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Country Development Strategy Statement

FY 1985

Dominican Republic

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Agency for International Development
Washington, D.C. 20523

BEST AVAILABLE

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FORWARD

The Dominican Republic, following the period of political and economic instability in the mid-1960's, entered into a period of very rapid economic growth. Import-substitution based industrial development, stimulated by easy access to domestic and foreign credit, generous investment incentives, and high levels of tariff protection, fueled a strong and sustained economic expansion.

However, even while this manufacturing boom was underway, structural mal-adjustments in the Dominican economy remained. Agricultural production, for example, did not keep pace with population growth, unemployment remained constant throughout the period at about a quarter of the labor force, and traditional exports remained the major source of foreign exchange.

Beginning in 1981, the Dominican economy began a sharp downward slide. International conditions simply turned against the Dominican Republic's economic base and structure. Although in recent months there has been some signs of recovery in world sugar prices, which would ease current economic problems somewhat, the long-term prospect for sustained economic growth based on a few agricultural and mining exports does not seem promising.

Thus, as the Dominican Republic progresses through the 1980's, it will have to cope with severe and inter-related fiscal, unemployment, and balance-of-payments difficulties, directly related to unfavorable international prices for its major products, and a resultant shortage of foreign exchange, restricted imports, reduced revenues, scarcity of credit and investment, and continued government deficits. In addition, although there have been some efforts to reduce the impact of import substitution, overall responses to these problems are within a policy framework of continued import substitution and dependence upon exports of certain traditional products.

There is a growing consensus that the Dominican economy faces an impending crisis of major proportions. In addition to the balance-of-payments and fiscal deficits, unemployment is at an unacceptable level. Overcoming these problems will require a major commitment from the Dominican public and private sectors as well as the donor community to

stimulate aggregate investment in the economy's productive sectors and to redirect efforts from inefficient ones. In the long-run, for example, the predominant role of sugar in the economy must change and the earlier this is faced, the better.

The new Dominican administration, which assumed office in August 1982, has a limited time horizon in which to address the country's problems. In general, it must be admitted that Dominicans (with many individual exceptions) have a poor understanding of the severity, duration, and nature of the crisis, and the responses required. Despite a few successes, many current public and private programs are at best marginal in impact relative to the need, and at worst counterproductive.

In response, the underlying theme of the AID program is being adjusted to encourage and support a policy dialogue responding to the Dominican public and private sectors in order to develop the consensus, commitment, policy framework, and programs required to face up adequately to the formidable economic perspective. The role of the private sector is critical. Operating in a "mixed" economy, the Dominican private sector is nevertheless the predominant contributor to output, employment, and foreign exchange generation. It has, however, a long history (often but not always well-meaning) of government interventions in private economic activity.

The strategy proposed herein is designed around the Caribbean Basin Initiative (CBI). It takes as a fundamental axiom that the private sector's role in the development of the Dominican economy must be strengthened. Apart from its own attitudes and a reluctance to abandon the privileges accruing from current protective legislation, the most important problems facing the private sector appear to be obstacles created by government policy and administration to flexible and efficient management of resources. Helping the public and private sectors to understand the need for a significant shift from import-substitution to an export-oriented industrial base, and then assisting in the creation of a better environment in which to work, is the Mission's highest priority. Within this context,

there are three themes which link internally this AID strategy: export promotion, employment, and structural adjustment. An important corollary to these themes will be continued AID support for those programs in agriculture and human resource development, which have constituted the long-term thrust of the AID program in the Dominican Republic, and which deal with the physical and human resource base upon which all other development efforts must depend. The Mission predicates its efforts on the following assumptions:

— The Caribbean Basin Initiative comes fully on stream.

-- There will be at least some structural change in the Dominican economy.

-- There will be increased domestic production especially in economically viable agricultural commodities.

— There will be general political stability manifested, in part, by the absence of serious labor strife.

— The GODR will remain in substantial compliance with targets contained in by IMF agreements.

— AID will continue to provide significant DA, ESF, and PL-480 resources over the CDSS period.

In addition, we assume that notwithstanding current appearances of the GODR's efforts for stabilizing the economy, a <u>real</u> long-term recovery based on improved sugar, coffee, and tourism earnings is unlikely in the CDSS timeframe. It will take several years of economic diversification and structural change before steady and significant real economic growth can be reachieved. On the plus side, the Dominican economy has traditionally shown resiliency and has the second lowest inflation rate in Latin America. Monetary and financial affairs have generally been managed within a fiscally conservative tradition. There is open dialogue between the public and private sectors. Thus, with internal determination, external encouragement, and a bit of luck, longer-term adjustment, redirection and increasing prosperity should be possible.

I. ECONOMIC AND SOCIAL OVERVIEW

A. Recent Economic Performance

Following the period of political instability in the early 1960's, the Dominican Republic entered upon a period of extremely rapid economic growth. Industrial development, stimulated by easy access to domestic and foreign credit, generous investment incentives, and high levels of tariff protection, led to a boom which saw a rate of overall economic growth almost unprecedented in the western hemisphere. Between 1971 and 1974, GDP expanded in real terms at an average annual rate of more than 11% per year. In spite of persistent high unemployment, this structure worked fairly well in the Dominican Republic as long as world prices and the domestic production of agricultural and mineral export commodities were reasonably high and opportunities for capital expansion were not exhausted. When this situation prevailed, virtually every sector benefited. The agricultural sector received higher profits, the manufacturing sector obtained an abundant supply of foreign exchange to import raw materials and capital goods mainly to satisfy consumer demand in the domestic market and the government sector collected higher tax revenues to finance social overhead investment.

In recent years, however, the Dominican economy has been hit by adverse events beyond its control: (1) the 1979 hurricanes, which caused extensive damage to the nation's infrastructure, housing, and agricultural crops; (2) the sharp increase in world oil prices raised the import bill of petroleum products from 9.6% in 1973 to 60% of export earnings in 1982; and (3) the decline of sugar prices after 1976, especially in 1982. Beginning in 1978, the Dominican Republic's overall balance of payments has suffered successive and increasing deficits; in the 5-year period, 1978-1982, the overall balance of payment deficit cummulated to $768 million as compared with a surplus of $42 million during the previous 5-year period (1973-1977).

Even though economic growth performance has remained relatively good in recent years, the above-cited evidence on erosion of external accounts suggests strongly that this growth is not sustainable. During

1979-1982, the average annual growth of GDP was 3.9%. The basic productive sectors (agriculture, manufacturing, construction, and electricity) grew at 3.0% per annum, and service sectors grew at 4.6% per annum. Bouyed by strong growth of public sector consumption, overall consumption grew at a rate of 5.6% per annum, and gross investment declined by 2.9% per annum. In absolute value, private consumption grew by 21.4% from 1978 to 1982, while public consumption increased by 53.3%. However, private investment declined by 7.6% and public investment declined by 28.7%. Even with the shift in public expenditure toward consumption in recent years, gross domestic investment has exceeded 20% of GDP in recent years due, in part, to a sustained loan and arrearage driven net foreign resource inflow.

By 1981, the Dominican Republic's adverse trend in the public sector financial situation was clearly evident. Public sector savings deteriorated sharply from 1 1/2% of GDP in 1980 to 1/2% in 1981, and to an estimated negative 3% in 1982. The adverse fiscal trend was a consequence of several factors. Public sector wages and employment grew sharply in 1978-1980 and, as a result, central government current expenditures grew by 25% per annum during this period. On the revenue side, receipts barely kept pace with inflation. Current revenues as a percent of GDP declined mainly due to import growth related to increased petroleum prices and increased food imports, that were largely tax exempt. Public sector current revenues averaged 17.6% of GDP in 1976-1977 and averaged 13.6% of GDP in 1978-1981, but declined to an estimated 9.4% of GDP in 1982.

The poor performance of public finances in the period 1977-1981 was essentially determined by the failure to enact new tax legislation, a major increase in government current expenditures, and the increasing deficits of decentralized agencies and state enterprises. By mid-1980, the fiscal crisis emerged as President Guzmán instructed budget officials to hold fiscal expenditures in line with revenues virtually on a month-to-month basis. Consequently, planned 1981 expenditures were cut back and, in some cases, so severely that counterpart fund shortages developed for large externally-financed projects, which, in turn, contributed to reduce the effective inflow of external resources as well.

The substantial deficits on the state enterprise sector also contributed to the 1982 monetary-fiscal crisis. This crisis took the form of a rapid increase in the domestically-financed public sector deficit -- as percentages of GDP from 1.6% in 1980 to 4.3% in 1981 to 7.1% in 1982. The inability/unwillingness of the public sector to forego domestic financing of its deficit is confirmed by growth and composition of net domestic credit (based on year-end data), as follows:

	1979	1980	1981	1982	1983*
Growth of Net Domestic Credit	14.0	20.4	20.5	27.0	11.0
--To Public Sector (% Growth)	29.6	18.1	52.5	46.6	13.7
--To Private Sector (% Growth)	7.7	17.0	- 2.3	8.3	11.0
GDP in Nominal Prices (% Growth)	16.5	20.3	13.5	6.0	11.0
Composition of Net Domestic Credit (%)	100.0	100.0	100.0	100.0	100.0
--Public Sector (%)	33.9	35.1	44.5	51.3	52.6
--Private Sector (%)	54.8	56.2	45.6	38.9	38.9
--Other (%)	11.3	8.7	9.9	9.8	8.5

The pattern of 1981 and 1982 are clear and unmistakeable: the increasing growth of net domestic credit is linked to the growth of banking system credit to the public sector. The negative impacts are: (1) credit to the private sector was clearly reduced in real terms in 1981 and 1982, and (2) the overall growth of net domestic credit in 1980-1982 was clearly beyond the limit in regard to maintenance of a dollar-pegged invariate exchange rate.

After achieving a moderate balance of payments surplus in 1977, the Dominican Republic experienced increasing balance of payment difficulties in the following five years. The overall balance of payment deficit

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* Data for year-end 1983 are based on the performance targets under the GODR-IMF arrangement.

increased from $95 million in 1978 to $310 million in 1982. The B/P current account deficit increased from about 6% of GDP in 1978 to 10% of GDP in 1980, but declined to a level of 5.5% of GDP in 1981 as a result of an expansion in sugar export earnings and a decline in imports, mainly because 1980 imports associated with the reconstruction effort after the 1979 hurrricanes were not repeated in 1981. Although the non-traditional exports showed some promise by growing at about 17% for the past few years, its impact on the balance of payments was relatively insignificant due to its small size. Nevertheless, the overall deficit increased in 1981 due to somewhat higher oil import prices, increased interest payments associated with higher interest rates in international financial markets, and reduced availability of foreign credit for both the public and private sectors. In 1981 and 1982, the government undertook corrective actions by reducing the availability of official foreign exchange through quotas, temporary import prohibitions, the tightening of exchange controls, and by granting exchange incentives to some exports. In 1982, exports and imports declined; the net capital inflow also declined sharply; and the overall deficit nearly doubled to a level of $310 million. The balance of payments deficits of 1979-1982 were substantially financed by the accumulation of external payments arrears and the net reduction of the international reserves of the banking system to minus US$701 million by the end of 1982.

The Dominican peso remained pegged to the U.S. dollar at par in the official market. In the parallel (street market), the U.S. dollar had been quoted at a premium of 20-25 over par for several prior years up to 1981. By the third quarter of 1982, this premium had reached 50%. In real terms, by 1981, the parallel market D.R. peso depreciated by 12% from its 1977 level and by an additional 10% in 1982.

Placed in longer term perspective, two aspects of the Dominican Republic's balance of payment deterioration merit additional consideration: one is that the net inflow of private capital declined markedly in recent years, reflecting the impact of escalating commercial arrears on perceived external creditworthiness. Related to this is the domestic interest rate control, particularly a low time deposit rate maximum that has been an important incentive for Dominicans to hold liquid funds abroad. The other

aspect of the deterioration of external accounts is the lack of export dynamism. Dominican commodity exports are characterized by heavy dependency upon eight primary agricultural and mineral products with relatively minor domestic processing. The composition of 1977-1979 commodity exports was as follows (in percentages):

Sugar & by-products	30.1
Coffee	18.7
Cocoa	11.4
Tobacco	5.7
Bauxite	2.9
Ferronickel	12.2
Gold alloy	9.3
Silver alloy	1.6
Other	8.2
TOTAL	100.0

As compared with 1977, 1981 export volumes were lower for sugar (-2.5%), coffee (-19.1%), bauxite (-40.9%), and ferronickel (-19.1%), and higher for cocoa (+15.2%), and doré (+26.9%, a silver/gold alloy). The "Other" export category grew in nominal dollar value from $53 million in 1977 to $100 million in 1981, a growth rate of about 17% per annum. The constant price series for all exports of goods and non-factor services in the national accounts reveals an annual growth of only 3.0% for 1977-1980.

To address this balance of payments problem, the GODR recently created an Investment Promotion Commission to encourage and to promote foreign investment, especially in exports. The Commission will establish an office for one stop investment services to take advantage of the prospective CBI trade and investment provisions. In addition, the Dominican Congress has recently passed the proposed revision of the Foreign Investment Law 861, making foreign investment in the Dominican Republic more attractive.

The Dominican Republic's external public sector debt (on a disbursed basis and including publicly-guaranteed debt) increased from $844 million at year-end 1978 to $1,747 million estimated for year-end 1982. Adding commercial arrears, a <u>defacto</u> responsibility of the Central Bank, brings the 1982 estimate to $2,183 million and signifies a 159% increase

during the 4-year period (1979-1982). In 1981, total external debt service payments (public and private) amounted to $372 million or about 25% of exports of goods and non-factor services. The estimated 1983 debt service ratio is 38%, due to higher service payments ($440 million) and also to low export earnings. Compared to the 1980 debt service ratio of about 11%, this ratio is considered to be high and is expected to decline as exports pick up.

B. The IMF Arrangement

The Jorge Blanco administration, which took office in August 1982, was confronted with a heroic task: it had to design and implement measures to alleviate the pressing fiscal and balance of payment problems, and also to address the underlying longer-term problems which contributed to the present situation. It took immediate emergency measures to reduce imports and to reduce public sector expenditures and increase public sector revenues. It also initiated negotiations with the IMF and foreign commercial banks to obtain substantial financial resources to reduce external payment arrearages and restore external creditworthiness. Negotiations with the IMF culminated in an SDR371.25 million net 3-year Extended Fund Facility (EFF), signed in January 1983. 1/ The IMF arrangement contains the usual performance criteria, specified one-year at a time, related to expansion of banking system net domestic credit, net credit to the non-financial public sector, Central Bank net international reserves, as well as limits on the contracting of new external loans by the public sector, a $100 million reduction Central Bank external payment arrearages, and an $85 million transfer of imports to the parallel exchange market. The IMF arrangement did not require devaluation of the official exchange rate, but encouraged legalization and utilization of the parallel exchange market. It was hypothesized that a policy of broadening the scope of the parallel foreign exchange market would facilitate unification of the exchange market at some future time at a realistic rate.

1/ By year, the net flow of IMF resources is as follows: SDR123.75 million (1983), SDR123.75 million (1984), and SDR123.75 million (1985). At a 1.2 US$/SDR conversion rate, the U.S. dollar equivalent is $180.50 million each year.

The first year of the EFF aims more at the restoration of orderly external payments and confidence than upon improvements in price-directed resource allocation. The IMF/GODR arrangement places strong attention at reduction of the public sector financial deficit. The Jorge Blanco administration sponsored several measures to increase revenue: a 10% ad valorem surtax on imports, a capital gains tax on property sales, modification of the income and other taxes, and enactment of a 6% sales tax (to take effect in November 1983). In addition, central government expenditures are to be reduced by 8.6% in nominal terms in 1983 and programs have been adopted to reduce the deficits of state enterprises, in particular CEA, CDE, CORDE, and INESPRE. The overall public sector deficit is to be reduced to about 4% of GDP in 1983, as compared with a 7% deficit estimated for 1982.

Monetary restraint in the form of a targetted growth of net domestic credit for 1983 of 11% as compared with a 27% growth in 1982, serves to reduce growth of aggregate demand and, in this manner, import expenditures. The 1983 B/P current account improvement is forecast variously by IMF/GODR at approximately $175 million. The rest of the $315 million targetted reduction in the 1983 overall B/P deficit results from increased net capital inflow to the public sector related to reduction of scheduled amortization payments under the GODR/commercial bank debt renegotiation. 1/ Thus, upwards of half of the targetted 1983 B/P improvement depends upon non-exchange rate forces—principally upon GODR negotiative skill.

C. The Foreign Exchange Rate/System

The foreign exchange system of the Dominican Republic is unusual and somewhat controversial. There are two exchange rates, the "official" rate of one peso to one dollar, and a "parallel market" rate running at near DR$1.50 to one U.S. dollar since October, 1982. In principle, foreign exchange at the official rate is available from the Central Bank for meeting the government's own obligations, for annual profit remittances on

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1/ Part of this inflow consists of a special capital inflow equal to the portion of Central Bank arrearages negotiated in the above-cited arrangement with a new maturity of at least five years.

registered foreign investments, for petroleum imports, and for imports of raw materials and semi-finished inputs up to a quota equal to 55% of the 1979-1982 actual usage of foreign exchange by the firm. The sources of "official" foreign exchange include registered foreign investment, export proceeds and international transactions of the GODR. Since 1979, all access to foreign exchange at the official rate through the Central Bank is subject to long delays: approximately one year for raw material imports, approximately two years for profit remittances and debt collections, and several months on the partial return of foreign exchange proceeds on non-traditional exports.

On the parallel market, in contrast, there are essentially no restrictions on private sector access to foreign exchange. For a price, exchange is available for any purpose on the parallel market at rates which vary day by day. The sources of foreign exchange for this market include tourist expenditures, private transfer payments from Dominicans living abroad, and perhaps a certain amount of under-invoicing of exports. The volume of imports financed through the parallel market is substantial, probably amounting to over 50% of non-petroleum imports.

The exchange rate and market arrangements for foreign exchange exert substantial influence on the composition and profitability of productive activity in the Dominican Republic. There is widespread agreement that the Dominican peso is overvalued at the official exchange rate, but opinions differ regarding the merit of a devaluation of that rate. These differences concern three major issues: the symbolic advantage for political reasons of maintaining the one-to-one official rate, the ability to manage a devaluation so as not to trigger a massive increase in costs and prices, and the viability of traditional exports and export expansion. Maintaining a one-peso to one-dollar link is doubtless an anchor to windward, which makes stern economic policies more palatable politically. Defense of, say, a DR$1.38 to one dollar exchange rate would hardly be as politically acceptable in terms of commanding support for austerity measures reducing the public sector deficit.

In terms of domestic costs, imports have been subject in recent years to <u>defacto</u> devaluation in the form of overdraft charges that

Dominican importers must pay because of Central Bank delays in delivering foreign exchange. Also, the average peso cost of imports of raw materials, capital and consumer goods has increased due to continuous shifts from the official to parallel market. Therefore, a moderate devaluation of the official rate to, say, DR$1.30 would not increase domestic costs for a sizeable portion of imports, but a sudden devaluation to a rate substantially higher than DR$1.50, could trigger a substantial price push domestic inflation, with the attendant problem of increased strike activity, wage demands, and negative impact on public sector finances.

It is generally acknowledged that the 90% of export earnings that come from primary agricultural commodities, which are subject to a 80% surrender requirement at the official rate would not expand much due to the fact that Dominican supply response would be slow due to the need for substantial time for new investment to produce most traditional exports. In addition, even though non-traditional exports receive partial exemption from the official rate surrender requirement, this system is administratively discretionary and subject to delay and potential abuse.

An asymmetrical trade-exchange system is difficult to correct and the temptation is to hold back from any adjustment. The correct but difficult approach, and one we intend to encourage in conjunction with IMF, is to recognize that when an exchange rate is overvalued, the economy is living above its means, and that a cut in the standard of living may be a necessary part of the adjustment process. With a fiscal-monetary program put in place to reduce aggregate demand, a realistic adjustment of the exchange rate can serve to reduce the demand for imports without expanding the quotas/licensing/prohibitions system (which also invites abuse), and to enhance the viability and profitability of exports, which is essential to the strengthening of the balance of payments.

D. Economic Outlook and Policy Change

The effort by the Jorge administration in conceiving an austerity program and securing emergency foreign exchange assistance has reduced the prospect for import disruption, a runaway exchange rate, and sharply accelerating inflation. The government has no set of economic policies in place, even if capably administered, that can return the country to a

sustainable growth rate in a relatively short period of time, i.e., one to two years. The foreign exchange shortage is the primary limit and will require the continued need for recessed demand and monetary-fiscal restraint. The stabilization program assures only that the volume of imports necessary to a recessed economic situation may be obtained by the availability of IMF and other foreign exchange resources linked directly and indirectly to that arrangement, e.g., U.S. ESF resources, commercial bank loans and refinancing, and possibly bilateral Paris Club refinancing.

These exceptional external resources constitute bridge financing from the present cyclical low in non-sugar traditional export prices to improvement that is moderately probable by 1985. Growth of GDP was non-existant in 1982, and moderate declines in per capita GDP are likely in 1983 and 1984. For 1982-1984, it is conceivable that GDP per capita could fall by 6-12%. Adherence to a stabilization program can avoid the social costs arising from sharply accelerating inflation, but steady and significant real growth in GDP appears remote. The longer-term outlook for world sugar prices and market conditions is clearly uncertain. Moreover, the U.S. quota presently provides a basic floor to Dominican export earnings, and future prospects for quota are obviously a point of anxiety to Dominicans.

The essential task for Dominican policy-makers is to design and implement policies that will restore and strengthen economic growth in the second half of the 1980's. The concept of structural change is important to this longer-term growth prospect. During its first year of the Jorge Blanco administration, energies have been absorbed in the emergency/-stabilization program. Completion of the essential tasks may permit greater reflection and action on medium- to long-term policy questions. A key issue blocking the World Bank negotiations with the GODR (for an Industrial Development Loan in 1981, and more recently a Structural Adjustment Loan -- SAL) concerns reduction of incentives for import substitution. Other issues are also involved, namely, substantial increases in agricultural prices, use of a better exchange rate for exports, and a reform of the level and structure of interest rates.

These IBRD/GODR negotiations are the subject for an upcoming August discussion. Thus, it is premature to dismiss eventual agreement on a SAL loan and program. However, early signs are that there are wide differences on approaches. At a minimum, continuing policy work by IFIs and AID is necessary in regard to the foreign exchange rate and system, prices of domestic agricultural products, and measures to expand non-traditional exports. Politically-powerful domestic lobbies undoubtedly would prevent a substantial decrease in import-substitution incentives. Also, the Jorge Blanco government is uncertain about the more subtle aspects of medium-term economic policy, and this uncertainty relates, in part, to the lack of unified economic approach within the GODR, the lack of adequate awareness and studies of specific aspects of structural reform, and the negative influence of the unhappy coincidence of previous economic openings in other Latin American countries, e.g., Chile and Argentina.

E. Medium-Term and Structural Problems

Although the current economic crisis has emerged from the combination of the rapid rise in the world petroleum price and the precipitous drop of the world sugar price, the reasons for the severe impact of such an economic predicament must be found within the country's economic structure. In part, the defects of the economic structure are the cause of problems that can be overcome in the medium-term and, in part, these problems result from the role of the public sector in inhibiting, controlling, or poorly administering the private sector. It is important to look at necessary structural adjustment in the context of the overall economic problems.

1. The Private and Public Sectors

Inevitably, in defining the private sector, one begins by saying what it is not; that is, by defining the public sector. The public sector in the Dominican Republic is large and extends through many sectors of the economy. In addition to the various levels of government and decentralized agencies, it includes the electric company (CDE), the largest producer of sugar (CEA), and a variety of publically owned enterprises, including the national airline, which are organized under the Corporation for State Enterprises (CORDE) and the Rosario gold and silver mining operation acquired in 1979. The country's oil refinery is one-half government

owned but managed by the GODR's multinational partner. In addition, CORDE owns a minority position in several enterprises. The large share of state enterprises in the economy was a result of the nationalization of the Trujillo family holdings in 1962, rather than a result of any desire for a substantial public sector participation in the economy as such.

The private sector employs approximately 80% of all employed persons, a proportion which has remained relatively constant in recent years. Within this sector, the agriculture accounts for the largest single share, 61.7%. Distributive activities account for 9.2%, while manufacturing employs only 4.7% of all employed workers. Within the public sector, the various levels of government account for the largest share of employment, 15.5% of the employed labor force, while CEA employs 5.3%.

2. Agriculture

The importance of the agricultural sector as a source of employment, output for domestic consumption, and export earnings is substantial. Some 2.8 million people live in rural areas in 340,000 farm families. Agriculture directly employs slightly more than 60% of the nation's employed labor force. In recent years, the production of all agricultural commodities has tended to stagnate. During the period 1976-1980, output of non-export agricultural commodities increased by 2.8% annually, while production of sugar, coffee, cacao, and tobacco actually declined by about 1.5% per annum. Within the agricultural sector, the sugar industry is by far the key component.

Public participation in the agricultural sector bulks large because of CEA's predominant position in the sugar industry. Sugar export earnings have been highly variable in recent years due to world price movements, Dominican success in anticipating some of these movements, and more recently the U.S. quota system which yields a higher than world price to Dominican producers (in 1983, approximately 13 cents per pound versus 7.8 cents per pound on the world market). The long-term outlook for Dominican sugar export earnings is inauspicious. These negative trends relate mainly to increasing U.S. production of sugar substitutes.

The structural adjustment necessary for the economic viability of the agriculture sector consists of allocating fewer productive

land resources to sugar production and moving toward creation of a large number of small to medium sized private commercial farmers who would produce high value food crops for domestic as well as foreign markets. The long-term potential for increased agricultural output, exports, and efficient import substitutes from the sector is substantial. These gains, as well as retention of a reduced but world-competitive sugar industry, will take substantial investment in physical, human, and institutional resources over a period of many years.

The sector's overall potential is highly dependent upon the adequacy of incentives (including prices) and the provision of infrastructure and services to thousands of individual farmers. Estimates of private investment in the sector show a steady decline in private investment in recent years, and this decline has been occurring at a time when the public sector has been making massive investments in the sector, particularly in irrigation infrastructure. Also, a recent study notes that domestic rice prices to producers (in pesos) do not adequately compensate for increased costs of inputs financed on the parallel market.

3. Industry

In general, the industrial manufacturing sector can be divided into three groups: sugar processing, import substitution manufacturing, and production for export including free zones. With the exception of sugar, of which 58% is in the hands of the CEA, just under 90% of manufacturing output is produced by the private sector. The remaining 10% of manufacturing output is accounted for by the various industries owned by CORDE. The overall distribution of production among the three groups shows that about 26% of total industrial production is accounted for by the sugar processing industry, about 70% by the import substitution manufacturing, and only about 4% by the export enclaves.

Firms manufacturing for export include those firms classified as Category "A" under Law 299 which are, with few exceptions, located in one of three Export Processing Zones (EPZs). Average investment per worker was about $4,000, and the average annual wage was just under $1,600 per year. As of 1980, there were 82 firms operating in the EPZs, employing about 18,000 workers (about 220 workers per firm) and generating DR$36.7

million worth of foreign exchange. The largest concentration of these firms is in processing tobacco, clothing, textiles, and electronic equipment. Since 1979, several firms (classified as Category "B" and "C" under Law 299) which process local and imported materials, primarily for the domestic market, have taken advantage of export incentives provided by Law 69 to undertake significant exports.

Law 299 also provided incentives for import substitution. Incentives to import substitution firms (Categories "B" and "C") include substantial exonerations (90-95% depending on the circumstances) from the fairly high import duties on raw materials and semi-finished inputs. In addition, such firms are accorded substantial protection from domestic competition by a provision which limits registration of new firms when installed capacity to supply the Dominican market already exists. Unfortunately, this is often applied with essentially anti-competitive rather than protective effects.

Apart from export manufacturing, Dominican manufacturing is highly concentrated in the production of light non-durable consumer goods for the domestic market. The largest single sub-sector is processed food, which accounts for one-fourth of the value added by the entire manufacturing sector. About 96% of total industrial production, therefore, is either for sugar or for manufacturing by import substitution industries for the domestic market. The absolute importance of sugar and manufacturing for the domestic market indicates the chief problem of the Dominican manufacturing sector, for both sugar and import substitution production face limited markets. The production of non-traditional products for export has potential but is expanding from a very small base.

Given the current economic situation of the Dominican Republic, strategies for increasing manufacturing output appear limited except for export expansion, i.e., growth of output is limited to slowly growing domestic demand (distinctly recessed at present), or it must expand by competing in external markets. In fact, effective import substitution in the Dominican Republic was negative in the latter part of the 1970's, suggesting that, as with most small countries which have followed import-substituting strategies in the past, the potential for such substitution is

quickly exhausted due to the successively more constraining limit of foreign exchange earnings. In terms of economic process, the domestic import-substituting manufacturer is relying upon traditional primary product export earnings for the supply of foreign exchange necessary for his imports of machinery and raw materials. Therefore, except when export prices are cyclically high, foreign exchange is scarce.

Another structural problem affecting Dominican manufacturing industry concerns employment expansion. The combination of high protection, low interest rates on loans, and generous tax credits for fixed investment clearly combine to produce a strong incentive for the use of capital-using technologies. Available data indicate that this is precisely what has happened. Among new Category B and C firms (over half of the firms registered under Law 299 in Categories B and C were existing firms) during the first 10 years of the law's operation, total reported employment was 9,745 employees, less than 1,000 per year, at a time when the national labor force has been increasing by more than 60,000 per year. Estimated ex ante investment cost per employee was almost $12,000. Clearly the import substitution industry has not assisted in resolving the pressing unemployment problem which is estimated to be in the range of 25-30% of the workforce.

4. Commerce

The commercial sector is one of the most important in terms of employment and contribution to national income, and yet is one of the most difficult to describe with any degree of accuracy. It encompasses the GODR Price Control Institute (INESPRE), which plays a crucial role in the marketing of agricultural products, and extends to wholesale and retail merchandising of various sizes and levels of operation down to and including street vendors. Commercial operations play a significant role in aggregate output. They accounted for 17.4% of GDP in 1979, a slight increase from their 16.3% share in 1975. The share of commercial activities in employment was 9.2% of all employed workers in 1980, down slightly from 10.5% in 1977. The significance of both these changes is not clear. No data is available on the amount of either fixed or working capital invested in commercial activities. However, experience elsewhere suggests that the

ratio of working to fixed capital is rather high, and that the total investment requirement per employee is relatively low.

5. Tourism

The tourism sector has experienced more than a decade of explosive growth to become one of the most important sources of foreign exchange in the Dominican economy. This growth was funded, in part, by extremely generous investment incentives to producers in the sector. Any foreigner can own land for tourism development. New airports are planned in Santiago and other tourist sites. Over the 5-year period, 1975-1980, average Dominican receipts from tourism were estimated to have grown by 16% per year, reaching $167.9 million in 1980. In the latter year, tourism was third, behind sugar and the mining sector, as a producer of foreign exchange.

Various attempts have been made to estimate the investment costs and associated employment effects of investment in the tourism sector. A 1978 World Bank study estimated that direct employment by hotels in 1976 was about 3,500 persons, approximately one employee per hotel room. Indirect employment (restaurants, recreational activities) was estimated at 1,500 employees or 0.4 employees per hotel room. Other direct and indirect employment generated by tourist expenditures brought the total to 1.9 employees per room. At that time, the average investment cost per hotel room was estimated at $40,000, including the cost of restaurants and entertainment facilities. Thus, tourist expenditures appear to have an investment cost per employee of about $21,000 per worker, more capital intensive than those seen in import-substitute manufacturing. Moreover, although specific figures are lacking, it would appear that tourism services are highly import intensive. The import content of tourism services may be as high as 30% of the revenues generated.

Future significant expansion of employment and exports through tourism will hinge on increasing substantially tourism traffics and reducing the import content of the tourism product. In practice, this may be fairly difficult.

6. Mining

The mining sector plays a very important role in the external trade of the Dominican Republic, although its contribution to employment is minimal. In 1980, the output of the mining sector contributed 39.7% to commodity exports of which 27.0% was gold and silver, 10.5% ferronickel, and remaining 2.2% bauxite, gypsum, and limestone. In 1981, the share of the mining sector in total exports declined to 28.3%. The share of total employment accounted for by mining was only 0.4% of the employed labor force in 1977, and this declined to 0.3% in 1980. Although statistics on total investment in the sector are not available, the capital requirements of the sector are rather high.

Until 1979, the mining sector was entirely in the hands of the private sector and predominantly of local affiliates of multinational firms. In that year, the GODR acquired the Rosario gold and silver mining operation. Although the firms were compensated, the government acquired at a stroke a dominant position in a sector long known for its political sensitivity. This precedent may be an obstacle to the future development of the sector.

The country appears to have considerable untapped potential in mineral development. Preliminary studies suggest significant copper deposits in the central part of the island, and the possibility of significant copper and manganese further to the west. Alluvial gold occurs in various parts of the island, and various non-metallic minerals are abundant in the southwest. The recent discovery of commercially exploitable lignite deposits holds out a good possibility for a reduction in oil imports, and exploration drilling for petroleum is being undertaken in several parts of the island, thus far without success.

7. Inadequate Public Sector Resources

Tax revenues in recent years have not kept up with the nominal GDP increase. The estimated tax revenues as a percent of GDP continued to decline from 11.4% in 1978 to an estimated level of only 8.4% in 1982. The main culprit is customs revenue, which declined from 5.3% in 1978 to 2.3% in 1982 due to increased exonerations and many specific tariffs rather than ad valorem. Although 1982 may be an exceptional year for customs revenues due to depressed trade activity, the insensitivity of

tax revenues to inflation and real GDP growth is problematical and needs to be addressed by the GODR. Even though a rapid population increase and rural to urban migration have created a growing need for the Social Overhead Investment (SOI), declining public sector resources have limited the government's ability to undertake the necessary SOI in education, health, and infrastructure. As a result, human capital resources are deficient in all levels. Primary education, particularly in rural areas, is clearly deficient. Infrastructure, in terms of necessary modern living, is inadequate. Shortfalls in power, water, and sewerage services, and transportation and communications, indicate the need for infrastructure investment.

In the medium-term, the government must revise its tax structure so that public revenue growth keeps up, at a minimum, with the growth rate of GDP. The key revision consists in shifting the reliance of tax revenues from trade tariffs to business activity taxes such as profit taxes, sales taxes, and/or value added taxes. The GODR recognizes this problem and has instituted a 6% value-added tax (effective in November 1983), which, if administered well, will partially restore the government share of economic growth.

8. Public Administration

The influence of public administrative decisions on the country's economic activity, particularly on the private sector activity, is pervasive and all too often negative. Human capital inadequacies, at all levels of government, undermine satisfactory public administration of laws and regulations. The major damage inflicted on the economy is from laws and regulations which provide broad areas of administrative discretion and case-by-case review. Several government programs, including investment incentives, are characterized by these administrative problems with considerable doubt as to specific case outcomes. The government has also taken measures on several occasions, such as price and export controls, delays in payments of foreign exchange for letters of credit, and delays in providing foreign exchange for authorized profit remittances, which have adversely affected private firms with little apparent consideration of such effects.

Examples of destructive administrative interference with the working of market forces and the price mechanism abound. At present, the foreign exchange law requires exporters to surrender their earned foreign exchange to the Central Bank at the official (one dollar to one peso) rate, whereas the same exporter has to purchase raw material which is imported with foreign exchange purchased at the parallel market at about 50% premium. Export incentives designed to overcome this foreign exchange asymmetry are administered on an ad hoc basis, frequently resulting in wasted time and loss of export contracts. Price control of basic foods are usually based on the mark-ups above production costs. Frequently, however, input prices, which are not price controlled, outpace the mark-up margin resulting in lower profit. Similarly, in regard to the organized financial market, the monetary authority has often set the cost of borrowing money either by financial institutions or by investors at levels that are out of line with demand for and supply of loanable funds. It would be far more efficient for the medium-term if the government reduced its administrative interference and encouraged the market forces to seek price levels which would clear the markets. The markets for foreign exchange, food prices, and loanable funds could all work more efficiently if the government would reduce its strong interventions.

II. OBJECTIVES AND TARGETS

A. Program Rationale

The AID program in the Dominican Republic has been in existence for over 20 years. A continuum of institutions and programs has developed, and AID strategies have been designed to either shape or accelerate Dominican priorities as they gradually emerged to meet the country's changing needs.

In the 1960's, AID and the GODR worked at establishing an institutional and technical base following the early 1960's political turmoil. AID and the private sector worked toward establishing the basis for industrial growth and financial sophistication.

In the mid-1970's, AID reduced the scope of its programs to concentrate on agricultural and health services to the rural poor.

However, following the 1979 hurricane disasters and the GODR administration's desire to sharply reorient its development focus towards rural areas, AID's programming adjusted accordingly. Emphasis was placed upon programs which focussed on policies and practices to turn around the serious and growing depletion of the natural resource base, notably soil and water. In addition, human resource development shifted to attempting to fill the shortage of vocational and professional technicians and administrators in both the private and public sectors. A primary education reform effort was undertaken. Programs of micro- and small industry development and expansion were begun. A major initiative in energy conservation was initiated. In each of the above, Dominican and U.S. technical experts elaborated comprehensive analysis and recommendations, and major loan/grant programs were put into place for implementation through the mid-1980's.

Thus, the strategy proposed herein for the latter part of the 1980's, attempts to build upon these ongoing priority programs and strengthen new initiatives required by changing policy and economic circumstances. To the degree necessary, it builds upon those areas begun before and, to a large degree, continues the current shift away from an exclusive focus upon basic human needs and social overhead investment through government to a private sector oriented program. In the near- to medium-term, there will be considerably more emphasis placed on the following basic economic problems:

1. An economic policy environment that discourages full participation of the private sector, both domestic and foreign, in the development process;

2. A high rate of unemployment with a rapidly growing population;

3. An insufficient domestic production of basic foods;

4. A domestic economy highly susceptable to the vagaries of world price fluctuations; and

5. The poorly prepared human resources available for self-sustaining economic growth.

Certain areas of prior activity will be deemphasized as we move into the FY-1985/1988 planning period.

— Employment generation, per se, will not be treated as a project goal (i.e., public works projects), but will be incorporated within all development assistance and near-term action programs.

— Public sector services to small farmers will be less important than the policy framework within which they operate.

— Direct and major support to the energy sector will decline as the current program runs its course.

— Support for the basic rural health systems will be aimed at specific health problems, such as vector control, rather than at support for the system itself.

AID foresees a need for continued and substantial investment in physical, human, and institutional resources in this country through the 1980's. During that time, we propose to allocate much of AID's resources to agriculture and export promotion, as we believe export promotion and improvement of agricultural production reenforce rather than hinder each other in the Dominican economy. The Mission believes that, during the planning period of the FY-1985 CDSS, a significant portion of increased exports will be based on agricultural products and/or derivatives thereof. Improvement of agricultural production, particularly that of smaller farmers, will be necessary to achieve export promotion goals. Many of the commodities which have export potential, i.e., meat, milk, beans, rice, and vegetables, are the same ones which are needed to help feed the country.

We do not propose to embark upon an "urban" program as such, as current plans by IDB and IBRD for intermediate and capital city improvement are in their early stages. Rather, AID proposes to build upon its long experience and comparative advantage in the rural sector, and to treat "urban" problems within the context of such ongoing programs as micro- and small industry, vocational training, and HG investments in housing. To attain this objective, the Mission will approach each with a specific strategy designed to use best the limited resources available.

B. Principal AID Objectives and Targets

For the FY-1985 CDSS, the overall AID assistance program in the Dominican Republic is aimed at enhancing equitable and sustained economic

growth within a strengthened democratic framework. To achieve this, we propose programs, mostly inter-related and multi-objective, designed:

1. To Expand Exports

USAID/DR will assist the private and public sectors expand exports of non-traditional, labor intensive goods, as well as minerals, to provide foreign exchange necessary for the resumption of foreign trade at higher levels. USAID/DR's targets will be focused on the exports of non-traditional agricultural and manufactured goods and minerals, and methods will be established during the design of specific projects.

2. To Provide More Employment Opportunities

USAID/DR's primary objective is to prevent the unemployment problem from getting worse in 1988 than it was in 1980. The rate of new job creation must surpass the rate of population growth. At the moment, that is not the case and, consequently, unemployment will become worse. We expect that in the mid-1980's, the rate of new job creation may exceed the population growth rate, and unemployment may begin to decline. The basic assumption for setting this target is that real GDP will grow more rapidly from an average of about 2% during 1983-1984 to 6% during 1985-1986, and finally to 8-9% during 1987-1990. This somewhat optimistic growth projection is based on the perception that rapid growth in non-traditional exports will induce an accelerated economic growth.

3. To Increase Production of Food

USAID/DR's major objective in agriculture is to increase food production by providing small farmers the necessary technology including better soil and water management, the training of a cadre of specialists in agricultural resource management, improvement in adaptive agricultural research, medium- and long-term planning and adequate price policy implementation. USAID/DR's target is that by FY-1988 the major policy problems facing agriculture will have diminished to a substantial degree. Imports of food items grown in the D.R. under normal weather conditions will have been eliminated, exports of non-traditional crops will increase severalfold, and the pace of natural resource degradation and of siltation of major dams will have been reduced.

4. To Improve the Human Resouce Base

The major USAID/DR objective is to improve the quantity and quality of the country's human capital through primary education in rural areas, through vocational, technical, and management education, (both in-country and through U.S. participant training), and in health by providing assistance in vector control and nutrition programs. The overall target in human resource development is that, by FY-1988, the Dominican Republic will be able to adequately supply the workforce necessary to meet the growing demand for labor due to rising exports of labor intensive, non-traditional exports. The overall illiteracy rate will have declined to about 25% of the workforce. The primary school enrollment will have increased to 90%.

III. STRATEGY

A. Macro-Economic Reform Strategy

The priority areas for USG Mission CBI policy dialogue with the GODR are discussed in State 268627 (of September 23, 1982), and Santo Domingo 7863 (of November 5, 1982). No country in the Caribbean Basin is more sensitive about foreign-imposed conditionality than the Dominican Republic. Given the sensitivity and the comparatively moderate financial contribution we are able to make to balance of payments relief in regard to macro-economic policy issues, the fundamental strategy is to support the IMF and World Bank initiatives. We anticipate that continued substantial GODR compliance with its IMF arrangement will secure a gradual correction of the overvalued exchange rate (probably via increased usage of a stabilized parallel exchange rate), a shifting of the tax burden from foreign trade, and a buttressing of fiscal and monetary policies that address private sector credit needs, encourage savings and allocate credit by realistic interest rates.

Barring a political decision to the contrary reached at the policy level of the USG, compliance of the GODR with its IMF arrangement is the sine qua non for ESF assistance in FY-1984 and FY-1985. The rupture (unscheduled termination) of this 3-year arrangement would obviously signal lessened coherence of GODR economic policies. Partial compliance, as may arise from time to time, can be viewed mainly as a technicality best left to IMF discretion to sort out. An IBRD structural adjustment program (SAL)

has unknown probability of near term agreement, principally because of probable legislative action necessary prior to loan agreement. Definitive action by the World Bank to press ahead with a SAL is highly dependent upon consultation with the GODR slated for August 1983. The key problem area rests in reduction of tax exonerations to import substituting industries. Other requirements for a SAL are increased prices for agricultural commodities sold within the country, relaxation of the interest rate control, and use of the parallel market for exports. We believe that GODR actions in these latter areas can be accomplished by discretionary decision (not legislative), and satisfactory action is mainly a question of degree. Our strategy also seeks substantial progress in these areas, and we will work closely with the IBRD in the coming months to insure compatability in our approaches.

In regard to the best use of AID resources in this policy dialogue, our analysis indicates that the pressing foreign exchange constraint, with little relief over the next 2-3 years, compels us to recommend that the $40 million FY-1984 ESF be dedicated to B/P relief (with one exception, i.e., a U.S. dollar project for a mineral resource survey program related to export promotion), and that assistance to the GODR and the private sector in the area of export promotion and expansion is an appropriate use of ESF counterpart, with some local currency funds also going to productive infrastructure and PVO activities.

For FY-1985, assuming continued compliance with the IMF Agreement, we propose a two-option approach. For option one, we propose an expanded ESF level of $60 million tied to the reaching of an agreement with the IBRD on a SAL program. Of this amount, we propose dedicating one half of the U.S. dollar amount (i.e., US$30 million) to projects for the private sector in agri-business and productive investments tied to export promotion. The remaining US$30 million would be used for a B/P cash transfer with the peso proceeds to be dedicated to public sector support. It is this latter element which is seen as the "carrot" to the GODR to undertake the necessary policy reforms.

Option two assumes no SAL. We believe B/P and other considerations dictate that we should continue ESF assistance at the US$50 million

level specified in the Mission's AAPL for FY-1985, but that the level of the cash transfer should be reduced to US$10 million and the remaining US$40 million continue to be devoted to private sector programs, and the public sector support be limited to DR$10 million generated by a US$10 million cash transfer. The following table illustrates the two options suggested for the proposed ESF FY's 1984-1985 program.

PROPOSED ESF SCENARIOS FOR FY-1984/1985
(In Millions)

Activity	FY-1984		FY-1985 Option #1		FY-1985 Option #2	
	US$	DR$*	US$	DR$*	US$	DR$*
--Agri-Business (Productive Credit, Import Credit, etc.)	-	10	20	-	20	-
--Investment Promotion (Free Zone, Trading Companies, PVOs, Technical Assistance, etc.)	-	10	10	-	20	-
--Mining	5	-	-	-	-	-
--Tourism (Artisan Dev., etc.)	-	5	-	-	-	-
--Public Sector Support	-	10	-	30	-	10
--B/P Cash Transfer	35	-	30	-	10	-
TOTAL	40	35	60	30	50	10

* Peso generation of B/P cash transfer.

Recognizing that the primary thrust of ESF resources is towards balance-of-payments support, the basic structural nature of the country's current and foreseeable balance-of-payments problem argues for the dedication of ESF resources towards a specific objective: export promotion. This permits development of a direct linkage between the immediate U.S. response to short-term problems and the longer-term developmental requirements.

The basic ESF funding scenario accordingly includes a significant element of projectized ESF uses specifically in areas designed to link with compatible programs under the regular DA rubric. The Mission's approach is to underscore the position that the GODR's current balance-of-payments difficulties are, absent basic economic changes, long-term and will not get better. Without structural change, substantial balance-of-payments support simply buys a few more months of essential unreality.

Ideally, the Mission would like to link all non-projectized ESF resources to the GODR's entering into an agreement with the World Bank for a Structural Adjustment Loan (SAL), but this is unrealistic. The essential conditions of a SAL are, in the Mission's view, requisites of solid long-term recovery. The conditionality envisaged under a SAL will result in structural changes over time. The projected IBRD package of $60-120 million will provide important resource levels over the medium-term. It is unclear, at this time, whether the GODR will be able to accomodate itself politically to the tough requirements of a SAL program. An additional $10 million per year in ESF balance-of-payments support and the additional DR$20 million for public sector support allows AID, in addition to supporting IMF compliance, the option of offering positive encouragement to and reinforcement of Dominican initiatives towards a SAL with the IBRD.

The ESF cash transfer resources complement substantially IMF and commercial bank resources, and ESF counterpart and DA resources complement World Bank and IDB program resources, which are oriented heavily to agriculture, highways, electric power, with significant programs also in population, health services, industry, water supply, and urban development.1/

1/ The undisbursed portion of loan portfolios were as follows (as of June 30, 1982): IBRD, $170.6 million; IDB, $311.6 million. These pipeline problem relates, in part, to GODR legislative approval problems, which have diminished significantly during the past year, as well as domestic counterpart problem, which is becoming more difficult. Total domestic resource for the entire public sector investment program in CY-1983 (also GODR FY) is estimated preliminarily at DR$200 million by the World Bank.

It is anticipated that a projection of the GODR public investment program for future years, consistent with anticipated domestic and external financial flows, will be presented to a Caribbean sub-group meeting on the Dominican Republic to be held in the fourth quarter of 1983. There is a need for a greater coherence in the multilateral policy dialogue in the Dominican Republic. For this reason, it is imperative that the U.S. Mission and AID be well informed regarding the goals and strategies of the IFIs without sending signals that diminish the prospects for increased coherence of goals and strategies of the respective institutions.

B. Private Investment and Export Development Strategy

As stated, the Mission's strategy is to increase private investment, non-traditional exports, and job opportunities. Export growth must be achieved to generate foreign exchange, tax revenues (both from the imports purchased with the foreign exchange and from higher income) and jobs. Developing the needed level of exports will require much more investment in export oriented projects. Investment is required because: (1) the creation of new jobs requires additional investment in productive activities, and not just the re-orientation of existing productive capacity towards exports; and (2) without investment, Dominican export potential is limited. This can be indicated by a review of the principal productive sectors:

— Sugar is the only product where existing capacity is large enough to permit a significant increase in exports.

— The potential for exporting other agricultural products is very limited without investment in new production. The output in 1980 of other agricultural products (excluding exports) was valued at only DR$500 million, compared to domestic demand for agricultural products amounting to almost DR$900 million.

— In manufacturing, approximately DR$1.6 billion of the $2.2 billion in industrial production in 1979, was oriented towards the domestic market. However, the real export potential of this under-utilized capacity is severely limited by the high cost and low quality of the products, the lack of export marketing know-how, and the lack of commitment to exporting. Even if the 1982 level of non-traditional manufactured

exports of DR$87 million was doubled, it would take a very costly effort to promote these sales and would not be nearly enough to overcome the problems identified above.

— Tourism is a source of foreign exchange and can be considered an export sector. However, any significant expansion of tourism will require increased investment in hotel capacity and related infrastructure development.

— Mineral exports can also be significantly increased with identification of and investment in development of new reserves, such as copper.

The volume of investment required to develop the necessary export capacity far exceeds internal capital formation possibilities. The following estimates of the investment required to produce one dollar per year of exports is indicative of the need:

— In re-export industries, $1.00-1.50 of investment produces $1.00 of exports per year.

— In fresh or frozen produce, $0.50-1.00 of investment produces $1.00 of exports annually.

— In processed foods, the ratio of investment to annual exports is $1.00-1.50 to $1.00.

— In tourism, $2.00-3.00 of investment produces $1.00 of exports annually.

— In mining, the ratio is roughly the same as for tourism.

Assuming an average of $2.00 of investment per $1.00 of exports, and a goal of $500 million in exports, at least $1 billion in private investment will have to be channelled into projects in the Dominican Republic. Additional investment would also be required in basic infrastructure.

Another measure, investment per job created, suggests that an even higher level of investment will be needed. Each new job requires: $4,000 of investment in re-export industries; $5,000 in agri-business; and $20,000-$30,000 in tourism. Assuming an average $5,000 per job and the need to create 90,000 jobs per year, $450 million in new investment would

be required annually. This could easily rise to $900 million-$1 billion annually if the types of industries developed are more capital intensive.

Since internal savings is not nearly sufficient, it will be necessary for the Dominican Republic to make a concerted effort to promote foreign investment to complement its domestic investment capability. Foreign investment has other benefits, which include the following:

-- The inflow of capital would have an immediate positive impact on the balance of payments.

-- Foreign firms provide guaranteed export markets, distribution channels, and the necessary marketing capability.

-- Foreign capital inflows free domestic savings for complementary investments in infrastructure, and activities oriented towards the domestic market.

-- Foreign investment creates numerous business opportunities for Dominicans, through mechanisms such as joint ventures, contract production, sub-contracting, and service companies.

Conditions and Constraints -- Business Climate

For a country in which the private sector is overwhelmingly important in the contribution to output, employment, and foreign exchange generation, the public and government attitude to profit seeking business is somewhat equivocal. Certainly there is no outright, public or governmental, hostility to profit seeking activities per se. However, the country has a long history of ad hoc interventions in private economic activity undertaken with inadequate consideration or understanding of their full impact on the domestic economy. The interventions have often been based on laws and regulations which provide broad areas of administrative discretion and case-by-case review. Thus, a situation exists in the Dominican Republic in which the government, and indeed the press and public, have been willing to support in principle generous incentives to business activity, while not recognizing the perhaps greater importance of stability and predictability in the policy environment. Other factors include:

-- Laws and Regulations: For the foreign and domestic private sectors, a number of laws, policies, rules, and regulations currently

impact on decisions to invest and produce for domestic or foreign markets. These include: the current exchange rate controls, which regulate access to the official and parallel markets and which discriminate against exporters; legislation regarding investments, which provide high rates of protection against competition and which generally favor capital intensive investments; and price controls or supports and quantitative restrictions on agricultural and industrial exports.

— Financial Markets: Financial institutions in the Dominican Republic are highly diversified, flexible, and extremely enterprising. The structure consists of interconnected public and private sector institutions, and informal private sector operations which appear to be remarkably capable of responding to potential for profit making whenever such opportunities may occur. At the same time, the institutions are subject to a series of government regulations with respect to interest rates and distribution of portfolio among sectors. Further, commercial banks lend primarily for short-terms and financieras are highly dependent on the Central Bank for their funds. Also, export credit is not generally available to small and medium sized firms.

— Services to Business: In general, the services available to business in the Dominican Republic are rather sparce. The most comprehensive are those offered by the Dominican Export Promotion Center (CEDOPEX). CEDOPEX attempts to identify and develop specific production possibilities for exports and provides information to businessmen about facilities, market opportunities, business practices, administrative procedures, and costs for exporting specific products. To encourage and accomodate foreign investment, a new Investment Promotion Commission has been recently established. The Commission will provide, among other services, one stop investment services to potential foreign investors with regards to foreign investment opportunities in the Dominican Republic.

The Corporación de Fomento Industrial (CFI) is responsible for development of free zone activity, and is in the process of building a capacity for project identification and promotion concentrating specifically in areas away from the capital.

The Dominican Institute for Industrial Technology (INDOTEC) provides some assistance to business on a reimbursable but subsidized basis, primarily in the area of quality control. Also, the Technical/-Professional Education Institute (INFOTEP) has been established in the past two years and endowed with the proceeds of a payroll tax for the purpose of promoting human resource training in critical areas.

-- Labor and Management: In general, the labor force is good. The labor force is estimated at 1.6 million persons, with about 70,000 new persons entering every year. The basic minimum wage for Santo Domingo and the free zones is $125 per month; additional costs of labor accrue from vacation and sick leave, social security taxes, and insurance. Skilled workers represent about 20% of the manufacturing labor force, and the remaining 80% are unskilled.

During the last decade, a class of modern trained entrepreneurs has risen to prominence in the Dominican Republic. As yet, this group is still quite small. It appears that the availability of trained managers able to effectively carry through large scale private investment projects could be a constraint to the further development of productive capacity in the country.

-- Physical Infrastructure: Overall, the state of transportation and communication infrastructure in the Dominican Republic is adequate and not likely to be a major obstacle to industrial or agro-industrial development. Port and airport facilities are generally good; several ports have container handling facilities, and there are frequent connections by both air and sea to important market destinations. In some cases, there is an absence of facilities needed to handle specific kinds of exports or imports. For example, there are shortages of refrigeration or facilities needed to handle specific agricultural exports. The high cost of transportation is also a constraint. The current irrigation infrastructure is fairly well-engineered, although not very extensive and badly managed. The most critical problem with the irrigation systems is the inefficient use of water due to a general lack of knowledge of water management. Electric power infrastructure is a problem. The Corporación Dominicana de Electricidad (CDE) suffers from old and inadequately maintained

generation and transmission facilities. The cost of electricity to customers is high.

Opportunities for Investment and Export Development

AID believes five areas represent important opportunities: re-export industries (free zones), agro-industry, mining, tourism, and small industries. Each one is briefly reviewed below.

-- Re-Export Industries: Re-export industries, based on the assembly and export of mostly imported components in manufacturing free zones, represents a major opportunity for the Dominican Republic. Foreign firms could either invest directly in assembly operations or contract production with Dominican firms. The market potential for these industries is very significant. U.S. imports, classified under categories 806 and 807 of the Tariff Code, are over $3 billion and increasing.

The benefits to be derived from developing a re-export industry are significant. Not only is this type of activity labor intensive, but the investment per job of about $4,000 is low compared to other manufacturing. Furthermore, re-export industries generate about $2,000-3,000 in foreign exchange per job per year.

-- Agro-Industry: The agriculture potential of the Dominican Republic represents one of the principal opportunities for export development. The huge North American market for fresh and processed fruits and vegetables, and for other agro-industrial products, is well known. The Caribbean and Europe provide other possible markets.

In 1982, the Dominican Republic exported DR$14 million in vegetables and root crops, DR$10 million in fruits and products, and DR$12 million in other agro-industrial products for a total of DR$36 million. This volume of exports was based, to a large extent, on a few random projects and without an adequate program to promote investment in agro-industrial projects.

The benefits of agro-industrial exports are well known. In addition to generating foreign exchange and employment, there are other important impacts such as: providing a stable market outlet for crops produced by small farmers; transferring technology; supporting a viable rural economy; encouraging investment in integrated projects involving land

preparation, cultivation, processing, and marketing; and reducing the country's dependence on sugar exports.

-- Mining: The mining sector is already a major foreign exchange earner in the Dominican Republic, and has the potential for significant growth. In 1981, gold, silver, bauxite, and ferronickel exports totalled about DR$334 million or about 28% of total exports. This foreign exchange potential makes it a very important part of any export development program, even though the direct job creation is relatively low and the investment requirements very large. Studies suggest significant untapped deposits of copper, manganese, and non-metallic minerals. Particular attention is being given to the development of a copper deposit.

There is no question that the heavy capital requirements, associated with the development of a mineral project, will have to come to a large extent from external sources. However, the investment climate is not particularly good.

-- Tourism: In 1980, tourism receipts were estimated at $168 million. The foreign exchange earning generated by tourism increased 16% per year between 1975 and 1980. Assuming continued growth at this rate, receipts in 1983 would be $262 million. In addition, foreign investment in tourism projects has resulted in a steady inflow of capital.

The potential for further development of tourism is significant. At the 1975-1980 growth rate, about $40 million annually could be added to the country's foreign exchange earnings, while creating about 2,000 direct jobs per year. However, this would require an investment of approximately $60 million per year in hotels and related tourist facilities.

-- Small Industry: Starting with the employment policy analysis undertaken with ONAPLAN several years ago, and including the Mission's ongoing OPG with the Dominican Development Foundation (DDF) and the new Small Industry Loan, the Mission has recognized the employment payoff from investment in micro and small enterprises. Through credit and technical assistance efforts, jobs are being created at investments averaging $2,500 per employee.

The benefits from small industry programs are substantial, including job creation in productive activities with relatively small amounts of capital, induced mobilization of domestic and productivity and production increases, although primarily focused on the domestic market.

Actions

In order to achieve the objectives indicated above, the Mission intends to pursue a strategy which will be closely linked to the CBI. Both DA and ESF resources will be utilized. The trade and tax incentives of the CBI are important components of the Mission's program. In effect, many of the activities contemplated by the Mission will be aimed at stimulating interest in new trade and investment opportunities, and in facilitating access to the U.S. market.

— Near Term: The IMF and possibly IBRD programs address major stabilization and price policy problems. The Mission's policy dialogue in the area of export expansion can be separated into high priority actions and additional complementary activities.

High priority actions to enhance the profitability of non-traditional exports are, in particular: (1) the elimination of the official rate surrender requirement and the shifting of export proceeds of these products to the parallel exchange market, i.e., elimination of discretionary administrative determination of the percentage of export earnings eligible for retention by exporters; (2) reduction of administrative obstacles to utilization of financial system credit by exporters; and (3) revision of criteria for application of prohibition on non-traditional exports so as to eliminate item-case review. Additional actions that are thought to be important stimulants to expansion of non-traditional exports, but which require further examination, include the following: (1) sales of domestically produced raw materials to free zones; (2) more viable system of free zone expansion, including greater involvement of the private sector; (3) revision of surrender requirements regarding value added and other peso expenses in EPZs; and (4) consolidation of tariff and import fees, and development of an adequate system of import valuation appraisal.

Ongoing activities, such as the Small Industry loan/grant and the local currency proceeds from the FY-1982 CBI funds, are also available

to support credit and technical assistance needs of private small businessmen and exporters. In addition, there are several other ongoing and planned projects which will generate employment and stimulate exports and investment. These include the trade and foreign investment linkage activities currently underway by the Chicago Association of Commerce & Industry, and Caribbean/Central American Action, through its Twin Chamber Program, as well as the activities of USG agencies such as OPIC, the USDA's Agri-Business Promotion Council and the Department of Commerce. The Mission expects to complement these efforts through local currency and DA resources in the form of OPGs or institutional strengthening grants. Lastly, a new FY-1983 project, aimed at mobilizing savings and improving the capital market in rural areas, is in the final stages of design. If this program is successful, it should result in increased private resources being made available for agricultural investment.

-- Medium to Longer Term: The policy climate may never be perfect, but some changes as discussed above are seen as pre-requisites to successful export and job generating gains. Thus, while the Mission's near term activities attempt to address policy constraints, the medium to longer term activities will be aimed at removing or overcoming other constraints such as lack of financing, deficiencies in physical infrastructure, and inadequate support services. The following categories of activities will be the focus of DA and ESF resources:

oo Export Promotion, including continued studies and analyses of laws and regulations which affect both foreign and domestic businessmen producing for export. In addition, with public and private organizations such as CEDOPEX and the Dominican Exporters Association, the Mission will provide management and technical assistance, training and marketing research/advice to identify investment opportunities. The Mission also expects to directly assist the private sector through projects providing technical and marketing advice to small and medium sized firms.

oo Investment Attraction, including studies and analyses of incentives and disincentives which affect the foreign investor. The Mission will provide technical advice and perhaps short-term training

opportunities to members of the new Commission for the Promotion of Foreign Investment.

oo Export Marketing and Finance, including technical assistance and credit programs aimed at stimulating sales of agricultural and industrial products, and at penetrating new markets. In this regard, assistance to existing or possibly new trading companies is contemplated, as well as short and medium term lines of export credit to small and medium sized firms.

oo Infrastructure Expansion and Upgrading, including construction of, for example, fumigation and cold storage facilities and factory shells in export processing zones.

oo Agri-Business Expansion, including credit and technical (management and marketing) assistance to small- and medium-sized enterprises producing or processing for foreign or domestic markets.

oo Small Industry Development, including a continuation of ongoing activities such as the Small Industry Loan and the OPG with the DDF, as well as attention to governmental policies influencing the use of labor.

oo Administrative Improvements, including technical advice and training to GODR organizations concerned with trade, commerce, and investment.

oo Mining, mainly surveys of mineral resources and policy reforms aimed at attracting foreign investment and institutional strengthening of the GODR Mining Directorate through linkages with the U.S. Geological Survey. The potential foreign exchange earnings from this sector is substantial. The drawbacks, however, include the massive amounts of capital investment, the long-term payoff, and the relatively few number of job created. Depending on the prospects for attracting private investment in this area, the Mission will finance a survey aimed at producing a complete classification of all mineral resources in the Dominican Republic as to the type, location, estimated reserve quantity and quality, and commercial viability. It is expected that this classification will become a base for attracting foreign private investment.

oo Tourism, including training of workers and techniques aimed at increasing the value added through tourist expenditures. For example, the Mission will consider activities which support the marketing of Dominican handicrafts, the production of local food products for the tourist trade, and the integration of historical sites and local points of interest into the tourist packages offered to visitors. The aim will be to capture additional tourist dollars and generate more employment.

C. Food Production Strategy

The USAID will employ a two-pronged approach to agricultural development beginning in 1984. Protection and stabilization of the natural resource base--soil, water, and forests--will remain one important component of the development assistance provided to the Dominican Republic. Activities under this component will ensure that the foundation upon which all agriculture, present and future, is predicated will not deteriorate to the point of irreversibility.

The promotion of export-oriented agriculture will be the other component. Activities under this component will be supported with DA as well as local currency generations. The activities contemplated include construction of facilities for warehousing and fumigation of fresh products awaiting export, technical and financial assistance to investigate or support projects involved with diversification out of sugarcane, financing of agri-businesses, and providing financial and technical assistance to exporters or potential exporters to find or expand markets in North America and other countries.

To bind these two components together and provide continuity with the USAID program of the past, the Mission will endeavor to obtain GODR acceptance of a new policy which moves the public sector out of productive agriculture and concentrates on providing services and incentives to existing or potential commercial farmers, focussing on small/medium producers. To do this will require a concentration by USAID on such things as assistance in the area of agricultural policy analysis and support for upgrading and refocussing the Dominican Republic research and extension efforts to include more attention to crops with export potential.

The following briefly describes each component of this strategy. They are domestic production, export production, natural resources, and land use planning.

Domestic Production

Domestic food production of about DR$600 million accounts for approximately 80% of total food consumption. Small farmers produce roughly 30% of domestic food production. The bulk of remaining food production is accounted for by farm units greater than five hectares.

Of the ten major food items in the Dominican diet (rice, plantains, vegetable oils, wheat, sugar, cassava, milk, beans, beef, and sweet potatoes, ranked in order of their contribution to average per capita caloric intake), five are imported in significant quantities. All wheat is imported. The ratio of imports to total consumption over the past five years has averaged approximately 70% for edible oils, 20% for both rice and milk, and 15% for dry beans. Imports of corn -- which is fed mostly to animals -- averaged 75% of domestic consumption during the same period. Finally, imports of pork have risen dramatically as a result of the swine fever eradication program.

A national household consumption survey conducted in 1976-1977 by the Central Bank revealed substantial differences in expenditures between urban and rural families. For the latter, the food category (which included beverages and tobacco) represented 64% of total expenditures, while for urban families it represented only 43%. Rural diets are more dependent on cereals, roots, beans and oils, whereas urban families consume relatively larger quantities of vegetables, meats, milk and their sub-products. For the Republic as a whole, trends in per capita consumption appear to be increasing for wheat, rice, poultry, eggs, edible oils and milk; and roughly stable for beans, beef, fruits, vegetables and root crops.

During the 1973-1981 period, output of all agricultural commodities (excluding export products) expanded about 2.5% annually, while production of sugar, coffee, cacao, and tobacco increased less than 1% per annum. The 1981 production index (using 1973 as the base year) for 7 of the 15 principal commodities (excluding export products) show annual

increases of between 1-10%, while production of the remaining commodities declined. Since 1978, two major hurricanes and the outbreak of African Swine Fever (ASF) reduced output of virtually all commodities, and only in 1981 did production return to previous levels. Swine production, however, is not expected to recuperate fully for three years or more.

Production of the principal food items has varied considerably over the past five years. For major commodities such as rice, beans, and milk, trends in domestic production indicate that a chronic but relatively stable deficit situation could persist over the next decade. However, for corn and edible oils, the trends show that deficits will increase. Production of plantains, cassava, sweet potatoes, and beef is projected to keep pace with demand and minor quantities may continue to be exported.

These trends in production and consumption suggest that deficits in edible oils and corn will become increasingly serious as changes in dietary habits evolve with a growing and urbanizing population. These two commodities alone account for one-third of imported foods. Moreover, virtually all of the products on an increasing consumption trend are currently imported or require importation. This situation offers a captive market for small farmers since they are primary producers of corn, sorghum, peanuts (for edible oils), and rice.

Prices of most agricultural products are controlled in various degrees by INESPRE. Apart from the issue of peso over-valuation and its impact on agricultural prices, it is somewhat uncertain whether or not INESPRE pricing has been detrimental to production incentives. Between 1970 and 1980, farm gate prices of various agricultural products increased unevenly. Some products experienced rapid increase in prices and others lagged behind the overall price increases. For example, coffee, cocoa, and plantains experienced extremely high rate of price increases at more than 20% per annum in real terms. Red beans and corn also sustained moderately rapid price increases. However, rice, milk, eggs, and sorghum experienced an average price decline of about 2% per annum in real terms. An interesting question is why farm gate prices of coffee and cocoa, which are mainly produced for the foreign markets, rose rapidly, while prices of basic foods, mainly for domestic consumption, seem to have lagged in real terms.

This seems to contradict the policy of self-sufficiency of these products. USAID/DR plans to initiate a project in agricultural policy analysis in FY-1984 to provide assistance in adopting a more sound agricultural policy base.

Clearly, both domestic substitution of imports and increased exports of agricultural products represent promising opportunities to expand agricultural production to improve the nation's balance of payments situation, and more important, to expand the economic opportunities of the nation's large small farmer population.

Export Production

Agricultural exports are a critical factor in the Dominican economy. Sugar exports valued at $560 million in 1981 generated approximately 47% of total export earnings, employed 80,000 workers, and provided 20% of the GODR's total revenues. Coffee exports amounted to another $187 million in 1981. Tobacco and cocoa are also significant export crops.

In addition to these additional export crops, there appear to be excellent opportunities for the export of fruits (melon, pineapple), vegetables (okra, beans, cucumbers, tomatoes), cut flowers, and meat. There already exist in the Dominican Republic private U.S.-based companies who produce fruits and vegetables solely for export. The Dominican Republic also exports approximately 12 million pounds of beef annually, and was beginning to export pork products at the time of the ASF outbreak in 1978.

With the exception of beef, these products are produced primarily by small commercial farmers who are the focal point of the AID agricultural strategy. It is felt that providing incentives to this group, through changes in policy, provision of services (research, extension, training), availability of funds for financing expansion of agri-business in country, and perhaps the construction of in-country warehousing and fumigation facilities, will greatly increase the quantity, variety, and quality of Dominican agricultural exports.

In addition to providing financing for expansion of domestic production, CBI funds also will be dedicated to seeking and securing new and/or expanded markets in the U.S. and elsewhere.

Development assistance funds will be used to help strengthen research and extension services directly related to producing more commodities of better quality, and to transfer modern production technology to technicians and farmers.

Natural Resources

The essence of the natural resources degradation problem is that most agricultural producers are "mining" the resource base for short-term needs and profits, with little consideration for its disasterous impacts on near future generations of both producers and consumers. This resource "mining" takes many forms: hillside farmers using erosive land use and production practices on steep slopes; highland forest destruction for pasture production; dry forest cutting for charcoal and firewood production; wildlife dessimation; and pollution of fish habitat. The impacts of these problems run the gamut from sheet erosion of fertile topsoil to siltation of irrigation canals shortly after intensive thunder showers. The result is impassable market roads, flooding of fields and homes, pollution of water supplies and associated health problems, lower plant quality and associated nutrition problems, and irregularity of irrigation water availability; in short, lowered yields and income.

As recently documented in an extensive Country Environmental Profile (CEP), the problems extend to most aspects of the environment and portend, if not arrested, a Haitian-type trend to widespread rural deterioration within about two decades. The CEP analysis gave by far the highest priority to the watershed degradation problem. Indeed, the CEP recommended the declaration of a national emergency and suggested that a moratorium be called on the construction of new hydro-electric facilities until watershed protection and conservation plans could be drawn up and initiated. Such a moratorium is quite unlikely given the pressing need for energy development.

Describing the natural resources problem in quantitative terms, placing boundaries on the scope of development interest, and defining approaches to and costs of resolving resource degradation problems present both theoretical and practical difficulties. The numbers generated on analysis often are so large as to seem incredible. For example, the cost

of nutrient loss annually has been estimated at $3.4 billion per year (80% of Dominican land surface is subject to erosion rates of more than 10 tons per hectare per year; market value of nutrient is $500 per hectare one centimeter deep; loss rate based on Universal Soil Loss Equation).

Another approach to quantifying the scope of the natural resource problem calculates costs and benefits on a "with or without" conservation basis. The present value of an average conservation investment in a hectare over 10 years equals $560 based on costs discussed below. That investment is equal to benefits if we assume that without a conservation effort productivity will decline 2.75% annually, ceteris paribus, and that with a conservation effort productivity will increase 2.75% annually, ceteris paribus. The present value of the difference with and without conservation in 10 years at constant prices is $1.5 billion on 2.7 million hectares of farm land. The analogous figure with or without conservation on small farms is $252 million. The difference between productivity with and without soil conservation will be considerably greater than 5.5% annually. From the perspective of the individual small farmer, a difference in annual productivity of 5.5% quickly approaches the difference between the loss of economic survival as a farmer and gradually improving livelihood.

Another dimension of the cost of natural resource degradation is illustrated by the impact of siltation of dams caused by erosion. Investments estimated at from $100 million to $200 million per year for two decades are projected as required to shift the Dominican energy sector from dependence on imported petroleum to other sources, principally hydroelectric generation. Siltation has cut the projected operational life of two recently constructed dams by at least half. Not only does siltation cut the economic benefits of energy investments but the number of feasible dam sites is limited. If a site is lost to economically or physically irreversible siltation, it cannot be replaced. Clearly, the problem of natural resources degradation must be addressed. The example of Haiti cannot and is not ignored in the Dominican Republic. A dilemma is presented, however, by the large aggregate costs of good soil and water

management practices. We must ask whether as a practical matter enough resources can be committed to conservation to make a difference.

The total land surface of the country is 4.8 million hectares of which 2.7 million hectares are in farms. Of the 2.7 million hectares of farmland, some 2 million hectares are considered threatened because erosion is proceeding at a rate greater than 10 tons per hectare per year (the rate of soil buildup through natural biophysical processes). Of the 2 million hectares of threatened farmland, some 390,000 hectares are in small farms. Of this amount, some 370,000 hectares are severely threatened "conucos" or small hillside farms. These 370,000 hectares are USAID/DR's basic natural resources target area.

The actions required to mitigate the national problem are of two basic types: (1) change of current destructive land use to that which is ecologically sound and thus consistent with maintenance of long-term productivity, and (2) application of conservation practices appropriate to each land use. Change in land use involves basically the substitution of ground-protecting plants for those which are less useful for erosion control (e.g., perennial coffee plants for annual red beans). Application of conservation practices includes both mechanical (e.g., hillside ditches, sediment control structures) and agronomic (e.g., closer plant seedings, proper grazing intensity) methods. Rough estimates of the hectares requiring these changes to bring erosion and sedimentation within ecologically tolerable limits (about 10 tons per hectare per year) are:

Land Use	Change of Land Use Required	Conservation Practices Required	Total Requiring Treatment
	--------(In Thousands of Hectares)--------		
Cropland	40	50	90
Pasture	60	50	110
Range	50	70	120
Forest	-	20	200
Other	-	-	-
TOTAL	150	190	340

Erosion to sterile sub-soil or bare rock is defined as the point of irreversible destruction. Current erosion rates for the Dominican Republic average about two centimeters per hectare per year. Half the 3.4 million hectares, which require treatment, are less than 50 centimeters in depth. These shallow (and, therefore, high risk) soils must be treated within 25 years to prevent irreversible destruction.

For purposes of analysis, we will use a rate of treatment of 340,000 hectares per 5 years (3.4 million hectares needing treatment, of which one-half are shallow, high risk, needing priority attention divided by 25 years to irreversible destruction). Of the 340,000 hectares requiring treatment, 150,000 hectares require changes in land use and 190,000 hectares require application of conservation practices.

The cost of land use changes and application of conservation practices over a 5-year period are:

Land Use Change: ($121/Ha.) (150,000 Ha.) (5-Yr.) = $ 91 million

Practice (includes application and maintenance) :($ 73/Ha.) (190,000 Ha.) (5-Yr.) = $ 70 million

5-Year Total ---------- = $161 million

Investment at this rate for 25 years would cover 1.7 million hectares, the most critical half of the country, but would leave about 1.7 million hectares needing treatment. Investment at lower rates would reduce erosion and put off the point of irreversible degradation. But the longer that adequate treatment is delayed, the poorer the base on which soil rehabilitation must be done and, therefore, the higher the capital cost required to stabilize the soil base.

Turning to the small farm problem, a total of 390,000 hectares of small farm land requires treatment. If all this land were receiving the desirable level of treatment, the cost would be $44 million annually. AID

will be making a substantial contribution to dealing with this problem by allocating, as we propose herein, approximately $10 million annually over 5 years in DA and PL-480 resources.

Land Use Planning

The sugar industry represents the largest source of foreign exchange earnings for the Dominican economy; it is the largest user of cropland and the major employer of agricultural workers.

Sugar and its derivatives generated on average 57% of the total value of exports over the 1971-1975 period, although over the 1976-1980 period earnings have been only 33% of total exports. Wide variation in sugar prices during both periods caused earnings to decline over 50% in poor years versus good years. The average value of sugar exports in current dollars was approximately $300 million in the 1971-1975 period and $250 million in the 1976-1980 period. The 1981 earnings were approximately $550 million; in 1982 they had dropped to $309 million. From 1971 to 1981, the area devoted to sugarcane expanded to an estimated 275,000 hectares or 15% of national cropland area.

There are an estimated 45,000-50,000 workers involved in the field harvesting operations of the sugar estate. At least half are Haitian workers contracted for the harvest season. The sugar milling operations and permanent management positions provide employment for another 40,000 persons. In addition, backward linkages with other sectors of the economy may provide as many as 40,000 jobs.

World market prices for sugar have hovered around the 7 cents per pound level for the past year. Although it rose lately to 11-13 cents per pound indicating a recovering world market, it will probably never reach the highs of years past. In addition, the continued erosion of the sugar market by high fructose commodities (HFCs) seems to indicate a necessity for the Dominican Republic to seek out alternate uses for some of the estimated 275,000 hectares now planted to sugarcane. Estimates of how much of this land could be diverted to other agricultural uses range from 15% to 50% depending on the alternative uses of the land. It is important to point out that none of the alternate use have been studied sufficiently to determine if they would provide the same foreign exchange earnings and

employment opportunities as sugarcane. There has been some discussion about the need to diversify, but this has generally been confined to the need/interest in alcohol plants and increasing the production of sucro-chemical. Given the high cost of initial investment in such activities, diversification of the industry along these lines seems unlikely in the near future.

Recently, the CEA is discussing becoming a partner with United Brands Company in a scheme to raise pineapples for export using land currently devoted to sugarcane production. These types of opportunities need more promotion and investigation of other crops/activities which could take the place of sugarcane need to be thoroughly investigated. It is in the area of investigation of alternatives and financial assistance (through CBI or PL-480 Title I) to retrain people, establish agri-business, and finance production of export-oriented products, that USAID will be of greatest assistance.

D. Human Resource Development Strategy

The key to achieving a balanced and increased economic growth is to increase the productivity and employment of human resources. This cannot be effectively accomplished, however, if the population is illiterate or lacking in technical and managerial skills; if it is suffering from poor health, malnutrition, or vector diseases; or if the population is growing at such a rate as to consume the benefits of economic growth faster than they accrue. Secondly, it is the poor who suffer the most from illiteracy, poor health, malnutrition, and rapid population growth. Some of AID's resources must continue to flow in the human resource sectors of education, health, population, and nutrition (including Title II) to obtain a balanced, equitable growth.

Education

The Mission's education strategy is basically two-fold: (1) to improve basic education through traditional and non-traditional (radio) methods, and (2) to provide skills and management training in areas of greatest need. An emphasis in basic education is still required in the Dominican Republic, where improvement in the literacy rate has lagged behind that of its neighbors. Unlike most AID education programs in Latin

America, which have up to 20 years active involvement in primary education, the primary education program in the Dominican Republic, which began with an Education Loan in 1979, is relatively young. In response to recommendations of the 1977 Education Sector Assessment, the loan supported activities in curriculum development, teacher training, and school construction, which have met with some initial degree of success, but constitute only the beginning of meeting the needs of this critical but neglected sector. Follow-on activities, beginning in 1984, will include administrative planning, institutionalization of teacher training and supervision, creation of local organizations to provide financial support to schools, and construction and use of low cost media.

Basic education is also being disseminated through our radio education program currently consisting of a program for adult education in one region and a centrally-funded primary education program in another region. Through the innovative use of this technology, the cost of basic education per beneficiary is being reduced considerably; pointing to strong possibilities of replication within the Dominican Republic as well as in other countries.

Economic growth requires a human resource base sufficiently trained, such that the private sector can adequately manage its resources, the public sector can effectively provide needed services, and the workforce is sufficiently skilled to perform the evermore complex tasks required of it.

These needs for skills training are being addressed through three types of programs: (1) vocational/technical training, (2) management training, and (3) participant training. Vocational training is being strengthened through support to an educational credit institution, to vocational education institutions, and through the establishment of a center providing technical training for urban women. For management training, a local university is being linked to a U.S. university for a long-term program, which will provide a local capability to train public and private sector leaders at the post-graduate level. Participant training, which is involved in almost all of our ongoing and planned projects, is also supported through a regionally-funded program which provides scholarships

to highly qualified Dominican leaders. This is still another means in which the Mission is addressing the shortage of managerial and technical skills.

Health

The health program has focussed on providing health services to rural communities through a nation-wide Basic Health Services Program (SBS), through water and sanitation construction activities, and through clinic and hospital staff training. Private and voluntary agencies supplement our program in activities such as primary eye care and nutrition education.

The health program activities will move into a consolidation of benefits derived from earlier AID investments in health. An evaluation of SBS, carried out in May 1983, indicated serious problems in support and supervisory systems at the health promoter and the rural health clinic levels. There is also a recognized gap in coverage of the primary care needs of the increasing peri-urban population. AID will focus its activities through the Health Systems Management Loan on increasing the effectiveness of central and regional management and support systems of the Secretariat of State for Public Health (SESPAS), and assist the GODR to increase the productivity and cost-effectiveness of its health service delivery infrastructure. Project activities will include: (1) improvement of management support systems such as finance, logistics, information, supervision, personnel, maintenance, and transport; (2) the development of a continuous in-house training capacity within SESPAS; and (3) a qualitative extension of basic health services and surveillance in the areas of oral rehydration salts production, dengue and yellow fever control, and schistosomiasis control.

From information gained in the surveillance of vector diseases (floriclorosis, dengue, encephalitis, etc.), a follow-on program will be designed for comprehensive vector control, oriented towards determination and implementation of the most cost effective methods.

In the nutrition sector, a new loan will assist in the development of a surveillance program at the rural level. However, the malnutrition problem in the Dominican Republic demands that a broader and more

comprehensive approach be developed to adequately address the problem. At present, the Mission has approved an Applied Nutrition Education Program (ANEP) OPG, and is developing a Three-Year Plan for the utilization of PL-480 Title II food within the context of a nutrition program.

The experience gained through these approaches will be utilized in a proposed multi-sector nutrition grant, which will assist the Dominican Republic in developing a capacity to plan, design, implement, and evaluate nutrition interventions.

Population

Although the population growth rate in the Dominican Republic dropped substantially from 3.4% in 1970 to 2.8% in 1981, it remains unacceptably high. This rate of growth not only consumes the benefits of growth, but also taxes the system to meet increased needs for employment and public services, particularly as the population growth adds much to the ever-increasing rural-urban migration. Although the need for family planning is apparent to both the GODR and USAID, recent conversations with the Jorge Blanco administration have indicated a continuing high level of political sensitivity to a bilateral program. Therefore, USAID has no choice for the foreseeable future but to use more subtle approaches to family planning, such as utilization of central funding and projects through PVOs. In fact, a large number of non-bilateral approaches are now being used. SESPAS, through assistance from USAID and other donors such as World Bank and the United Nations, is undertaking family planning activities in public health clinics. Private international donors, such as Church World Service (CWS), Family Planning International Assistance, International Planned Parenthood Federation, The Pathfinder Fund, Population Council, Development Associates International, and Westinghouse, carry on family planning activities--often through a local counterpart organization. Through centrally-funded mechanisms, AID can effectively increase family planning activities in the Dominican Republic without the need for a bilateral program. The Mission strongly encourages this approach. At the Mission level, small amounts of grant funding (PD&S and OPGs) can continue to be used to support studies, publications, conferences, and participant training.

E. PL-480 Titles I and II Food Assistance Strategy

PL-480 Title I

Enhancing the developmental impact of PL-480 resources is a major objective of the USAID. AID participates fully in the programming of country-owned local currency generated by sale of PL-480 Title I commodities, and uses that involvement to seek achievement of mutually-agreed upon development goals. To a large degree, PL-480 food aid resources are integrated with DA funds to help achieve specific program and policy objectives, and to enhance the developmental impact of all external resources. AID and the GODR agree in principle on the specific uses of the sales proceeds and other self-help measures before signature of the annual agreement. Sales proceeds are kept in a separate account, and disbursements are subject to AID approval.

Program direction of use of Title I proceeds has shifted significantly in the past two years. Previously, proceeds were used mainly to expand upon the small farmer services provided by the Secretariat of State for Agriculture (SEA) begun under AID sector loans in the 1970's. This program concentrated mainly on services and production inputs provided by the public sector. Starting two years ago, the Mission encouraged the GODR to shift the emphasis to more direct support of ongoing AID and other donor programs and to provide more investment to productive infrastructure. That trend will continue to be reinforced in the future.

In addition to these changes, the Mission intends to undertake a policy dialogue with the GODR focussing on the role and extent of the Price Stabilization Institute's (INESPRE) participation in the economy. The Mission's major instrument for this is the Title I negotiations, as all PL-480 imports must be authorized by INESPRE. In the past, INESPRE has purchased Title I products at the official exchange rate of US$1.00 = DR$1.00, and sold them at the going market rate. The resulting "differential" or profit was used to cover the costs of handling, transportation, etc. The current wide disparity between the official and parallel market rates (jumping 25 points the past year to about 1:1.50) has resulted in INESPRE realizing a wide margin of "profit" and has generated considerable liquidity which allows INESPRE rather wide discretion on market

interventions in a variety of products. Starting with the next agreement, the Mission intends to negotiate a change to require INESPRE to deposit all sales proceeds with the GODR, and devote these proceeds to agreed upon development activities. We believe such a step will result in INESPRE's scaling back significantly in its range of market interventions, and assist it to focus on its higher priority functions of avoiding wide variations in prices of agricultural products. We will also be investigating the role of INESPRE pricing per se through several centrally-funded research programs.

PL-480 Title II

In spite of the relatively attractive average per capita income figures for the Dominican Republic, the distribution of that income is highly skewed, leaving large numbers of the Dominican populous below what could be considered an acceptable standard of living. In many sections of the country, poverty and malnutrition remain the norm rather than the exception.

The Title II program provides USAID with a mechanism to provide fortified foods directly to the poor. Church World Service (CWS), Catholic Relief Services (CRS), and CARE, through their Dominican counterpart organizations (SSID, CARITAS, and CARE/Dominicana respectively), work directly with community organizations assuring that qualified beneficiaries receive the food.

But food distribution alone is only a short-term solution for the impoverished communities; some development must take place if the communities are to improve on a more permanent basis. In light of this, USAID along with the Title II Voluntary Agencies (VolAgs) conducted in 1982 a process evaluation and an audit of the program which identified the strengths and weaknesses of the program.

As a follow-up, USAID and the three VolAgs are in the process of designing a Three-Year Plan (FY's 1984-1986), which will identify the means and resources required to improve the program in the areas of food management, nutrition, and rural development. To move from a food distribution program to an effective development program, will require non-food resources (technical assistance, training, commodities, etc.), which may be

acquired through integration of activities with the GODR, private Dominican institutions, Peace Corps, and USAID. Successful implementation of the Three-Year Plan will result in an effective development program with the benefiting communities moving towards self-sufficiency. Already the process of improving the program is being considered as a model which may be replicated in other countries.

F. Urban Development Approach

The Mission does not propose a separate urban development strategy as such, but we believe a discussion of this issue is appropriate to briefly outline our approach.

The growth of the urban population in the Dominican Republic follows a similar pattern to that elsewhere in Latin America. It is not just a question of leaving the farm and ending up in Santo Domingo. There are several way stations along the route. The population growth rate in urban areas has been about 5.3% annually, compared with a national average of 2.8%. This trend towards urban growth is likely to continue for the rest of the century. Rapid urbanization has resulted in tremendous pressures on the provision of services and employment opportunities.

Current Dominican emphasis continues to be on rural development, particularly agriculture. Rural development/food production and the urbanization trend are intertwined in the confines of this island country. The main AID focus, therefore, will continue to be on the rural areas. The Mission recognizes that demographic trends in Latin America do not auger well for successful efforts to staunch the flow of migration from the farm to the largest urban agglomerations. It is a matter of adjusting horizons to what is realistic. In the Dominican Republic, the potential for at least slowing the rate of migration to the principal urban centers suggests efforts to deflect as much as possible the inevitable flow off the farm towards the intermediate provincial cities. This comes down to questions of basic amenities: quality of life, employment, shelter, health, and education.

The GODR has assigned to the IDB and the World Bank primary donor responsibility for addressing the "intermediate cities" strategy. Several loans are being contemplated by the IDB for technical assistance, capital

infrastructure, cadaster, and selected services needs, including a $150 million loan program for water supply in Santo Domingo. The IBRD has a $15 million sites and services loan in the capital.

There are several AID programs, however, which will have a major impact upon urban problems. These include:

-- Establishment of a strong data base relating to urban poverty, employment, and migration.

-- Programs in micro-industry and small/medium industry development.

-- Energy conservation (industrial component).

-- Vocational education and skills training.

-- Primary education.

-- Housing and service programs through HGs and low cost housing technology.

-- Agri-business investment support.

-- Export expansion including free zones.

AID recognizes that population growth and the stagnant performance of the agricultural and industrial sectors are the major causes of the unemployment problem in the Dominican Republic. Rural poverty and unhindered migration to the capital have been the results. The problems of unemployment and underemployment are very difficult, but they are not wholly intractable. The GODR, with the assistance of interested donors, has decided to try to address the problem at its source. AID will play an important supporting role in that effort.

IV. BENEFICIARY ANALYSIS

In spite of a status which places the Dominican Republic in a "middle income" bracket, the benefits of the economy tend to accrue in the hands of a few, leaving the vast majority with inadequate income; substandard health, education, and nutrition; and limited employment opportunities. The amount of income concentration is such that 6% of the people own 43% of the wealth, leaving the poor majority in an untenable situation. Although the per capita income is over DR$1,000 per year, the average farm worker would earn about DR$780 (or about $520 at the parallel rate). The

illiteracy rate remains one of the highest in Latin America, as the public sector education cannot effectively reach the poor in rural communities. The infant mortality rate of about 95 per 1,000 live births also remains high, as an indicator of poor health, sanitation, and nutrition. The high population birth rate continues to drain limited resources, and to fuel rural urban migration.

The Mission strategy will continue to improve services to the poor in the areas of health, education, and nutrition. However, our new emphasis in export promotion, small industry, and agri-business will focus more on those in the smaller and poorer communities which have a greater chance of improving their lot and of increasing production and employment. The beneficiaries, then, are primarily the small entrepreneur and the small commercial farmer. This is coupled with assistance to managers and professionals in areas of greatest need. This strategy should serve to improve economic growth, which will be a benefit to all.

V. AID PRIORITY AREAS

A. Policy Dialogue

From the various issues and topics presented in the CDSS, there are four major policy dialogue agendas for AID in the CDSS period. Broadly speaking, they are: macro-economic structural change, export expansion, agricultural policies (including pricing), and policy issues directly related to specific sector strategies in the areas of human resource development, natural resources, land use planning, and energy. A common theme in all will be the expansion of the role of private enterprise and the private sector, and definition of an appropriate role for the public sector in country development strategies.

As noted, macro-economic policy issues are tied closely to the IMF and IBRD initiatives, and AID's fundamental strategy is to seek to support these initiatives in country-level and multilateral forums. In that sense, the entire weight of AID resources and influence will be applied as appropriate.

Export expansion raises issues which AID will seek to address specifically through the application of ESF and DA resources earmarked for

export promotion, technical assistance, and agri-business development. The major forum for this dialogue is just emerging, but it will most likely be the National Commission on Promotion of Foreign Investment now in process of organization. This Commission will be comprised of 10 members (5 private and 5 public), and will have a permanent secretariat. AID has agreed, in principle, to dedicate up to DR$200,000 of the peso proceeds from the FY-1982 ESF BOP assistance to this secretariat to cover its 1983 costs.

This Commission offers the possibility of bringing together under "one roof" the various, and sometimes competing, GODR and private sector interests, regulatory agencies, etc., related to foreign investment. In our view, the issues of foreign investment and export expansion are closely linked. While results from this effort will come in the middle term, we will pursue a dialogue which aims at changing the attitudes of Dominican investors and industrialists towards exports. This is a major task. Part of our work with the Commission will be to provide high-level policy-oriented technical assistance to assist in the analysis and design of policies and action-oriented programs. Application of ESF funds to export expansion programs in free zone development, mining, etc., will be predicated upon identification of the major issues.

In the short-term, DA resources will be sought for specific interventions in policy analysis, expansion of immediate export possibilities, and training. A wide range of institutions will be involved, including the Dominican American Chamber of Commerce, the Chicago Association of Commerce and Industry, PVOs involved in artisan development, and Dominican financial and technical assistance institutions involved in micro- and small industry expansion.

A major theme in all of the above will be to seek the widest benefits possible under the CBI, which we assume will become law. In that regard, there will become available a host of other opportunities through USDA, DOC, and other USG institutions with which AID will need to coordinate.

Agricultural policies will be addressed through the forum of the recently rejuvenated National Agricultural Council, which the President

chairs twice monthly. In a recent meeting between the President, the Ambassador, and USAID Director, AID has been requested to provide specialized technical assistance to this body in the establishment of the major topics of consideration, and the laying out of the national agricultural priorities for the 1980's. AID intends to move quickly to provide such assistance, and intends to suggest priorities such as pricing policies, role of the private sector, etc. A project proposal is in preparation. Both DA and PL-480 resources will be involved.

Sectoral policy dialogue is established through analysis and project development. Recent examples include the national environmental profile (and resultant loans of natural resource and on-farm water management), the national energy assessment (which led to the $15 million energy loan/grant), and the small industry assessment (which resulted in a revised approach to small industrial lending). Upcoming analysis will include a rural savings mobilization pilot project (which will seek a major reform of current interest rate policy), a radio education experiment (which will seek to reduce drastically the cost of extending basic primary education), and a health services management project (which seeks the cost-effective application of basic health service, including introduction of fee-for-service where possible). In each area, influential Dominican institutions and individuals, both public and private, will be involved deeply in program design.

B. Private Sector

The USAID program currently involves many private sector entities, particularly private and voluntary organizations (PVOs), private educational institutions, private industry, and private financial institutions; and their role will increase with the new emphasis on export expansion and agri-business promotion.

There are a large number of Dominican PVOs in the Dominican Republic, which are effectively implementing development activities in a wide variety of areas at a very low cost. These PVOs, supported by USAID (OPGs), are currently conducting activities in agricultural production (swine and fisheries), radio education, primary eye care, small industry development, housing improvement, vocational education, and applied

nutrition. Many of these activities, when proven successful, can be expanded to larger projects funded by USAID or other donors.

Private Dominican educational institutions are playing an increasingly important role in our programs. Vocational education institutions are being strengthened and supported by student loan credit, while an agricultural institution (ISA) is being upgraded to provide managerial training to the agricultural sector. Private radio stations have also been expanded to provide basic education through that media. A private university (UCMM) will soon be expanded to provide post-graduate level training in public and business administration, which will serve to provide a core of well-trained leaders needed in both sectors. Finally, the Dominican/American Chamber of Commerce has been given a grant to finance U.S. participant training for private sector managers. We intend to expand this type of training.

Some support has also been extended to private industry through development of a pump manufacturer and through support to family-operated micro-industries. The later activity is being expanded to serve small industries, which are not receiving needed credit and technical assistance. In this program, private financial institutions are being mobilized so that support to this sector will continue to take place. Private financial institutions have also been fully involved in housing and vocational education credit activities.

Through our new emphasis on export promotion and agri-business expansion, the established linkages with the private sector will be expanded and new linkages will be created; universities and other educational institutions will be strengthened to meet the new skills and managerial needs as they arise; PVOs will conduct pilot activities in areas where export potential can be identified; industries will be encouraged and provided credits towards producing exportable products; and financial institutions will be encouraged to provide more credit to the export sector. New linkages will be established in areas such as agri-business, tourism, mining, and the establishment of trading companies.

C. Technology Transfer

Practically all USAID activities involve the transfer of technology (or "know-how"), either through training or technical assistance. Some activities, however, focus specifically on technology transfer. For example, an agricultural program is providing U.S. training in agricultural research, which will be followed by a research program. Appropriate technology is being introduced in the housing improvement area; and a new technology for rural roads maintenance is being piloted in the Dominican Republic. The use of solar power is being introduced for bagasse drying and for refrigeration; and the use of the radio as an education media has been established and is being expanded. Future activities will further disseminate these technologies.

In export expansion and agri-business promotion, it is anticipated that new technologies will need to be introduced in the areas of production techniques, management, marketing, finance, international trade, and other unforseen areas. As these needs become more clearly identified, the Mission will seek out the most appropriate technology in response to the need, whether it be in the U.S. or some other off-shore country.

D. Institution Building

The Mission has a long history of supporting the establishment of Dominican institutions, most of which are now functioning on their own. Generally speaking, as new development activities arise, there is lesser need to establish a new institution than to strengthen an existing one to carry out a new role. For example: an agricultural institute (ISA) is being expanded to train agricultural managers; the Dominican Development Foundation (DDF) is being strengthened to support small industries; and the Catholic University (UCMM) will expand its services to provide post-graduate training for public and business administration. Institutional strengthening is also required in the public sector in order to improve the extension of services. Examples include assistance to the Secretariat of State for Education in implementing education reform; the Secretariat of State for Agriculture in improving the capacity of research and extension; the Secretariat of State for Public Works in providing road maintenance and rehabilitation services; the Secretariat of State for Public Health in

extending health services to the countryside; and the Central Bank in extending credit earmarked for small industry expansion.

In the immediate future, in-depth studies will be conducted to determine the needs of the export sector, including institutional needs. Where possible, existing institutions will be strengthened to more effectively promote exports. It is quite possible, however, that institution building will also be required in the cases where the facility does not exist, for example, the establishment of trading companies.

VI. ASSISTANCE PLANNING LEVEL

The attached table indicates the Assistance Planning Level 1984-1989, utilizing AAPL levels available as of this writing. Agriculture remains relatively steady, in spite of continuing large scale activities in the Natural Resources programs, coupled with introduction of Agri-Business and related activities. The modest amounts for Population show a steady increase, although no bilateral program is currently proposed. Health shows a steady decrease, as the third loan phases out; and Education a steady increase, as the Rural Education loan expands. The Special Development Activities show a steady increase, as Export Promotion becomes a major emphasis of our program. This increase is also intended to partially compensate for the steady decrease in ESF after FY-1986. The Mission feels that these levels are sufficient to initiate the proposed program--assuming relatively steady staff levels to adequately manage a program of this size. Any decrease in funding or in staff level could seriously jeopardized our effectiveness.

PROPOSED ASSISTANCE PLANNING LEVELS BY FUNCTIONAL ACCOUNT
USAID/DOMINICAN REPUBLIC

		1984	1985	1986	1987	1988	1989
AGRICULTURE, RURAL DEVELOPMENT & NUTRITION	TOTAL	21533	22925	19450	20450	18500	24550
	GRANTS	4233	2825	4450	2450	4500	3550
	LOANS	17300	20100	15000	18000	14000	21000
POPULATION	TOTAL	50	125	125	175	225	225
	GRANTS	50	125	125	175	225	225
	LOANS	-	-	-	-	-	-
HEALTH	TOTAL	2424	1875	1875	1250	1150	900
	GRANTS	424	375	375	1250	1150	900
	LOANS	2000	1500	1500	-	-	-
EDUCATION	TOTAL	6321	5825	7450	7650	11700	8800
	GRANTS	2321	2825	2450	3150	2700	1300
	LOANS	4000	3000	5000	4500	9000	7500
SELECTED DEVELOPMENT ACTIVITIES	TOTAL	672	1750	6400	8575	9325	8125
	GRANTS	672	1750	1400	2375	2525	1125
	LOANS	-	-	5000	6200	6800	7000
DA	TOTAL	31000	32500	35300	38100	40900	42600
	GRANTS	7700	7900	8800	9400	11100	7100
	LOANS	23300	24600	26500	28700	29800	35500
ESF	TOTAL	40000	50000*	50000	45000	40000	35000
	GRANTS	5000	5000	5000	5000	5000	5000
	LOANS	35000	45000	45000	40000	35000	30000
DA & ESF	TOTAL	71000	82500	85300	83100	80900	77600
	GRANTS	12700	12900	13800	14400	16100	12100
	LOANS	58300	69600	71500	68700	64800	65500
PL-480 TITLE I		20000	22000	23000	25000	25000	26000
PL-480 TITLE II		2800	2900	3000	3500	3500	4000
HOUSING GUARANTIES		-	20000	-	20000	-	20000

* Option one on page 25 proposes that this level be increased to $60 million under certain conditions.