved quickly and at relatively low cost compared to investments in other economic sectors. But, to accomplish this, a series of policy and institutional problems must be addressed. These constraints are as follows:

a. Policies

Export quantity restrictions and prohibitions often have been imposed on products in short supply in the domestic market. These export restrictions have discouraged the development of non-traditional agricultural exports, including products not usually targeted for restriction, since procedures for designating particular products for restriction have not been promulgated. Export prohibitions often have been imposed for commodities in short supply which were scarce due to price controls.

Price controls are applied to a number of basic commodities, including vegetable oil, sugar, salt, tomato paste, rice, flour, pasta, milk, bread, chicken, cooking gas, kerosene, eggs, beans, chocolate, coffee, sardines, butter, crackers, soap, toilet paper, tooth paste, and others. Although enforcement of these controls has been lax at the retail level, they are a disincentive to local production. Further, there is no objective procedure for establishing price controls which takes into account production costs, consumer needs, and how subsidies, if believed justified, should be financed.

Under the FY-1986 ESF program the GODR has agreed to announce a policy of reducing export prohibitions, to decrease the number of commodities now subject to restrictions and to develop public procedures for applying export restrictions to new commodities in the future. But, the GODR needs to rationalize its system for subjecting consumer staples to price controls, and to increase the number of items bought and sold on the basis of free market forces.

The GODR, primarily through the Secretariat of Agriculture and the Price Stabilization Institute (INESPRE), controls the price of a large number of agricultural commodities from the farm gate level through distribution to the consumer. While the government is attempting to establish more rational procedures for setting prices, primarily through the activities of the Agricultural Policy Analysis Unit, decisions often are arbitrary, based on incomplete data, and taken in response to political concerns. Government controlled prices distort planting decisions by farmers, result in periodic domestic shortages of certain food items, and do not enable farmers to make the most efficient use of the country's natural factor endowments. The GODR must move toward greater market pricing of agricultural commodities in order to improve the sector's efficiency.

Under the FY-1986 PL-480 program we will seek to eliminate INESPRE's monopoly position in rice marketing and distribution. But, further reforms for other commodities will be needed to move INESPRE toward its fundamental role as a price and commodity stabilization institute. Equally important is the need to reform INESPRE's costly commodity subsidy program, which requires an estimated RD$50 million in transfers from the central government each year. This is an extremely complex program involving artificially high prices for some items in order to subsidize others. The precise amount of each subsidy is neither explicit nor open to public scrutiny. These subsidies distort agricultural production as well as consumption, and have tended to change consumption patterns away from traditional domestically produced staples toward imported substitutes.

b. <u>Credit</u>

As in the case of industry, the lack of credit and efficient credit delivery systems have severely limited agricultural production. Credit access problems are particularly acute in the rural areas and the small rural saver or borrower is poorly served. The Agricultural Bank (BAGRICOLA) handles about 40% of the agricultural credit needs. However, credit from BAGRICOLA is often late, is poorly supervised, the delinquency rate is high, and politically related debt forgiveness is common. Outside of BAGRICOLA, most small farmers rely on the informal sector for credit where lending rates exceeding 60% per annum are not uncommon. Possible alternative rural financial institutions, such as credit unions, have severe management problems and their provision of subsidized loans has almost destroyed their financial base. Restrictive savings and lending regulations have impoverished the few rural financial institutions that exist because they are unable to cover the high operating costs inherent in the high volume-low value nature of most rural lending transactions.

c. Land Access and Sustainable Use

Difficulties in gaining access to State-controlled lands by agribusinesses, the lack of aggressive efforts to promote the use of sugar land for non-traditional crops, inadequate irrigation system maintenance and water management, and continued upper watershed degradation threaten agricultural diversification efforts and the development of a sustainable, broader commercial farm production base.

(1) Land Access Constraints

Diversification efforts, particularly in irrigated lands, are constrained by the significant proportion of land controlled or supervised by the State. For example, the Agrarian Reform Institute (IAD) controls or supervises between 70-80% of the irrigated land in the Azua and Lower Yaque irrigation districts covering over 20,000 hectares. CEA alone controls over 180,000 hectares, approximately 20% of total farmed land. CEA, however, has not moved aggressively to convert these lands to the production of non-traditional crops. Beyond some local attempts at developing joint ventures with agribusiness and local development associations, only 10,000 hectares of CEA land, or less than 5%, are producing non-traditional crops.

CEA insists on a joint venture leasing program to exploit its land as a means of diversifying out of sugar. However, the diversification program could proceed more rapidly and efficiently if CEA land were offered for lease to the private sector without the requirements of a joint venture with the state enterprise. This will require a policy level decision within CEA, as there are apparently no legal requirements for joint ventures. Conditions attached to the FY-1986 ESF program require that the GODR establish simplified procedures for obtaining access to CEA land, and the development of an aggressive promotional campaign to attract potential investors to CEA land.

Existing agribusinesses have all experienced lengthy delays and difficulties negotiating leases and outgrower contracts on State lands. Institutions, such as CEA and IAD, lack an institutional commitment and knowledge about commercial joint venture arrangements and the production requirements and risks facing agribusiness. Only the most persistent and well-capitalized firms can afford the higher start-up cost that these delays incur.

(2) Irrigation

The Dominican Republic has the most extensive irrigation infrastructure of any CBI country, covering approximately 200,000 hectares. This has attracted a number of agribusinesses planning to produce and export fresh fruits and vegetables for the U.S. winter market. However, because of incomplete drainage systems (particularly in older irrigation districts), lack of irrigation system maintenance, and inadequate water management, salinization threatens irrigated lands. Unattended, these problems could result in the destruction of irrigated lands in zones with the greatest export production potential.

Compounding this problem is the degradation of watersheds serving the irrigation systems which has resulted in increased siltation and reduced reservoir levels. This is threatening river basins increasingly dedicated to non-traditional export and domestic market crops. Public sector soil conservation and reforestation programs have not been successful and, therefore, strategies which are more cost-effective and responsive to profit motivation of small farmers must be developed.

d. Deficient Research and Technology Transfer Mechanisms

Although large, well-capitalized agribusinesses have had little difficulty thus far in importing and transferring technology packages for the production of some export crops, there is a lack of detailed and reliable information on non-traditional crop production techniques to provide to potential investors. The public sector research system lacks a market-oriented agenda and the capability to carry out adaptation/varietal trials. As a result, private sector crop diversification efforts, particularly for new companies and small farmers, are very difficult. Some agribusinesses have overcome this constraint by developing technological packages on their own land that involve minimal outgrower participation. But, in times of uncertainty, agribusinesses tend to cull their lowest producing outgrowers rather than risking the expense of developing programs that permit broader participation in their production activities.

These research and technology constraints limit the involvement of medium-sized agribusinesses and the development of small and medium-sized farmers with the agronomic and technical knowledge to establish a viable commercial relationship with larger producers. Also, over-reliance on agribusinesses to carry out needed research tends to ignore medium and longer term production problems such as nematodes, salinity, or other plant pests and diseases that could threaten production in the future.

e. Weak Farmer Organizations

The managers of most non-traditional agricultural projects are extremely concerned about quality control and other production-related risks and, therefore, exercise tight control of all facets of the production phase. Many do not consider outgrower contracts because of organizational difficulties in managing production and packing operations involving large numbers of farmers. Thus the expected developmental impact resulting from broad participation of farmers in these production activities may not occur. Most farmer organizations which could act as product bulking and production agents for agribusinesses lack a market orientation, have management weaknesses, and cannot undertake these functions. Similarly, public sector institutions charged with assisting in the development of farmer organizations have been generally ineffective because of a patronizing orientation and unskilled personnel.

The cooperative movement in the Dominican Republic has not been successful on a large scale to date. Thus, efforts to support farmers through marketing and credit programs directed at large numbers of farmers largely have failed to achieve the results expected. As larger numbers of diversified production operations are initiated, methods of assuring participation of more small farmers must be developed.

f. Human Resources

As in the industrial sector, a shortage of qualified personnel who are familiar with non-traditional crop production and export marketing is a constraint to further agricultural sector development. Greater numbers of trained personnel to conduct applied research on diversified crop varieties are needed as are farm managers, marketing, transport, and storage specialists, and financial and project analysts. Local universities and secondary and community college level institutions can meet much of the country's manpower need at the undergraduate level. But, graduate training in crop research as well as in specific export-related agricultural fields are needed as Dominican agriculture moves away from its historical concentration on traditional crops.

g. Physical Infrastructure - Roads

The country's road network is relatively well-developed and includes major primary and secondary roads bisecting the country, and an extensive network of tertiary roads connecting farms to markets. Nonetheless, maintenance and rehabilitation of the network is and will continue to be a problem. Without adequate resources allocated for this purpose, the road system will deteriorate further, thereby limiting the national capacity to produce for domestic and export markets.

3. Population and Health Services

The availability of health and family planning sevices is central to improving the quality of life for poor Dominicans and to ensuring that the benefits of a growing economic base are more widely shared. An improved health status for the country's urban and rural workers will improve their productivity and reduce time lost for medical reasons.

The rate of population growth must be reduced to a level more consistent with the country's ability to provide goods, services, and employment to its current and future population.

The constraints to improving these services are described below:

a. Health Services

It is clear that the government does not have the resources to improve the delivery of health services because it cannot cover the heavy recurring cost burden in this sector. Public-sector health care institutions are undercapitalized and over-extended; health interventions are not tightly focused and resources are not programmed in a coordinated manner on specific problems. The extensive rural and urban health infrastructure is poorly equipped and maintained, and staff is poorly trained and supervised. A serious constraint to improving services is an unwillingness to charge fees, even though budgetary resources cannot cover costs. The result is widespread public dissatisfaction with government funded services, extremely low utilization rates, and poor quality care for those served.

More efficient private health institutions (insurance companies and HMO-type organizations) are currently serving approximately 240,000 beneficiaries, including much of the urban upper and middle classes and a substantial number of blue collar workers. These institutions have grown rapidly in recent years, in part because of the dissatisfaction with public services. Perhaps more importantly, however, they have responded to an increased demand for improved health care by offering a wide range of services to many income levels. Future growth of these institutions is limited primarily by lack of managerial and technical know-how and poor physical facilities. Financing is needed for outside technical advice on health systems, to rehabilitate the physical facilities of many clinics and to acquire additional modern equipment.

The Secretariat of Health (SESPAS) has successfully implemented large scale immunization campaigns to control communicable diseases, thereby significantly reducing the incidence of earlier problems, including polio, tuberculosis, and cholera. However, other communicable diseases, such as malaria, dengue, yellow fever, and schistosomiasis, are still prevalent in the Dominican Republic. A widespread epidemic could have a disastrous effect on the country's agricultural production and development of the tourist industry. With the exception of malaria, no surveillance or emergency control program has yet been developed to be put in effect if such an outbreak should occur.

b. Family Planning Services

In 1985, only about 318,000 women, or 20% of the women of reproductive age, were being provided family planning services by public or private institutions. By 1990, there will be 1,800,000 women of reproductive age, and the national goal for that year is to reach approximately 600,000 of them. However, this objective cannot be achieved without the development of a cohesive delivery strategy, improved institutional management, and a means of financing delivery organizations.

Private and public sector family planning institutions are generally well-administered, but do not have the capacity to expand their services to a large number of low income women. Resources are required for advisory assistance to upgrade the management and technical capacity of these institutions, and to procure commodities.

III. STRATEGY

A. Goals and Rationale

1. Goals and Objectives

The United States national interest will be promoted and supported by:

a. A democratic Dominican Republic with an open, growing economy with continuing positive relations with the U.S.;

b. Successful management by the Dominican Republic of the nation's current financial crisis;

c. The continuation of an economic adjustment program in the Dominican Republic that leads directly to economic recovery and self-sustaining growth; and

d. The expansion of the Dominican Republic's private sector, and the development of an improved climate for U.S. investment and trade.

To achieve these goals AID will pursue a strategy to support the Dominican Republic's economic recovery and growth through a private sector-led expansion and diversification of the country's economic base. Our specific objectives are as follows:

a. Continued progress in implementing the ongoing economic stabilization program.

b. Expanded private investment in the industrial and agricultural sectors and the development of a broader base of non-traditional exports.

c. Rapid diversification of the agricultural sector into non-traditional crops with foreign exchange earning potential.

d. Improved access to needed health care and family planning services by reinforcing the private sector's capacity to meet these needs.

2. Rationale

For the Dominican Republic to maximize its long-term growth potential it must diversify and reorient its productive base, and increase its exports of labor intensive non-traditional agricultural, agro-industrial, and manufactured products. It must reduce the level of government involvement in the market place so that the private sector can expand as rapidly as possible to take advantage of the country's resources. This approach will provide increased employment opportunities for unskilled and semi-skilled workers and markets for small farmer producers and lessen the nation's dependence on sugar as an earner of foreign exchange. Over the longer term it will increase the country's income base, stimulate domestic demand for locally produced goods and services, and provide the tax resources to finance the services and infrastructure needed by a growing private sector.

As outlined in Section II.A.2., the Dominican Republic possesses a number of unique characteristics which should support a rapid growth in non-traditional exports and a broadened domestic industrial base. It is close to the United States and a beneficiary under the CBI. It has a dynamic and growing entrepreneurial class that is focusing increasingly on the development of more diversified industrial, manufacturing, and agricultural export opportunities. Historically, the country has welcomed foreign investment and its investment and incentives laws are attractive. Labor is cheap, plentiful, disciplined, and easy to train. The country has a well-developed physical infrastructure which, although needing increased financing for maintenance, can support a much larger economy without major new investments. The nation's semi-tropical climate and varied geographic zones will support the production of a variety of crops in demand in the United States and neighboring countries. Along with the appropriate macro-economic foundation, which is now in place through the stabilization program, these factors should provide the incentives for a much more dynamic role for the private sector in the near term.

Our strategy could have assigned a greater role to the public sector. However, we intend to work with the public sector mainly (1) to ensure that the proper macro-economic framework is maintained through continued progress on the stabilization program; (2) in those areas where government is the only appropriate provider of services and where private sector participation would involve even greater inefficiencies; and (3) in those areas where government policies and activities affect the performance and growth of the private sector. Limiting our involvement in government programs recognizes that the public sector cannot adequately support the services which it is now committed to providing. Any attempt to improve the efficiency of many government services or to broaden their coverage for reasons of equity, in most instances, would only increase the public sector's recurring cost burden and further threaten the country's capacity to reduce its budgetary deficits.

Our strategy emphasizes the productive sectors of the economy which can lead to broadly based self-sustaining growth. We will also undertake education and training activities to improve the human resource base and support health and population activities which impact directly on productivity and growth in per capita income. We will not become involved with public education and public health programs. The most efficient means to ensure that large numbers of Dominicans can improve their standard of living is to create job opportunities in a growing economy which gives citizens the additional disposable income to invest on their priorities. Moreover, many of the social services can be obtained through private channels. However, as noted above, the government simply cannot afford to finance additional social services, even if it could provide them effectively.

Our strategy balances two crucial objectives. The first is the need to maintain monetary discipline under the economic stabilization program without being so contractionary as to restrict credit for investments in the productive sectors. The other is the encouragement of further needed reforms, many of which mean painful adjustments, while not provoking widespread dissatisfaction and social disruption. This will require careful planning of reform measures and careful timing of their implementation to mitigate their negative social impact. Despite the serious problems the country faces, genuine opportunities now exist for the Dominican Republic to increase investment and productivity, which can lead to increased foreign exchange earnings and employment opportunities as well as improvements in per capita income levels.

B. Macro-Economic Adjustments and Resources Needed

1. Policy Reform Agenda

Because stability is a requirement for growth, the U.S. Mission will continue to focus attention on the macro-economic situation and the necessary policy reforms needed to ensure a favorable environment for investment and growth. Since the GODR initiated its difficult stabilization program in January 1985, it has continued to make needed economic reforms in order to remain in compliance with the IMF Stand-By Agreement. Over the CDSS time frame, the GODR will need to maintain this process of continuous adjustment particularly in the areas of monetary and fiscal policy and in the role of state enterprises in the economy. We will work to ensure the GODR achieves the following specific objectives:

a. Monetary Policy

(1) Continue to reduce and control the rate of inflation by limiting expansion of the money supply.

(2) Increase interest rates to positive real rates in order to improve the ability of the banking system adequately to meet the private sector's demand for credit.

(3) Establish monetary policies which will direct larger amounts of credit resources toward the private sector with a commensurate reduction in public sector credit.

b. Fiscal Policy

(1) Restructure the tax system and shift tax incidence so that revenues are dependent upon growth rather than on the level of imports and exports.

(2) Eliminate taxes and surcharges on dividends and profit repatriation which constitute double taxation and provide a disincentive to foreign investment.

(3) Consolidate all laws and regulations regarding the tariff structure into a single, comprehensive law that is clear and permits no administrative interpretation that can be abused.

(4) Refocus customs administration to give priority to establishing procedures to facilitate the processing of imports and exports rather than the collection of revenues.

c. Role of State Enterprises

(1) Reduce central government transfers to state economic enterprises.

(2) Eliminate establishment of price controls based on production costs of state enterprises.

(3) Permit private sector companies to compete with state enterprises; eliminate automatic monopoly position they may enjoy.

(4) Divest state enterprises by selling or leasing them to the private sector, operating them under management contracts, or closing them down.

2. Resources Required

USG resources, which will be employed to ensure that the GODR continues to carry out macro-economic reforms to stabilize the economy and provide the framework for sustained and diversified growth, include our policy dialogue, the leverage of ESF and PL-480 assistance, specific policy-related projects, the programming of local currency, and our influence on the activities of other donors. The Mission has a close working relationship with the most senior GODR economic policy makers, and uses its frequent contact with these officials to ensure that they are aware of our position with respect to broad policy issues. This dialogue has been effective in securing GODR agreement on the foreign exchange regime reforms implemented in January 1985, in continuing to maintain the stabilization program, and in securing commitment to adjustments in the program recently agreed to. We anticipate that this pattern of cooperation and counsel will continue to influence GODR macro-economic policies.

ESF funding of approximately $50 million per year and PL-480 Title I resources of approximately $30 million per year will help provide the leverage needed to ensure GODR progress on a stabilization and recovery program. ESF resources will be crucial in helping cover the country's projected balance of payments deficit and reduce its negative net international reserves position. Improvement in the country's balance of payments position will make it more attractive to commercial lenders as well as potential investors. The PL-480 program will provide needed food commodities that cannot be produced in sufficient quantities in the Dominican Republic, and is a direct offset for expenditures the GODR otherwise would have to incur. Local currency generated through the ESF and PL-480 programs will be used in support of activities that support the Mission's strategy, thus helping achieve stabilization and longer term growth. Since these resources comprise at present such a large proportion of the GODR's investment budget, our programming of these funds has a disproportionate effect on the direction of the country's development priorities and growth.

Specific projects also contribute to the macro-economic policy changes needed. Reforms in customs policies will be supported by the Export and Investment Promotion Project, which includes dollar and local currency funding to address customs procedures and administration. The Economic Policy Analysis Project will finance analytical studies that identify macro-economy problems and provide policy alternatives to overcome them. This project will provide advisory assistance in both the monetary and fiscal areas, with specific attention to tax reform. Also, the privatization of state enterprises project will help reduce the distorting influence government companies have had on economic performance.

While policy analyses may identify specific issues and problems for GODR action, other donors have unique strengths to implement discrete projects at the administrative level to effect changes. The OAS, IDB, IMF, and IBRD have been involved in the past with the Dominican authorities in carrying out activities to improve customs and tax administration. We will continue to look to those other donors to implement specific project activities that may be identified, particularly in areas that would require USAID involvement in detailed management on sensitive administrative issues with which it would be best not to identify the United States.

C. Sector Interventions

In addition to supporting policy changes to achieve economic stabilization, during the CDSS period we will concentrate primarily on activities to accelerate growth in the productive sectors of industry and diversified agriculture. Complementing this focus, we will also support limited new private initiatives in health and population. This consolidation of our program and resources will permit us to focus on sustainable, private-sector led growth and will support the ongoing objective of economic stabilization.

1. Industry

The activities to be undertaken in this area are directed at improving the productivity and competitiveness of Dominican industry so that new export markets can be developed and greater numbers of Dominicans provided with employment. We will concentrate on agribusiness and light manufacturing, including both free zone companies and Dominican firms producing for the domestic and export market. Specific interventions are discussed below:

a. Policy

The major policy problems affecting agribusiness and light industry relate to investment laws and regulations, incentives for exporting, and disincentives to foreign investments. Through a series of activities already underway in the macro-economic stabilization area, we will address a number of key policy matters and encourage the GODR to undertake necessary reforms. Other policy actions we will address, which will have a direct impact on growth of the private industrial sector, include the following:

-- Develop and implement a program to reduce and eliminate the protective measures now enjoyed by import substitution industries established under Law 299.

-- Clarify the regulations regarding the amount of profit remittances permitted by enterprises established under Law 861.

-- Broaden incentives under Law 409 to allow an increased percentage of the amount of foreign ownership permitted in order to receive tax incentives.

-- Resolve the problem with OPIC so that it can reinitiate its insurance and guarantee programs with new investments in the Dominican Republic.

The Investment Promotion Council (IPC), which was established under our Export/Investment Promotion Project, will be an important vehicle for bringing about these policy reforms. At the same time, we will work through the IPC to bring about reforms and improvements in the administration of the customs authority.

b. Credit

Investment and working capital credits will be provided for agribusiness projects earning or saving foreign exchange, for expanding and diversifying domestic industries attempting to reorient their production to new export markets, and for the thousands of small and micro scale enterprises (SMEs) currently serving the domestic market. These credits will be provided through the commercial and development banking system as well as a number of development associations, in the case of the SMEs. AID activities will complement programs of the IDB by focusing on industries which are serving export markets whereas IDB funds, to date, have been directed toward manufacturing and agricultural enterprises serving the domestic market.

In order to create opportunities for new businesses and obtain greater leverage from existing resources, we will undertake activities in both urban and rural areas of the Dominican Republic. These activities might include the establishment of a guaranty fund which will permit banks to reduce their collateral requirements and to extend credits for longer periods. We will build upon our new Agribusiness Promotion Project to provide lending capital to the participating commercial and development banks for a longer period than had been the normal practice. We also plan to undertake new activities to finance the expansion of light industries with potential to export or to sub-contract with firms operating in the free zones. We plan to review the legal and regulatory framework for banks in order to create a more market-oriented financial sector less dependent upon resources from the Central Bank and better situated to serve the needs of the rural areas.

c. Research and Technology Development

In order to help Dominican manufacturers produce the quality of goods needed to compete in foreign markets, we will work directly with industries and private associations, technical schools, and universities in order to improve the research and development capabilities of local institutions to support the industrial sector. These institutions will also be strengthened to respond to the requirements of small industries capable of producing components, on a sub-contract basis, for larger firms operating in free zones and selling in export markets. This will complement IDB and World Bank efforts to support governmental institutions which provide services in the area of quality control, standards, and industrial engineering.

d. Market Access

Lack of markets for domestic industries and difficulties in accessing new export markets have to be addressed on a sustained basis over a long period through appropriate incentives for exporters as well as through programs to attract investors and develop new products. Project activities will be initiated at several levels. Quality improvements have to be made so that products meet international standards. Export marketing companies and industrial associations will be provided credit and technical assistance to increase their capacity to open new markets and provide services to smaller, individual producers or manufacturers.

Equally important are those activities related to the attraction of new investment. Foreign investors provide markets, capital, technology, and managerial skills and, therefore, we will continue the efforts initiated with the Investment Promotion Council to promote joint ventures between Dominican and U.S. firms. Public and private organizations in the Dominican Republic and the United States, such as CACI, JACC, and the American Chamber of Commerce, will be supported with local currencies and DA resources to improve investor services, to develop new exports, and to train government and private sector personnel.

e. Human Resources

The Graduate Business School Program at the Catholic University and the training program undertaken with the American Chamber of Commerce allowed us to begin to focus on business and technical skills required in industry and tourism. The Development Training Project is designed to improve the skills and knowledge of professional, managerial, and technical personnel in those sectors now experiencing rapid growth and undergoing a reorientation toward new export markets. During the CDSS period, this new project is expected to provide training in the U.S. for 1,000 long and short-term participants and in-country for 4,000 participants.

AID will assist private vocational/technical educational institutions in training technicians for employment in export industries. We will provide local currency funds to assist vocational/technical institutions to adapt and expand programs to meet the labor market demands. We will also seek to improve the course offerings and quality of the graduates trained through scholarships and institutional upgrading activities.

These efforts will complement the vocational/technical activities of host country formal education programs administered by the Ministry of Education, non-formal programs offered by semi-private organizations, and new public sector poly-technical level programs funded under an IDB loan.

f. Physical Infrastructure

Activities in this area will include counterpart funding to support directly ongoing IDB or World Bank projects, and the construction of infrastructure required to stimulate and attract additional private investment. We will support three distinct categories of infrastructure.

(1) Energy

The operating budget deficit of CDE should be eliminated by late 1987, but financing for repairs and maintenance will continue to be required. We will continue to support CDE's efforts to normalize electrical service through a planned program of rehabilitation and maintenance of its electric generation plants, complementing other donors and CDE's own investments in these facilities. Local currency resources will be utilized for this activity.

Commercial bank credit will be provided to private companies for industrial energy conservation activities to reduce their costs of operation by reducing electrical power consumption. Also, utilizing the same mechanism, credit will be provided to private entrepreneurs for developing energy farms which produce fast growing trees for use as fuel and charcoal. These activities will be financed with local currency resources.

(2) Factory Space

We will fund the construction and expansion of industrial parks and free trade zones to provide factory space and improved public utilities for businesses producing primarily for the export market. This will be undertaken in geographically dispersed locations, attractive to industry, which have the necessary labor force and supporting social infrastructure.

We will establish financial mechanisms (e.g., loan rediscount funds) which will channel credit through private banks to support these investments.

(3) Other Physical Infrastructure

Physical infrastructure (such as transportation facilities, basic utilities and warehousing) is deficient or limited in areas expected to experience growth in industry, tourism and agriculture. Several secondary towns are outgrowing their present boundaries and services. As tourism investment moves to additional areas, power, water, sanitation and road access will have to be created or upgraded, and complementary tourism related service industries established.

Financing for these physical infrastructure needs may be provided directly to local cities, development associations or private entrepreneurs. In addition, we will use local currencies to finance the counterpart requirements of World Bank and IDB projects which are directly supportive of the needs of the private sector.

g. Resource Allocations

During the CDSS period, DA resources and local currency generations from the ESF program, comprising 54% of the portfolio, will be allocated to activities in this sector as follows:

(In US$000)	1987	1988	1989	1990	1991
DA	11,500	12,600	14,100	14,000	14,100
ESF (LC Equivalent)	50,000	50,000	50,000	50,000	50,000

DA and local currency resources will be utilized for activities such as: light industry and agribusiness credits, privatization of state enterprises, export services through marketing companies/associations, expanded financial services for small businesses through rural banks/credit unions, construction of free trade zones/industrial parks, and human resource development to support personnel requirements of industrial sector.

h. Measurable Achievements (by 1991)

(1) Policy changes, as cited above regarding investment and export laws and incentives, enacted and implemented.

(2) Six public and private organizations (including Customs, CEDOPEX, JACC, and IPC--together with ADOEXPO and the American Chamber of Commerce) upgraded and strengthened so as to improve services to investors and exporters.

(3) RD$300 million in new investments made in agribusiness and light manufacturing sector.

(4) 18,000 new jobs created in agribusinesses and light manufacturing sector.

(5) 16,800 new jobs created in free trade zones.

(6) 70 new companies operating in free trade zones.

(7) 75 new buildings constructed in free trade zones.

(8) 15,000 new jobs in micro and small businesses.

(9) Non-traditional exports increase by 150%.

2. Agriculture

The strategy for agriculture is to assist in diversifying production, in establishing new export markets, and in commercializing the output of the small farm sector. We intend to concentrate our interventions, where feasible, on geographic zones with significant agricultural potential. We can better address technical production constraints, take advantage of production, processing, and marketing economies of scale that exist (particularly in the case of export crops), and strengthen the linkages to small farmers through targeted activities in specific regions. Decentralized management of resources is critical to resolve most of the on-site agricultural constraints mentioned previously.

In order to implement this strategy, a number of interventions will be undertaken, as follows:

a. Policy

In agriculture, the major policy problems relate to price and marketing controls, export restrictions, and diversification of sugar lands. We will address these policy concerns through ESF conditionality as well as specific project interventions.

We will seek the removal of price controls on domestic agricultural products and the targeting or elimination of subsidies on food commodities. We will also work to ensure that greater numbers of commodities are distributed through commercial channels which are not restricted by monopolies such those INESPRE now has. These changes would reduce the role of INESPRE and, at the same time, move it toward its primary purpose as a price stabilization board. We will also seek to limit further the number of products subject to export prohibition, and require advance and public debate when new prohibitions are being proposed.

A long range program for sugar diversification will be pursued with CEA and the Association of Private Sugar Growers (FEDOCA), in conjunction with the Investment Promotion Council, in order to stimulate investments in new crops.

b. Credit

Farm production credit and improved credit delivery systems are required for basic food crops as well as for export products. AID will assist in efforts to expand access to private commercial banking credit in rural areas as well as to develop and strengthen credit union/cooperative banks and other institutions serving the small farmer. We will build upon the results of the Rural Savings Mobilization Project, which has stimulated revisions in interest rate policies in the Agricultural Bank and in several credit unions, and also brought about improvements in portfolio management and delivery of services. The expanded availability of credit and improvements in delivery systems will have a direct and immediate impact on the amount of produce available for sale by small farms domestically, as well as allow these farmers to enter into commercial arrangements with agribusinesses for sale into export markets.

c. Land Access and Use

The Mission will build upon ongoing projects to further identify land access constraints and options. We will work with CEA and IAD in order to create new policies and practical procedures for allowing Dominican and foreign investors access to lands on which new crops can be produced and in ways in which small outgrowers can participate.

We will work with JACC and the IPC as the mechanism to link interested private sector investors with CEA and IAD. We will assist the smaller private sugar producers, through their associations, to carry out feasibility studies of land diversification alternatives and to conduct detailed soils analyses. We plan to implement these activities by utilizing both U.S. and local institutions, including IAD, ISA/CADER and INTEC.

The Mission plans to incorporate water management activities into a proposed Commercial Farming Project. Emphasis will be placed on establishing and strengthening private water users associations in order to maintain and manage the water systems. Using the lessons learned from ongoing projects, assistance will be provided to local associations to enable them to supervise and monitor irrigation systems, ensure utilization of appropriate practices, and collect user-fees.

We plan to use the existing Forestry Management Project to support an expansion in the private sector's role in reforestation efforts. This would include the use of local currencies to support in-country PVOs and other private sector groups to finance marketing feasibility studies and to provide credit to finance long-term investments in reforestation activities. Watershed and reforestation areas will be identified in terms of their potential impact on irrigated zones with the greatest diversification potential. We do does not, however, intend to support significant natural resource management activities through public sector institutions.

d. Research and Extension

We will support improved research, field trials, and a variety of public and private extension techniques to improve the varieties and cultivation practices for non-traditional export crops. Technical assistance and training support will be channeled through grants to the newly autonomous Dominican Institute of Agricultural Research (IDIA), and/or directly to its field research centers operating in key production areas through the Commercial Farming Systems Project. Local currency as well as dollar grants will be used to support innovative means of disseminating new varieties and practices to technicians, farmers, and agribusinesses. Both private and public channels will be utilized to strengthen and broaden the concept and practice of extension.

e. Farmer Associations

Farmer associations offer an efficient means for delivering credit, technical assistance, and inputs to small farmers as they move from subsistence to non-traditional commercial agriculture. Farmer associations also provide agribusiness investors and food export organizations better opportunities to contract for mutually beneficial production and marketing agreements. Furthermore, these associations can take advantage of production credit and market outlets that are available from private banks or commercial processors interested in expanding their output by establishing ties with smaller producers. We will develop an activity targeted on selected irrigated valleys in the southwest and northwest regions with significant growth potential in terms of existing infrastructure, land use, and commercial investment opportunities to develop and strengthen the system of farmer associations in the area. This activity will develop these high potential areas and attract commercial farming investment by providing assistance to farmer associations in order to improve production, strengthening farmers' relationships with input suppliers and processing and marketing firms, and by developing a network of local collection and storage facilities. These activities will complement many of the initiatives undertaken to improve the management of irrigated lands.

f. Human Resources

AID inputs in the human resource area will help meet the demand for skilled managerial and technical personnel in agriculture and agribusiness enterprises through long and short-term training programs, and will upgrade several local institutions which can help meet these requirements. In-country training programs with ISA/CADER, and other institutions such as UCMM, UNPHU, and UCE will be undertaken. As opposed to past training activities in agriculture, which were largely directed at improving public administration through training of government employees, future programs will be aimed almost exclusively at the private sector and undertaken with private institutions.

g. Physical Infrastructure

As in industry, construction activities will complement other donor efforts and directly support private investment requirements in geographically selected regions. Two principal activities are contemplated:

(1) Roads

Our DA program for maintenance of rural roads is terminating, as the GODR has developed the institutional capacity to construct and maintain rural roads. But, continued local currency resources will be needed for the maintenance and rehabilitation of the road network which is critical to private sector growth. Local currencies will also finance major highway upgrading projects as well as secondary highways and rural roads. Resources, for the most part, will be used as counterpart to IDB or World Bank projects, which are financing most of this construction.

(2) Irrigation

Funds will be used for construction of tertiary canals and for the rehabilitation and maintenance of older irrigation systems in the Azua and Yaque River Valleys. We do not intend to construct major canal systems, as these are already being financed under IDB and World Bank projects.

h. Resource Allocations

DA funds and PL-480 Title I resources (local currency equivalent), totalling 42% of the portfolio, will be allocated as follows:

(In US$000)	1987	1988	1989	1990	1991
DA	12,300	19,400	19,900	21,400	21,900
PL-480 Title I					
(LC Equivalent)	28,000	28,000	28,000	28,000	28,000

The principal activities to be financed include: commercial farming systems, sugar diversification, small farmer association/cooperative services, strengthening rural credit unions, improved water management, and upgrading of educational institutions and human resources in the agricultural sector.

i. Measurable Achievements (by 1991)

(1) Policy changes, as cited above, regarding price controls, export prohibitions, and the role of INESPRE, are enacted and implemented.

(2) 100 farmer associations/cooperatives created or strengthened and offering services to small farmers.

(3) 50,000 hectares of sugar land in diversified production.

(4) 300% increase in value of non-traditional agricultural exports.

(5) 15,000 new jobs generated in the agricultural sector.

(6) 20,000 hectares of irrigated land being utilized for non-traditional crops.

(7) 1,000 kilometers of rural roads rehabilitated.

(8) 150 new production packages for non-traditional crops developed, tested, and extended to private commercial growers.

3. Social Services

a. Population and Health

In the area of health and family planning, we will support a limited number of activities aimed at improving the quality of life for Dominicans. These activities will be implemented, for the most part, by private organizations which we believe can provide better coordinated, more effective and largely self-financing services without the need for major public sector recurring financing.

To enhance delivery of basic health service to agricultural and industrial workers and their families, we will strengthen the existing network of organized private health care providers by introducing them to the more efficient health care delivery methods practiced by HMO organizations in the U.S. and other countries. As a result, the quality of services will improve, costs will decrease, and the number of people receiving private sector health services will increase. With large numbers of workers enrolled in private health programs, the Secretariat of Health will be able to concentrate its limited resources on the indigent and unemployed who cannot pay for services and, therefore, must attend a subsidized system.

To reduce the possibility of debilitating health-related effects and economic consequences from epidemics of selected infectious diseases (including malaria, dengue, yellow fever, and schistosomiasis), we will help develop a vector control program by the field staff of the National

Malaria Eradication Service. This will provide the diagnostic capacity to identify quickly major outbreaks of these diseases, ensure the use of environmentally sound technologies, and develop an emergency control program.

In the area of family planning, our primary intervention will be to assist the GODR and private voluntary associations through an expanded family planning services project. AID will finance the delivery of a wide variety of voluntary family planning methods and establish the capacity to analyze demographic data to guide the allocation of resources in the country's development process. We also will assist in the development of a national services delivery strategy which will assign delivery targets, responsibilities, and resources, thus reducing duplication and increasing efficiency. The project will stress cost effective service delivery schemes, private sector involvement, self-financing, and guide intermediaries and centrally funded assistance projects in support of various project components. The efforts will complement the efforts of other international donors, including the UNFPA.

(1) Resource Allocations

During the CDSS period the following resources will be available for population and health programs:

(In US$000)	1987	1988	1989	1990	1991
DA	5,900	2,000	2,000	2,500	2,000
PL-480 Title I					
(LC Equivalent)	2,000	2,000	2,000	2,000	2,000
PL-480 Title II	1,300	1,000	1,000	1,000	1,000

(2) Measurable Achievements

(a) Family planning services available to 600,000 women by 1991 (33% of women of reproductive age).

(b) Population growth rate down to 2.1%.

(c) Private health institutions serving up to 700,000 beneficiaries.

(d) Infant mortality lowered to 50 per 1,000 live births.

(e) Life expectancy raised to 67 years.

b. Democratic Institutions

A key U.S. interest in the Dominican Republic is to ensure the viability of a free and democratic development process. A democratic framework will provide the foundation for the development of the private sector and sustained and equitable economic growth. The Mission currently is participating in the Administration of Justice Project being administered by ILANUD in Costa Rica to improve the technical and administrative capabilities of local institutions and to promote a judicial system that is efficient, just, accessible, and independent.

In addition, the Mission anticipates financing a project for the development of a Center for Legislative Affairs within the Dominican Congress. The project will establish non-partisan information support services to improve the quality of the legislative process in Congress, thereby enabling Dominican legislators to better understand critical national issues which they must address in a democratic framework.

4. Special Concerns

a. PVOs

The Dominican Republic has a number of well-developed indigenous PVOs with expertise in rural water supply, natural resource management, family planning services, and small scale enterprise development. We will continue to support discrete activities by these PVOs with both dollar and local currency resources in areas where they are the most efficient provider of services in areas in support of our overall strategy.

b. Women in Development

USAID's WID strategy which was submitted to AID/W in June 1985, provides for the generation of baseline sex-disaggregated data on all project and program activities, and for identifying potential areas for better integrating women into AID activities interventions in industry, export promotion, agribusiness, and agricultural diversification. While we will not finance any discrete women specific projects, their unique concerns and development opportunities will be addressed through data gathered during the project development process and subsequent implementation activities.

c. Peace Corps Collaboration

USAID/DR has a close and productive relationship with the Peace Corps. There is a complementarity between many of the 130 PCVs working in small and micro and business development, natural resource management, and agribusiness promotion and ongoing and proposed AID projects. AID will continue to work with the PC through a review of each Agency's Country Program Plan in order to identify further areas of cooperation. AID will continue financial and technical support through SPA (small projects agreements) and SDAF (special development activities fund) activities, and will contribute more than US$100,000 annually for joint Peace Corps projects.

D. Expected Accomplishments

1. Economic Impact and Projections through 1991

Successful implementation of our proposed strategy, as well as progress on the structural and economic reform agenda, should result in the attainment of significant and measurable progress through 1991. Our projections of the country's macro-economic situation by 1991 are based on the following assumptions:

-- The GODR continues to maintain the economic, political, and social stability needed to create a favorable investment environment.

-- The GODR actively pursues a private-sector oriented, export-led growth strategy. As a consequence, non-traditional exports will become the major foreign exchange earner, replacing sugar.

-- Raw sugar exports will experience little or no growth during the projection period.

-- World trade, particularly U.S. trade with the Dominican Republic, will grow.

Under these assumptions and given the Dominican Republic's relative advantages, significant improvements should occur through the CDSS time frame in the country's balance of payments, level of productive employment, level of non-traditional exports, and domestic and foreign investment.

a. GDP and Balance of Payments

Real GDP is projected to increase at an average annual rate of 2.5%-3.5% during the CDSS period. This would increase real income per capita from $770 per year in 1985 to $910 by the end of 1991 in 1985 dollars. Non-traditional exports should increase at an annual rate of 17%, although the total value of exported goods will increase only by about 4.5% per year mainly due to declining exports of mineral resources (gold and silver). By 1991, non-traditional exports should reach 29% of total goods exported as compared to 15% in 1985. Service exports, primarily tourism, should increase by an average annual rate of 8.3% assuming continued political stability and a favorable exchange rate. In overall terms, imports are expected to grow moderately, while imported inputs used to produce exports are expected to increase substantially. Net capital inflow is expected to increase rapidly because of the rescheduling of amortization payments, improved credit worthiness of the country, and increased net foreign investment. The overall balance of payments is projected to register a positive value in 1987, increase to more than $200 million in 1990, and decline to an estimated $180 million in 1991 because of higher amortization.

b. Employment Generation

Although real GDP will grow relatively slowly, by 1988 the economy should be able to create enough new jobs to absorb the estimated 60,000-75,000 new labor entrants each year into the productive labor force. Most new job opportunities will be created by labor intensive, non-traditional industrial and agricultural exports and tourism. The open unemployment rate, which has increased steadily from an estimated 23% in 1970 to 27% in 1985, should reach a high of 28% in 1987 and decline gradually thereafter to 20% in 1991.

The GODR should be able to control public sector deficits at a level that will require no Central Bank financing. Public sector deficits would be financed through external borrowings and domestic revenues. This should be possible due to the improved credit worthiness of the Dominican economy in the world financial markets and decreased financial needs of public sector enterprises which will be made more efficient or turned over to the private sector.

c. 1991 Situation

By 1991, the Dominican economy should be moving into a dynamic self-sustaining growth phase where real GDP will rise at 5%-7% per year, reducing the unemployment rate by 2 to 3 percentage points a year. The economy should be earning sufficient foreign exchange to finance both import needs and debt amortization. Foreign capital inflow should increase substantially to finance continued investment in non-traditional exports. Public sector enterprises will require significantly reduced subsidies from the central government, and inflation will be reduced to the traditional level of 7%-9%.

The following tables (I and II) provide a statistical summary of the expected BOP situation through 1990 and GDP/employment through 1990.

TABLE I

BALANCE OF PAYMENTS PROJECTIONS: 1985-1990
(In US$ Millions)

	1985	1986	1987	1988	1989	1990
Current Account	- 107	- 34	- 20	- 5	- 86	- 80
Trade Balance (Goods)	- 407	- 419	- 436	- 455	- 571	- 586
Exports, FOB	(783)	(833)	(887)	(942)	(904)	(970)
Imports, FOB	(-1190)	(-1252)	(-1323)	(-1397)	(-1475)	(-1556)
Services (Net)	- 40	58	87	109	130	137
Of which Exports	(560)	(648)	(690)	(735)	(783)	(833)
Of which Interest	(- 255)	(- 239)	(- 233)	(- 237)	(- 250)	(- 272)
Transfers (Net)	340	327	329	341	355	369
ESF Component	(95)	(50)	(50)	(50)	(50)	(50)
Capital Account	- 117	- 75	39	110	220	283
Direct Investment	(42)	(50)	(60)	(65)	(70)	(75)
Disbursements (Medium/Long-Term)	(264)	(258)	(312)	(324)	(330)	(352)
Amortizations	(- 423)	(- 383)	(- 333)	(- 279)	(- 180)	(- 144)
Overall Balance	- 224	- 109	19	105	134	203

TABLE II

ESTIMATED GDP GROWTH AND JOB CREATION

	1985	1986	1987	1988	1989	1990
GDP growth (%)	0.1	2.0	2.5	3.0	3.5	3.5
Job elasticity 1/	.406	.600	.700	.800	.900	1.00
Current employment (000)	1,632	1,633.0	1,662.4	1,706.1	1,767.5	1,851.1
New jobs (000)	.691	19.6	29.1	40.9	55.7	64.8
Secondary jobs (000)	.346	9.8	14.6	20.5	27.9	32.4
Total year end employment (000)	1,633	1,662.4	1,706.1	1,767.5	1,851.1	1,948.3
Total year end labor force (000) 2/	2,232	2,302.0	2,372.0	2,442.0	2,512.0	2,582.0
Unemployment Rate (%)	26.8	27.8	28.1	27.6	26.3	24.5

1/ The elasticity of job creation with respect to the GDP growth rate.
2/ Assumed 70,000 new labor entrants each year.

2. For the five-year CDSS period, the Mission has established macro-indicator benchmark targets based on our assessment of the current economic situation and achievements we project will occur through 1991.

Programmatic Benchmark Goals and Targets (1987-1991)

a. Overall Balance of Payment, as Percentage of GDP:

(1) End 1985 Status: 4.5% (deficit)

(2) End 1990 Target: 3.5% (surplus)

b. Non-Traditional Exports (Goods):

(1) End 1985 Status: $115 million

(2) End 1990 Target: $255 million

c. Total Exports (Goods and Services):

(1) End 1985 Status: $1,343 million

(2) End 1990 Target: $1,805 million

d. GDP Growth:

(1) End 1985 Status: 0% during 1985

(2) End 1990 Target: 3.5% during 1990

e. Net Job Creation:

(1) Annual Increase by End 1985 Status: 1,000

(2) Annual Increase by End 1990 Target: 97,200

f. Levels of Unemployment:

(1) End 1985 Status: 27%

(2) End 1990 Target: 25%

IV. RESOURCES/BUDGET INTEGRATION

A. USG Resources

In order to implement the proposed country strategy we will need approximately $115 million per year in economic assistance resources from all sources over the five-year CDSS time frame.

ESF funding of approximately $50 million each year will help provide the leverage we need for the GODR to continue to carry out both macro-economic and sectoral-specific reforms to stabilize the economy. The Title I PL-480 program of approximately $30 million per year is another key resource to ensure that the GODR carries out needed macro-economic changes.

We will need an estimated $35 million per year in DA resources over the next five years. DA resources will finance a number of activities that are important in helping the GODR to continue with its macro-economic stabilization program. In addition to financing analytical studies that identify economy-wide problems and provide guidance on policy alternatives to overcome them, DA resources also will enable us to provide high level advisory assistance to key GODR economic policy makers. DA resources are a key element of our longer term growth strategy.

PL-480 Title II resources of approximately $1 million per year will be used by CARE to implement food for work and other productive programs for the most needy segments of Dominican society.

B. Staffing Implications

The USAID staffing level of 20 USDH and 31 FNDH has been reduced while our program levels have increased appreciably in the past three years. It is increasingly difficult to manage our portfolio well without the direct hire staff we need. But, in recognition of world-wide staffing reductions and the need to develop other means of managing our program, we do not plan to request an increase in the personnel ceiling. Rather, we will build project management costs into each project budget and employ PSCs and IQCs contractors to augment our direct hire staff resources. In addition, recent organizational changes in Mission management have streamlined operations by instituting sectoral and project teams and decentralizing routine decision-making to the team and technical division level. Thus, senior Mission management has been freed of the time consuming project implementation details and can thus concentrate on the major policy aspects of the Mission's program, and our policy dialogue with key GODR officials.

Santo Domingo
January 28, 1986

TABLE III

Resource Utilization by Strategy Sectors
Estimated Projected Inputs

(In US$000)	1987	1988	1989	1990	1991
Industry	54,500	60,600	62,100	62,100	62,100
DA	(11,500)	(12,600)	(14,100)	(14,000)	(14,100)
LC (ESF)	(43,000)	(48,000)	(48,000)	(48,000)	(48,000)
Agriculture	42,300	49,400	49,900	51,400	51,900
DA	(12,300)	(19,400)	(19,900)	(21,400)	(21,900)
LC (Title I)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Social Infrastructure (Population/Health)	9,200	5,000	5,000	5,500	5,000
DA	(5,900)	(2,000)	(2,000)	(2,500)	(2,000)
LC (ESF/Title I)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Title II	(1,300)	(1,000)	(1,000)	(1,000)	(1,000)
TOTAL	106,000	115,000	117,000	119,000	119,000

TABLE IV

Magnitude of Major Program/Project Interventions within CDSS Strategy Sectors

		US$ MIL.
a.	**Industry**	
	Agribusiness Promotion	19.8
	Export Promotion	6.0
	Strengthen Export/Marketing Companies	10.0
	Privatization of State Enterprises	15.0
	Strengthen Credit Unions/Cooperatives	8.0
	Industrial Parks/Free Trade Zones	18.0
	Human Resources Development	4.6
	TOTAL	81.4
b.	**Agriculture**	
	Commercial Farming Systems	16.0
	Privatization and Sugar Diversification	18.0
	Agricultural Credit	25.0
	Land Titling and Registration	5.0
	Improving Water Management	14.0
	Small Farmer Organizations/Dev. Assocs.	5.0
	Human Resources Development	2.4
	TOTAL	85.4
c.	**Social Infrastructure**	
	Family Planning Services Expansion	5.0
	Vector Control	1.5
	Self-Financing Health Care	3.0
	Nutrition Activities (PVOs)	2.0
	Clean Water/Sanitation	2.7
	Strengthening Democratic Institutions	0.5
	TOTAL	14.7

To implement the strategy described in the previous sections, the Mission will require the program levels within each AID funding category as indicated in Table V:

TABLE V

AID FUNDING CATEGORY SUMMARY TABLE

(In US$000)	1987	1988	1989	1990	1991	Total
ARDN	13,800	21,000	21,500	23,000	23,500	102,800
POP	2,650	500	500	1,000	500	5,150
HEA	3,250	1,500	1,500	1,500	1,500	9,250
EHR	2,100	1,200	1,200	1,200	1,200	6,900
SDA	7,900	9,800	11,300	11,300	11,300	51,600
SUB-TOTAL	29,700	34,000	36,000	38,000	38,000	175,700
ESF	45,000	50,000	50,000	50,000	50,000	245,000
PL-480						
Title I	30,000	30,000	30,000	30,000	30,000	150,000
Title II	1,300	1,000	1,000	1,000	1,000	5,300
TOTAL	106,000	115,000	117,000	119,000	119,000	576,000