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with urban migration and changing attitudes have enabled women aged 15 to 25 to obtain nearly 3 times as much schooling on average as those over 35. Given the informal or "consensual" nature of many marriages, female-headed households constitute 26 percent of all households. Gross female labor force participation rates have increased from about 21.5 percent in 1970 to close to 40 percent in 1990. In the last 20 years, 53 percent of net entrants to the labor market have been women. Free trade zones employ a labor force that is 70 to 75 percent female and have provided new opportunities to women, often first time work force entrants. The proportion of women working solely in informal activities or domestic service has declined from 34 percent in 1970 to under 25 percent today. However, very high rates of caesarean section deliveries and abortion remain serious health concerns for women today, as well as extremely low rates of exclusive breastfeeding.

Today, class social standing, and to some degree still education, are more direct determinants of a woman's economic participation than gender. However, health, contraceptive and educational factors -- as well as residual prejudicial attitudes -- still negatively affect a large number of women.

D. The Environment -- Natural, "Built", and Demographic

The Natural and "Built" Environments

Deforestation provides a dramatic example of environmental degradation in the Dominican Republic. While about 60 percent of Dominican land is best suited to forest cover, less than 10 percent remains forested. Slash and burn agriculture and creation of cattle pasture are important causes. Charcoal is an important source of energy and will continue to exert pressure on domestic forest resources as electricity will not soon provide a full energy substitute for charcoal burning. At the current annual rate of deforestation -- 325 km² per year -- no forest cover will remain by the year 2000.

Soil erosion and degradation, reduced water quality and watershed siltation have reduced hydropower and irrigation potential, decreased biological diversity and impaired agricultural productivity. The country has significant numbers of endangered species of tropical plants

and fauna. Marine and riverine ecosystems have been damaged by improper irrigation and agricultural chemical residues.

In urban areas, solid waste is improperly disposed and creates unsightly breeding grounds for pests and disease, and adds to water pollution. Industrial discharges, uncontrolled withdrawals from underground aquifers and discharge of inadequately treated municipal waste water have severely damaged water supplies. Coastal waters and marine ecosystems have also suffered from poor urban facilities to serve towns and tourism developments.

Ill-advised and poorly conceived policies, coupled with weak institutional support, render the GODR ineffective in addressing the twin issues of preventing further resource deterioration and promoting restorative action. Few incentives exist for private maintenance and improvement of forest lands. A lack of publicly supported planning and policy setting contributes to the environmental degradation associated with urban sprawl and industrial development. There is some expectation for improvement as interest in environmental issues is strong among the educated young and NGOs are becoming increasingly involved in environmental projects.

The Demographic Environment

The Dominican Republic is one of the most densely populated countries in the Western Hemisphere. However, the country has made considerable progress in addressing population pressures. Fertility rates have fallen. The net rate of population growth has fallen from over 3 percent just ten years ago to about 2.3 percent today. Still, many years of high population growth have left a mark. Over half the current population is under 18 years old. Combined with increased female labor force participation, this translates into a 3% annual labor force growth rate. With unemployment of about 29 percent, employment would have to grow at twice the rate of growth of the labor force to reduce unemployment to 10 percent by the year 2000.

Changes of political appointees and resultant upheavals in the government's family planning services have reduced contraceptive availability and threaten to reverse the gains made. Contraceptives are now supplied primarily by private foundations and commercial outlets.

E. Donor Coordination

In recent years, the Dominican Republic has inspired considerable interest from bilateral donors other than the United States. Germany, Italy and Spain have provided important assistance and Japan has expressed interest in increasing its assistance levels. European interest is expected to grow with the Dominican Republic's entry into the Lome Convention. Venezuela and Mexico provide assistance under the San Jose Accord. The IBRD and the Inter-American Development Bank have substantial investments in the Dominican Republic.

Despite widespread donor interest and recognition of the Dominican Republic's potential, donor disbursements to the country totalled only \$144 million in 1989. Donors have been united by two common concerns: (1) debt repayment arrearages; and (2) the often erratic and incoherent policy implementation environment of the country. These concerns have prompted the donors to maintain relatively close, albeit informal, coordination. There is widespread consensus among donors that the GODR must solve arrearage problems by obtaining an IMF Agreement and by rescheduling its debts through a Paris Club Agreement. This message is consistently communicated to the Government. With a GODR agreement with the IMF and rescheduling in place, donor assistance is expected to increase substantially. Coordination of donor views on issues such as privatization, tax reform and public administration will receive greater attention on our part over the CDSS period.

II. OPPORTUNITIES AND CONSTRAINTS ANALYSIS

A. Opportunities

The Dominican Republic has the potential to generate broadly-based, outward looking economic growth through private initiative and citizen participation. The country has a valuable natural resource base, including extensive land suitable for agriculture and commercial forestry and a long coast of attractive beaches. The country's young labor force has proven to be hard-working and adaptable. Close proximity to major markets in North America and the Caribbean, coupled with good communications and maritime transportation, provide an important comparative advantage.

Several years of sustained dynamic growth in tourism and free trade zone manufacturing have proven that private foreign and domestic investment will react quickly and positively to a stable and supportive policy environment. The domestic private sector includes many new entrepreneurs who are creative and remain constantly attuned to new developments in management and technology. The country is politically stable and has well-developed basic democratic practices including freedom of the press -- which further makes it attractive to investors.

The recent, positive evolution of government macroeconomic policy offers the possibility of significant payoffs in terms of renewed private and official external capital flows. The Dominican Republic also stands to benefit proportionately more than any other Latin American Caribbean country from the Enterprise for the Americas Initiative because official debt to the U.S. is a large part of the country's overall external debt. Finally, continuing

active involvement by non-governmental organizations in addressing social needs will accelerate the participation of broad segments of the population in the benefits of growth.

Overall GDP increases will be driven by greater tourism, light manufacturing, agroindustrial and other non-traditional exports. These sectors will forge linkages with, and provide greater demand for, domestic services and local food production.

- o **TOURISM:** The private capital infrastructure for increasing tourism revenues has grown rapidly in the last decade reflecting the country's comparative advantage and a supportive policy environment. Tourism now comprises about 14 percent of GDP. Demand for hotel rooms is expected to keep pace with construction. In 1989, tourism arrivals topped 1 million visitors annually. In 1990, receipts from tourism, estimated at \$978 million accounted for 52 percent of goods and non-factor services export earnings. Room occupancy generates about US\$35 per night on average versus US\$85 at other Caribbean destinations. With greater marketing and improved service quality, there is clear scope for enhanced revenues and repeat visits.

- o **EXPORT-ORIENTED MANUFACTURING:** The free trade zones have been a remarkable success story and serve as a model for an outward-looking domestic manufacturing sector. Free Trade Zone success has been due to economic comparative advantage which reflects low labor costs, proximity to U.S. markets, and GODR regulatory exemptions which have allowed the Dominican Republic to be the country which has taken the greatest advantage of the Caribbean Basin Initiative. Twenty-two free-trade zones are currently operating and several others are planned. About 130,000 people were employed in these zones in mid-1990, up from 20,000 just 5 years ago. Net foreign exchange earnings now top US\$225 million annually, more than double the 1987 figures. Over 300 firms now operate in these zones, more than triple the number in 1985, and many are associated with major U.S. corporations. Of these, 76 are U.S. firms, which have invested over \$170 million. Though Santo Domingo and Santiago will remain near-term growth poles, FTZs are geographically

dispersed throughout the eastern two-thirds of the island and employ a work-force that generates substantial indirect employment as well. Light manufacturing, textiles, assembly activities, and agribusiness currently dominate the FTZs. Progressive dismantling of remaining tariff and regulatory barriers and surplus labor supply are expected to continue attracting new entrants and domestic and foreign investment in manufacturing.

- o NON-TRADITIONAL AGRICULTURAL EXPORTS: As world markets for traditional Dominican agricultural exports have weakened, other exports are making up the difference. These include fresh pineapple (Dole, Castle and Cook, and United Brands), melons, dry coconut, flowers, and sweet oranges. Bananas have been shipped to Europe this year. Other non-traditional agroindustrial exports, e.g., textiles, and footwear, have been entering the U.S. market under incentives provided by the Caribbean Basin Initiative (CBI). As the world economy recovers, and when the Dominican Republic succeeds in stabilizing its economy and settling land tenure issues, non-traditional exports are sure to grow.

- o THE SERVICE SECTOR: As the economy has diversified, communications, electricity and financial services have grown from 5.5% of GDP in 1984 to over 9% in 1990. The construction sector also boomed from 1986 onward, due to direct public works investment and to private activity, particularly hotel construction. With the expansion in manufacturing and non-traditional agricultural exports, communications, and financial and commercial services can be expected to grow quickly. Construction growth is now slowing significantly, and will be refocused on maintenance and upgrading of existing facilities.

- o DOMESTIC AGRICULTURAL PRODUCTION: Domestic agriculture is important not only for local consumption but also to tourism and agroindustrial manufacturing and has considerable leeway for enhanced productivity as the policy environment and other constraints fade. Alleviating constraints will make way for additional value-

added agro-enterprises, which have great potential for creating employment within the free trade zone model. With a good supply of underutilized arable land and available labor (40% of the population is rural and agriculture absorbs 30% of total employment) gains could be substantial.

The agricultural sector experienced a decline in its share of real GDP from about 17% in 1985 to less than 15% in 1990, as total sector output contracted by 3 percent over the period. Crop agriculture has experienced a 10 percent fall in output since 1985. 1990 was a devastatingly poor year for agriculture, with drought, input shortages and pest problems resulting in an over-all 6.2% decline in sector value added. Increased productivity (as measured by output per laborer) in recent years helps to ensure domestic food security and exports. The greatest potential increase for agriculture is in value-added enterprises tied to food, beverages and tobacco. Increased linkages with export-oriented manufacturing at free trade zones will ensure involvement of all types and sizes of agricultural products.

B. Constraints

An adverse macroeconomic policy environment in the Dominican Republic and a poorly performing government have undermined growth and are eroding the already limited well being of the population. Dominican society remains ambivalent about both an open market economy and a participative process of government. This is reflected in a closed policy-making process which has led to government intervention in, and competition with, the market economy. Private investment and open trade flourish only in limited tourist and free-trade zones. In the balance of the economy, the investment climate is poor and residual barriers to free trade remain from an import-substitution strategy that has not been fully abandoned.

The sustained success in transferring political power through free elections has not been matched by participation in the process of government between elections. Private businessmen prefer to work around rather than through the government. The population

at large continues to demand, if not necessarily to expect, public sector largesse in meeting their needs. Coupled with the lack of a competent, professional civil service, these practices and attitudes have hampered broad reforms and led to the collapse of public services and infrastructure. Internal problems are paralleled by growing difficulties with the international community. The Dominican Republic has suffered a severe lack of credibility internationally, while private and official capital flows to the country have been drastically curtailed by mismanagement of its external debt. Dominican society has been slow to react to international expectations about the conduct of its affairs. Finally, misapplied policies and scant attention to environmental problems threaten to degrade much of the natural resource base which is at the heart of the country's potential.

C. Opportunities versus Constraints

As described above, the Dominican Republic is almost two countries in one. The country has considerable potential for sustained economic growth in a stable, free democratic environment. The country also has a long track record of adhering to remnants of an inoperative import-substitution model which undermines its real economic growth potential. It is an electoral democracy with otherwise limited participation in the process of government between elections which threatens its political stability. Both the opportunities and the constraints are real. The decision as to which will prevail lies squarely with Dominican society. The results will be played out in two critical areas:

- the macro-economic policy environment
- and the political culture

Macro-economic Policy Environment

The GODR began implementation of a planned comprehensive economic adjustment program on August 7, 1990, with the announcement of a 29 percent devaluation of the exchange rate and substantial price increases in basic foods and fuels produced or controlled by the government. From March 1990 to March 1991, the official exchange rate has been devalued seven times. Credit expansion by the government-owned reserve bank has been

curtailed with specified targets for reduction of outstanding credit balances to public sector agencies and companies. Compliance with financial system legal reserve requirements have been tightened. The operations of several poorly performing financial institutions have been suspended and measures to strengthen a weakened overall financial system implemented. Government spending has slowed. Electricity tariffs have been progressively increased with a view to eventual elimination of the government-owned utility's massive operating losses. The surcharge on foreign exchange for imported commodities and services has been reduced. Tariff reform has been implemented. Wage increases, particularly to government employees, have been severely limited. Government intentions to privatize selected state-owned enterprises have been announced. Serious negotiations with the IMF have been sustained, with a view to obtaining fund support for the GODR's program.

Implementation of the GODR's economic reform program has been accompanied by dramatic deterioration of basic economic indicators. Although economic performance during the first half of 1990 was significantly weaker than performance in 1989, the reduction in economic activity during the last half of the year was steeper than at any time since 1965 when the economy was torpedoed by civil war. Growth during the first semester of 1990 was a meager 0.3 percent, compared to the first semester of 1989; however, the economy shrank 11.0 percent the second semester, resulting in a decline in output for 1990 as a whole of 5.1 percent. Inflation, as measured by the consumer price index, declined during the first semester of 1990 to an annualized 26.1 percent, compared to 41.2 percent in 1989 but accelerated during the second semester of the year to an annualized 219.3 percent. December over December inflation was an unprecedented 100.7 percent. In addition, external debt arrears rose from \$736 million at the end of 1989 to approximately \$1,350 million at the end of 1990. The political cost of recent dismal economic performance is high and rising, and may have complicated negotiations with the Fund.

The GODR has made substantial progress in developing and implementing a comprehensive economic adjustment and reform program since early August 1990. Recent economic policy implementation represents a quantum change from the policies generally in effect over the

past four years, and though orthodox and fundamentally sound, are extremely high risk policies in a political and social environment that does not trust the incumbent government to implement and sustain policies with benefits that will be realized only over the medium to long-term. In addition, GODR authorities recognize that uneven and poorly sustained past policies have resulted in a credibility problem which they must overcome if the program now being implemented is to accomplish its objectives.

A.I.D. and other donor support can significantly improve GODR credibility by providing financing that will make the adjustments now being undertaken politically palatable and financially viable. The World Bank has indicated that it would support a comprehensive program of stabilization and adjustment through investment lending and mobilization of donor support via the Caribbean Group for Cooperation in Economic Development (CGCED). World Bank and Inter-American Development Bank support of additional structural and sector reforms may also be available once a successful stabilization program is in place and working. Other bi-lateral donors, such as Germany and Japan, have indicated a willingness to consider additional assistance after problems with external payments arrears have been resolved. As in the past, however, the critical issue is whether the GODR will have the will to put in place an internationally sanctioned economic stabilization program and whether, once in place, the program will be adhered to consistently and faithfully.

The Political Culture

The Dominican Republic today should be categorized as "democratic." The system rarely, if ever, denies major civil or political rights either officially or privately. Compared, for example, to Mexico, a country that is generally placed at the democratic margin of the authoritarian category, the Dominican Republic recently has shown marked democratic superiority in its ability to hold free and fair elections, and, as a result, to alternate parties in power in a way Mexico has not achieved. Parallel to this achievement, the media in the

Dominican Republic are notably less under government control and restraint than those in Mexico, and dissidents in recent years have had less reason to fear semi-clandestine repression.

The Dominican Republic should not be categorized as a "developing democracy." On the one hand, it is not threatened by the endemic violence that characterizes Peru or Colombia in the "under siege" category. On the other hand, in many respects, its democracy remains poorly institutionalized, both culturally and organizationally. It does not have the fully stable and developed democratic attitudes toward government and politics, nor the developed avenues for popular opinion and pressure, that characterizes the fully functioning democracies of the hemisphere, such as Costa Rica or Barbados. While much progress has been made, and the formal institutions of democracy are in place, the country's political and cultural development still lags behind, threatening to undercut this progress should serious failures of personal leadership or factional intransigence reoccur. With its weak institutional base Dominican society remains vulnerable to usurpation of power by a potential charismatic and unscrupulous leader able to exploit the alternative "democratic" national tradition.

Modern democracy requires: 1) effective channels for popular influence on government; 2) open, frequent, and fair elections; 3) effective, open, and responsive administration; 4) a fair and effective legal system ensuring the rule of law; and 5) a political culture that sustains and gives meaning to the system. Several institutional, procedural and attitudinal constraints inhibit Dominican democracy from fully fulfilling these five requirements.

o **Decision and Policy-Making are Highly Centralized**

The Dominican Constitution provides for independent power-sharing among the three classical branches of Government: the executive, the legislative and the judicial. However, the executive branch continues to wield extraordinary power, while the independence of the other two branches as well as local government is very weak.

This highly centralized decision-making process has several significant impacts. The number of decisions and breadth of input for such decisions is very limited. Those decisions are not formally scrutinized, nor evaluated through an institutional mechanism. The Dominican Republic today possesses an inordinate list of highly specific rulings accumulated through executive decision-making. Executive decisions are often triggered by crises or by narrow interest group pressure, and do not result in coherent policy aimed at solving fundamental problems. The effect of the centralized approach to governance is to politicize decisions, render them ad hoc, and to open all policies to special exemption.

o **The Budgetary Process Lacks Transparency and Efficiency**

The centralized nature of decision-making and poor quality of government performance are reflected in the Dominican Republic's budgetary process. Budgets are poorly conceived, directed mostly to personnel expenses, and not executed. Since legislation allows the executive branch discretionary use of any surplus government receipts, it is common government practice to underestimate receipts by up to 40 percent, creating a considerable undirected fund for the executive branch. Further, the public investment plan is not tied to budgetary priorities and is not based on economic considerations. Once established, the budget has been perfunctorily approved by the legislature.

o **Interpretation and Adjudication of Decisions are not Independent**

Like the legislature, the judiciary is nominally independent-- the members of the Supreme Court are selected by the Senate, and they in turn appoint lower court judges. Yet, the executive branch often intervenes to influence the judicial process, hindering impartiality. This may foster disrespect for law. Combined with the low level of competence and efficiency of the judiciary, this makes the branch weak and leaves it outside the mainstream of Dominican governance.

While the legal system, including the police, is inefficient and often subject to influence, executive branch intervention and favoritism, it is not generally considered oppressive or violent.

o **Policy and Program Implementation is Extremely Weak and Inefficient**

The centralized governmental system extends deep into the public administrative structure. No professional civil service exists to advise and implement administrative decisions in the Dominican Republic. Thus, poor policy formulation is exacerbated by poor administration and enforcement. Lacking a professional civil service, public sector performance is highly ineffective and suffers a crippling lack of continuity and direction. Critical programs live or die on the whim of individual ministers or directors. A lack of civil service authority combined with low pay and poor career potential has led to low morale, low output and low competence.

o **Working Around the System has Become a Way of Life**

Faced with the constraints to good governance detailed above, one could presumably endure it or try to change it. But Dominicans have perfected a third option: working around it. This results in an environment where governmental systems are cynically dismissed and puts emphasis on circumvention of the system rather than reform. As the competing opportunities and constraints play out, it will be essential in Dominican society to focus on the need to reform, rather than circumvent, its long-standing macro-economic policies and its political culture.

III. USAID/DOMINICAN REPUBLIC STRATEGY

The goal of U.S. economic assistance to the Dominican Republic is:

To enhance the close and cooperative relationship between the Dominican Republic and the United States as envisaged by the Enterprise for the Americas Initiative by supporting Dominican efforts to promote economic growth and to strengthen democratic institutions.

Specifically, U.S. economic assistance will focus on two major objectives:

- **Achievement of broad-based, sustainable economic growth; and**
- **Strengthening of a stable, democratic society in the Dominican Republic.**

To achieve sustainable broad-based growth, the Dominican economy must attract considerable private investment into emerging sectors with strong international market potential. For that to occur, the Dominican government must also dismantle the remnants of its old import-substitution strategy, liberalize the economy and rationalize the general subsidy schemes that the country cannot afford.

The joint objectives of economic growth and strengthening democracy are interdependent and mutually reinforcing. At the center of both is the issue of redefining and restructuring Government's role in a modern society. Decision-making and policy formulation must be more responsive to existing realities, both in the economic arena and in the society as a whole. How to proceed with economic liberalization -- who will bear the burdens and who will share in the benefits -- will require new thinking, and considerable public review and discussion. Public debate, stability and education will be key ingredients in pursuing the economic and democratic objectives. USAID's strategy in the Dominican Republic rests on the tenet that a very capable and dynamic basis is already in place within Dominican society, dedicated to modernizing the Dominican state along democratic lines. The program objective is to promote broader analysis, consolidation and wider consensus of proposals and agenda for reform. A.I.D.'s role will be that of a facilitator and enhancer, supporting very

**USAID/Dominican Republic
COUNTRY DEVELOPMENT STRATEGY STATEMENT**

TABLE OF CONTENTS

Executive Summary

I. Overview of the Environment for Development and Democracy	1
A. The Overall Economic Environment	1
B. Political and Institutional Setting of Dominican Democracy	2
C. Socioeconomic Environment	3
D. The Environment	5
E. Donor Coordination	7
II. Opportunities and Constraints Analysis	8
A. Opportunities	8
B. Constraints	11
C. Opportunities Versus Constraints	12
III. USAID/Dominican Republic's Strategy	18
A. Objective No. 1	19
B. Objective No. 2	31
C. Objective No. 3	37
IV. Resources and Operational Strategy	38
A. Program Resources	38
B. Operational Strategy	38

Annexes:

- A. Program Funding by Sub-Objective (FY 92-FY 96)
- B. Map of the Dominican Republic
- C. References

USAID/Dominican Republic

FY 1992-1996 COUNTRY DEVELOPMENT STRATEGY STATEMENT EXECUTIVE SUMMARY

The Dominican Republic's rapid 7 percent a year GDP growth rate of the 1970s was followed by a marked slowdown in the 1980s to only 1.8 percent per year. The dramatic downturn was brought about by a sharp fall in world demand for its traditional exports and by a policy environment which partially impeded adapting to the new market conditions. By 1990, the Dominican economy was characterized by export dynamism driven by expansion of tourism and free trade zone services. Agriculture, however, stagnated. The financial system was faltering, and external imbalances, unemployment and inflation were high. Construction was the lead sector, but was buoyed by unsustainable public spending.

During the late 1980s, the Dominican Republic attempted to adjust to the new market realities, but remained hampered by ad hoc and unsustained policy implementation and macro-economic imbalances, exacerbated by a lack of functioning public infrastructure and services. In 1990, the GODR began implementing a comprehensive economic reform program that includes monetary and fiscal measures to stabilize the economy and important structural reforms in the area of banking, tariffs and taxes.

The Dominican Republic has considerable potential for growth. The country is close to many major markets, including the United States, Central and South America, as well as the rest of the Caribbean and enjoys good air and sea links. Its extensive natural resource base could be used productively for agriculture and forestry. Its climate and beaches will continue to attract investment in tourism. The country's political stability and abundant, low cost labor force and highly varied, competent and dynamic private sector all make it particularly attractive to investors. As the Dominican Republic approaches the twenty-first century, it will bring with it the possibility of full participation in the hemispheric financial and trade relationships envisaged by President Bush's Enterprise for the Americas Initiative (EAI).

The goal of USAID's FY 1992-1996 strategy is to assist those in Dominican society who seek and support the policy and institutional reforms which would enable the Dominican Republic to become an important participant in the Enterprise for the Americas Initiative. The CDSS stresses the need for a policy environment conducive to foreign and domestic private investment and an outward looking economy capitalizing on comparative advantage, with emphasis on strengthening already good investment and trade linkages between the Dominican Republic and the U.S. An important part of the strategy is to assist Dominicans to redefine the role of Government in a modern society and in the process to strengthen their democracy. To this end, the Mission's strategy is to support across economic sectors those processes in the Dominican Republic which sustain sound economic reform. Within

the objectives and sub-objectives provided by the LAC Bureau, USAID has proposed a seven part program:

- o Promote sustained implementation of a governmental program of economic stabilization and structural reform needed to attract private foreign and domestic investment in key areas of economic opportunity.**
- o Promote increased investment and trade by supporting private U.S. and Dominican initiatives.**
- o Expand participation in productive, private income-generating activities by segments of the society previously isolated from the economic system.**
- o Address critical socio-economic constraints to growth through improvements in educational opportunities and family health by supporting non-governmental programs in these areas.**
- o Promote reduction of legislative, regulatory and institutional impediments to rational management of natural resources by the public and private sectors to assure long-term sustainability of development.**
- o Support Dominican initiatives to facilitate participation and encourage involvement by citizens in the process of government.**
- o Promote improved efficiency and impartiality of government institutions.**

Toward these ends and until the Dominican Republic is able to fully participate in the Enterprise for the Americas Initiative, USAID is proposing funding which reflects historic levels. We are proposing an average annual Development Assistance level of \$19 million per year beginning in FY 1993 and ESF of \$100 million over the CDSS period (\$40 million in FY 92, \$40 million in FY 93, and \$20 million in FY 94), once the GODR reform program has begun to take effect. PL 480 Title II is proposed at \$5 million per year and will support a program redesigned to fold into the Mission's objective of broadening the base of participation in the Dominican economy. Virtually all Development Assistance obligations will be through the private sector.

The heightened focus on supporting Dominican efforts in the processes of sustaining policy reform across sectors will enable USAID to continue its process of portfolio consolidation and Mission reorganization in order to accomplish the proposed program with fewer staff and lower operating expenses. Operating expense levels are proposed at around \$2.8 million per year before inflation and by FY 1992, USDH will have been reduced to 16 from its 1990 level of 20.

I. OVERVIEW OF THE ENVIRONMENT FOR DEVELOPMENT AND DEMOCRACY

A. Overall Economic Environment

World demand for traditional Dominican exports -- sugar, coffee, tobacco -- was strong enough in the 1970s to overcome a policy environment badly distorted in favor of import substitution. When the world market shifted and the value of these exports declined, GDP growth plummeted from an average of 7% per year in the 1970s, to less than 2% in the 1980s. Significant amounts of human and financial capital fled the country in the late 1980s. Today, the Dominican Republic is attempting to adjust to new market realities with visible success in tourism and free trade zone exports. The effort has been hampered by ad hoc and unsustainable implementation of critical policy reforms. The adverse effect of macroeconomic imbalances has been exacerbated by poorly functioning public services, most notably electricity. In 1985 and again in 1990, the country experienced major recessions that were preceded by substantial inflation and exchange rate instability. GDP decreased by 3.6% in 1985 and 4.9% in 1990. CPI inflation, which was only 6.5% in 1986, reached an all-time high of 100.7% in 1990.

The Dominican economy did make selective strides in recent years. Tourism revenues, just \$173 million in 1980, reached \$978 million in 1990 (14% of GDP). Income from free trade zone services, has grown from net revenues of \$44 million in 1980 to an estimated \$225 million (3.2% of GDP) in 1990. In 1990, with exports to the U.S. of \$1.75 billion and imports from the U.S. of \$1.70 billion, the Dominican Republic ranks as the fifth largest U.S. trading partner in the hemisphere. The construction sector was the leading sector in the 1980s, with average annual increases in value-added exceeding 5.0 percent.

Driven by these sectors, employment grew a respectable 3% annually from 1986 to 1990. Nonetheless, because of a rapidly growing young labor force, increased participation by women and significant job losses in agriculture, about 29% of the work force was unemployed in 1990. Current account deficits, averaging 6.6% of GDP over the last four

years, were financed by using up all of the country's liquid reserves, accumulation of \$1.3 billion in debt arrears, and substantial domestic banking system financing. Overall savings and investment performance since 1985 has been impressive. However, public sector investment has "crowded out" financing of more productive private investment. In real terms public investment grew four times as fast as private investment during the period. Alternatively, consumption grew by less than 2 percent a year, actually declining in per capita terms.

The GODR recently began implementing a comprehensive economic reform program that includes financial measures to stabilize the economy and important structural reforms in the areas of banking, tariffs and taxes. In the past, implementation of such programs has not been timely, sustained or coherent. To attract domestic and external resources essential for economic recovery and sustained future growth, the government will need to faithfully adhere to these programs.

B. The Political and Institutional Setting of Dominican Democracy

With peaceful transitions of power following relatively free elections for over twenty years, the Dominican Republic is one of the oldest constitutional democracies in the Hemisphere. Indeed, by most measures of democratization, the country is very free and open. Basic political freedoms are respected. There is no undue influence by the military and the people are not oppressed.

While Dominicans appreciate and protect these democratic freedoms, there are still few systematic avenues for their direct participation in the process of government. Dominican government takes the form of freely elected centrism, in which the elected President both formulates and administers policy -- then serves as the final arbiter of appeal. The centralized strength of presidential power lends itself to favoritism and arbitrary decision-making, which creates great uncertainty for, inter-alia, the private sector. Private entities must appeal through non-governmental organizations for a clear set of rules of the game, consistently applied and fairly adjudicated.

The public sector is inefficient and overstaffed. There is no professional civil service. Continuity, institutional memory, trained personnel, and whole programs may disappear with new appointments. In addition to low salaries, poor quality personnel and low esteem, lack of career status leaves civil service with low morale, low output and low competence.

One major bright spot in the Dominican Republic today is the private sector, which is dynamic and creative. With a "get the job done" attitude, the private sector itself attempts to remove critical production bottlenecks. But while such initiative promises a good basis for a dynamic, practical economy in the future, valuable private resources are currently wasted on successfully getting around an ineffective governmental system, rather than instigating its reform.

Despite its centrism, Dominican government is sensitive to public opinion and pressure. In the wake of the recent economic crisis, the increasingly sophisticated Dominican electorate is questioning the country's political and economic management. This has begun to stir public debate and create pressure for modernizing the Dominican state.

C. Socio-Economic Environment and the Historically Disadvantaged

The socio-economic environment in the Dominican Republic is characterized by relative and widespread poverty. With GDP per capita at about \$900⁽¹⁾ over 40% of the population is poverty stricken, but income inequality is mild compared to other countries. Government services, financial markets, and physical infrastructure are unavailable to over 40% of the population, making poverty the central determinant of who is "disadvantaged" in this "pay as you go" society. Families headed by females, the elderly, urban squatters, the unemployed, and Haitian immigrant labor fare particularly badly in Dominican society, as poverty combines with prejudices and other constraints to create acute disadvantage, especially where self-help and community organizations have not supplanted the historical dependence on state-supplied social services.

(1) USAID derived figure using average parallel market exchange rate

The economic situation has had a negative impact on families, with more and more fathers abandoning wives and children, as evidenced by more children in the streets trying to garner some kind of income and by the fact that illiteracy among children in many areas is higher than that of their parents. Many fathers leave the family to migrate to urban centers or other countries in effort to support their families, and the number of female heads of households appears to be growing. Many of these women are turning to illicit forms of employment to try to support their children. The further deterioration of the family situation saps the basic building block of community development, better health and education.

Although considerable gains were made during the economic upswing between 1966 and 1978, poor nutrition and health status remain an important feature of the country's socio-economic environment. During the 1980s, nutrition and health standards deteriorated. Dominican families in the lowest income strata (some 25%) cannot afford the calories and proteins needed to meet minimum nutritional standards. Further, only about 30 percent of all rural dwellers have access to water and sanitation services. The country is now experiencing increases in water-borne diseases. Small children (45% of whom are malnourished) are particularly affected by deteriorating health conditions. Infant mortality is estimated at 61 per 1000 live births. Almost two-thirds of these deaths are caused directly or indirectly by malnutrition and intestinal infections.

Similar deterioration in education and literacy standards is also appearing at a time when human resource development is vital for future growth. Government spending on education is low and very ineffective. High unemployment and falling income levels mean that many parents can ill-afford to send their children to school anyway.

The Role of Women

The role of women has undergone a positive transformation since the 1970s. Fertility, mortality and population growth rates have all fallen. These demographic changes coupled

with urban migration and changing attitudes have enabled women aged 15 to 25 to obtain nearly 3 times as much schooling on average as those over 35. Given the informal or "consensual" nature of many marriages, female-headed households constitute 26 percent of all households. Gross female labor force participation rates have increased from about 21.5 percent in 1970 to close to 40 percent in 1990. In the last 20 years, 53 percent of net entrants to the labor market have been women. Free trade zones employ a labor force that is 70 to 75 percent female and have provided new opportunities to women, often first time work force entrants. The proportion of women working solely in informal activities or domestic service has declined from 34 percent in 1970 to under 25 percent today. However, very high rates of caesarean section deliveries and abortion remain serious health concerns for women today, as well as extremely low rates of exclusive breastfeeding.

Today, class social standing, and to some degree still education, are more direct determinants of a woman's economic participation than gender. However, health, contraceptive and educational factors -- as well as residual prejudicial attitudes -- still negatively affect a large number of women.

D. The Environment -- Natural, "Built", and Demographic

The Natural and "Built" Environments

Deforestation provides a dramatic example of environmental degradation in the Dominican Republic. While about 60 percent of Dominican land is best suited to forest cover, less than 10 percent remains forested. Slash and burn agriculture and creation of cattle pasture are important causes. Charcoal is an important source of energy and will continue to exert pressure on domestic forest resources as electricity will not soon provide a full energy substitute for charcoal burning. At the current annual rate of deforestation -- 325 km² per year -- no forest cover will remain by the year 2000.

Soil erosion and degradation, reduced water quality and watershed siltation have reduced hydropower and irrigation potential, decreased biological diversity and impaired agricultural productivity. The country has significant numbers of endangered species of tropical plants

and fauna. Marine and riverine ecosystems have been damaged by improper irrigation and agricultural chemical residues.

In urban areas, solid waste is improperly disposed and creates unsightly breeding grounds for pests and disease, and adds to water pollution. Industrial discharges, uncontrolled withdrawals from underground aquifers and discharge of inadequately treated municipal waste water have severely damaged water supplies. Coastal waters and marine ecosystems have also suffered from poor urban facilities to serve towns and tourism developments.

Ill-advised and poorly conceived policies, coupled with weak institutional support, render the GODR ineffective in addressing the twin issues of preventing further resource deterioration and promoting restorative action. Few incentives exist for private maintenance and improvement of forest lands. A lack of publicly supported planning and policy setting contributes to the environmental degradation associated with urban sprawl and industrial development. There is some expectation for improvement as interest in environmental issues is strong among the educated young and NGOs are becoming increasingly involved in environmental projects.

The Demographic Environment

The Dominican Republic is one of the most densely populated countries in the Western Hemisphere. However, the country has made considerable progress in addressing population pressures. Fertility rates have fallen. The net rate of population growth has fallen from over 3 percent just ten years ago to about 2.3 percent today. Still, many years of high population growth have left a mark. Over half the current population is under 18 years old. Combined with increased female labor force participation, this translates into a 3% annual labor force growth rate. With unemployment of about 29 percent, employment would have to grow at twice the rate of growth of the labor force to reduce unemployment to 10 percent by the year 2000.

Changes of political appointees and resultant upheavals in the government's family planning services have reduced contraceptive availability and threaten to reverse the gains made. Contraceptives are now supplied primarily by private foundations and commercial outlets.

E. Donor Coordination

In recent years, the Dominican Republic has inspired considerable interest from bilateral donors other than the United States. Germany, Italy and Spain have provided important assistance and Japan has expressed interest in increasing its assistance levels. European interest is expected to grow with the Dominican Republic's entry into the Lome Convention. Venezuela and Mexico provide assistance under the San Jose Accord. The IBRD and the Inter-American Development Bank have substantial investments in the Dominican Republic.

Despite widespread donor interest and recognition of the Dominican Republic's potential, donor disbursements to the country totalled only \$144 million in 1989. Donors have been united by two common concerns: (1) debt repayment arrearages; and (2) the often erratic and incoherent policy implementation environment of the country. These concerns have prompted the donors to maintain relatively close, albeit informal, coordination. There is widespread consensus among donors that the GODR must solve arrearage problems by obtaining an IMF Agreement and by rescheduling its debts through a Paris Club Agreement. This message is consistently communicated to the Government. With a GODR agreement with the IMF and rescheduling in place, donor assistance is expected to increase substantially. Coordination of donor views on issues such as privatization, tax reform and public administration will receive greater attention on our part over the CDSS period.

II. OPPORTUNITIES AND CONSTRAINTS ANALYSIS

A. Opportunities

The Dominican Republic has the potential to generate broadly-based, outward looking economic growth through private initiative and citizen participation. The country has a valuable natural resource base, including extensive land suitable for agriculture and commercial forestry and a long coast of attractive beaches. The country's young labor force has proven to be hard-working and adaptable. Close proximity to major markets in North America and the Caribbean, coupled with good communications and maritime transportation, provide an important comparative advantage.

Several years of sustained dynamic growth in tourism and free trade zone manufacturing have proven that private foreign and domestic investment will react quickly and positively to a stable and supportive policy environment. The domestic private sector includes many new entrepreneurs who are creative and remain constantly attuned to new developments in management and technology. The country is politically stable and has well-developed basic democratic practices including freedom of the press -- which further makes it attractive to investors.

The recent, positive evolution of government macroeconomic policy offers the possibility of significant payoffs in terms of renewed private and official external capital flows. The Dominican Republic also stands to benefit proportionately more than any other Latin American Caribbean country from the Enterprise for the Americas Initiative because official debt to the U.S. is a large part of the country's overall external debt. Finally, continuing

active involvement by non-governmental organizations in addressing social needs will accelerate the participation of broad segments of the population in the benefits of growth.

Overall GDP increases will be driven by greater tourism, light manufacturing, agroindustrial and other non-traditional exports. These sectors will forge linkages with, and provide greater demand for, domestic services and local food production.

- o **TOURISM:** The private capital infrastructure for increasing tourism revenues has grown rapidly in the last decade reflecting the country's comparative advantage and a supportive policy environment. Tourism now comprises about 14 percent of GDP. Demand for hotel rooms is expected to keep pace with construction. In 1989, tourism arrivals topped 1 million visitors annually. In 1990, receipts from tourism, estimated at \$978 million accounted for 52 percent of goods and non-factor services export earnings. Room occupancy generates about US\$35 per night on average versus US\$85 at other Caribbean destinations. With greater marketing and improved service quality, there is clear scope for enhanced revenues and repeat visits.

- o **EXPORT-ORIENTED MANUFACTURING:** The free trade zones have been a remarkable success story and serve as a model for an outward-looking domestic manufacturing sector. Free Trade Zone success has been due to economic comparative advantage which reflects low labor costs, proximity to U.S. markets, and GODR regulatory exemptions which have allowed the Dominican Republic to be the country which has taken the greatest advantage of the Caribbean Basin Initiative. Twenty-two free-trade zones are currently operating and several others are planned. About 130,000 people were employed in these zones in mid-1990, up from 20,000 just 5 years ago. Net foreign exchange earnings now top US\$225 million annually, more than double the 1987 figures. Over 300 firms now operate in these zones, more than triple the number in 1985, and many are associated with major U.S. corporations. Of these, 76 are U.S. firms, which have invested over \$170 million. Though Santo Domingo and Santiago will remain near-term growth poles, FTZs are geographically

dispersed throughout the eastern two-thirds of the island and employ a work-force that generates substantial indirect employment as well. Light manufacturing, textiles, assembly activities, and agribusiness currently dominate the FTZs. Progressive dismantling of remaining tariff and regulatory barriers and surplus labor supply are expected to continue attracting new entrants and domestic and foreign investment in manufacturing.

- o NON-TRADITIONAL AGRICULTURAL EXPORTS: As world markets for traditional Dominican agricultural exports have weakened, other exports are making up the difference. These include fresh pineapple (Dole, Castle and Cook, and United Brands), melons, dry coconut, flowers, and sweet oranges. Bananas have been shipped to Europe this year. Other non-traditional agroindustrial exports, e.g., textiles, and footwear, have been entering the U.S. market under incentives provided by the Caribbean Basin Initiative (CBI). As the world economy recovers, and when the Dominican Republic succeeds in stabilizing its economy and settling land tenure issues, non-traditional exports are sure to grow.
- o THE SERVICE SECTOR: As the economy has diversified, communications, electricity and financial services have grown from 5.5% of GDP in 1984 to over 9% in 1990. The construction sector also boomed from 1986 onward, due to direct public works investment and to private activity, particularly hotel construction. With the expansion in manufacturing and non-traditional agricultural exports, communications, and financial and commercial services can be expected to grow quickly. Construction growth is now slowing significantly, and will be refocused on maintenance and upgrading of existing facilities.
- o DOMESTIC AGRICULTURAL PRODUCTION: Domestic agriculture is important not only for local consumption but also to tourism and agroindustrial manufacturing and has considerable leeway for enhanced productivity as the policy environment and other constraints fade. Alleviating constraints will make way for additional value-

added agro-enterprises, which have great potential for creating employment within the free trade zone model. With a good supply of underutilized arable land and available labor (40% of the population is rural and agriculture absorbs 30% of total employment) gains could be substantial.

The agricultural sector experienced a decline in its share of real GDP from about 17% in 1985 to less than 15% in 1990, as total sector output contracted by 3 percent over the period. Crop agriculture has experienced a 10 percent fall in output since 1985. 1990 was a devastatingly poor year for agriculture, with drought, input shortages and pest problems resulting in an over-all 6.2% decline in sector value added. Increased productivity (as measured by output per laborer) in recent years helps to ensure domestic food security and exports. The greatest potential increase for agriculture is in value-added enterprises tied to food, beverages and tobacco. Increased linkages with export-oriented manufacturing at free trade zones will ensure involvement of all types and sizes of agricultural products.

B. Constraints

An adverse macroeconomic policy environment in the Dominican Republic and a poorly performing government have undermined growth and are eroding the already limited well being of the population. Dominican society remains ambivalent about both an open market economy and a participative process of government. This is reflected in a closed policy-making process which has led to government intervention in, and competition with, the market economy. Private investment and open trade flourish only in limited tourist and free-trade zones. In the balance of the economy, the investment climate is poor and residual barriers to free trade remain from an import-substitution strategy that has not been fully abandoned.

The sustained success in transferring political power through free elections has not been matched by participation in the process of government between elections. Private businessmen prefer to work around rather than through the government. The population

at large continues to demand, if not necessarily to expect, public sector largesse in meeting their needs. Coupled with the lack of a competent, professional civil service, these practices and attitudes have hampered broad reforms and led to the collapse of public services and infrastructure. Internal problems are paralleled by growing difficulties with the international community. The Dominican Republic has suffered a severe lack of credibility internationally, while private and official capital flows to the country have been drastically curtailed by mismanagement of its external debt. Dominican society has been slow to react to international expectations about the conduct of its affairs. Finally, misapplied policies and scant attention to environmental problems threaten to degrade much of the natural resource base which is at the heart of the country's potential.

C. Opportunities versus Constraints

As described above, the Dominican Republic is almost two countries in one. The country has considerable potential for sustained economic growth in a stable, free democratic environment. The country also has a long track record of adhering to remnants of an inoperative import-substitution model which undermines its real economic growth potential. It is an electoral democracy with otherwise limited participation in the process of government between elections which threatens its political stability. Both the opportunities and the constraints are real. The decision as to which will prevail lies squarely with Dominican society. The results will be played out in two critical areas:

- the macro-economic policy environment
- and the political culture

Macro-economic Policy Environment

The GODR began implementation of a planned comprehensive economic adjustment program on August 7, 1990, with the announcement of a 29 percent devaluation of the exchange rate and substantial price increases in basic foods and fuels produced or controlled by the government. From March 1990 to March 1991, the official exchange rate has been devalued seven times. Credit expansion by the government-owned reserve bank has been

curtailed with specified targets for reduction of outstanding credit balances to public sector agencies and companies. Compliance with financial system legal reserve requirements have been tightened. The operations of several poorly performing financial institutions have been suspended and measures to strengthen a weakened overall financial system implemented. Government spending has slowed. Electricity tariffs have been progressively increased with a view to eventual elimination of the government-owned utility's massive operating losses. The surcharge on foreign exchange for imported commodities and services has been reduced. Tariff reform has been implemented. Wage increases, particularly to government employees, have been severely limited. Government intentions to privatize selected state-owned enterprises have been announced. Serious negotiations with the IMF have been sustained, with a view to obtaining fund support for the GODR's program.

Implementation of the GODR's economic reform program has been accompanied by dramatic deterioration of basic economic indicators. Although economic performance during the first half of 1990 was significantly weaker than performance in 1989, the reduction in economic activity during the last half of the year was steeper than at any time since 1965 when the economy was torpedoed by civil war. Growth during the first semester of 1990 was a meager 0.3 percent, compared to the first semester of 1989; however, the economy shrank 11.0 percent the second semester, resulting in a decline in output for 1990 as a whole of 5.1 percent. Inflation, as measured by the consumer price index, declined during the first semester of 1990 to an annualized 26.1 percent, compared to 41.2 percent in 1989 but accelerated during the second semester of the year to an annualized 219.3 percent. December over December inflation was an unprecedented 100.7 percent. In addition, external debt arrears rose from \$736 million at the end of 1989 to approximately \$1,350 million at the end of 1990. The political cost of recent dismal economic performance is high and rising, and may have complicated negotiations with the Fund.

The GODR has made substantial progress in developing and implementing a comprehensive economic adjustment and reform program since early August 1990. Recent economic policy implementation represents a quantum change from the policies generally in effect over the

past four years, and though orthodox and fundamentally sound, are extremely high risk policies in a political and social environment that does not trust the incumbent government to implement and sustain policies with benefits that will be realized only over the medium to long-term. In addition, GODR authorities recognize that uneven and poorly sustained past policies have resulted in a credibility problem which they must overcome if the program now being implemented is to accomplish its objectives.

A.I.D. and other donor support can significantly improve GODR credibility by providing financing that will make the adjustments now being undertaken politically palatable and financially viable. The World Bank has indicated that it would support a comprehensive program of stabilization and adjustment through investment lending and mobilization of donor support via the Caribbean Group for Cooperation in Economic Development (CGCED). World Bank and Inter-American Development Bank support of additional structural and sector reforms may also be available once a successful stabilization program is in place and working. Other bi-lateral donors, such as Germany and Japan, have indicated a willingness to consider additional assistance after problems with external payments arrears have been resolved. As in the past, however, the critical issue is whether the GODR will have the will to put in place an internationally sanctioned economic stabilization program and whether, once in place, the program will be adhered to consistently and faithfully.

The Political Culture

The Dominican Republic today should be categorized as "democratic." The system rarely, if ever, denies major civil or political rights either officially or privately. Compared, for example, to Mexico, a country that is generally placed at the democratic margin of the authoritarian category, the Dominican Republic recently has shown marked democratic superiority in its ability to hold free and fair elections, and, as a result, to alternate parties in power in a way Mexico has not achieved. Parallel to this achievement, the media in the

Dominican Republic are notably less under government control and restraint than those in Mexico, and dissidents in recent years have had less reason to fear semi-clandestine repression.

The Dominican Republic should not be categorized as a "developing democracy." On the one hand, it is not threatened by the endemic violence that characterizes Peru or Colombia in the "under siege" category. On the other hand, in many respects, its democracy remains poorly institutionalized, both culturally and organizationally. It does not have the fully stable and developed democratic attitudes toward government and politics, nor the developed avenues for popular opinion and pressure, that characterizes the fully functioning democracies of the hemisphere, such as Costa Rica or Barbados. While much progress has been made, and the formal institutions of democracy are in place, the country's political and cultural development still lags behind, threatening to undercut this progress should serious failures of personal leadership or factional intransigence reoccur. With its weak institutional base Dominican society remains vulnerable to usurpation of power by a potential charismatic and unscrupulous leader able to exploit the alternative "democratic" national tradition.

Modern democracy requires: 1) effective channels for popular influence on government; 2) open, frequent, and fair elections; 3) effective, open, and responsive administration; 4) a fair and effective legal system ensuring the rule of law; and 5) a political culture that sustains and gives meaning to the system. Several institutional, procedural and attitudinal constraints inhibit Dominican democracy from fully fulfilling these five requirements.

o **Decision and Policy-Making are Highly Centralized**

The Dominican Constitution provides for independent power-sharing among the three classical branches of Government: the executive, the legislative and the judicial. However, the executive branch continues to wield extraordinary power, while the independence of the other two branches as well as local government is very weak.

This highly centralized decision-making process has several significant impacts. The number of decisions and breadth of input for such decisions is very limited. Those decisions are not formally scrutinized, nor evaluated through an institutional mechanism. The Dominican Republic today possesses an inordinate list of highly specific rulings accumulated through executive decision-making. Executive decisions are often triggered by crises or by narrow interest group pressure, and do not result in coherent policy aimed at solving fundamental problems. The effect of the centralized approach to governance is to politicize decisions, render them ad hoc, and to open all policies to special exemption.

o **The Budgetary Process Lacks Transparency and Efficiency**

The centralized nature of decision-making and poor quality of government performance are reflected in the Dominican Republic's budgetary process. Budgets are poorly conceived, directed mostly to personnel expenses, and not executed. Since legislation allows the executive branch discretionary use of any surplus government receipts, it is common government practice to underestimate receipts by up to 40 percent, creating a considerable undirected fund for the executive branch. Further, the public investment plan is not tied to budgetary priorities and is not based on economic considerations. Once established, the budget has been perfunctorily approved by the legislature.

o **Interpretation and Adjudication of Decisions are not Independent**

Like the legislature, the judiciary is nominally independent-- the members of the Supreme Court are selected by the Senate, and they in turn appoint lower court judges. Yet, the executive branch often intervenes to influence the judicial process, hindering impartiality. This may foster disrespect for law. Combined with the low level of competence and efficiency of the judiciary, this makes the branch weak and leaves it outside the mainstream of Dominican governance.

While the legal system, including the police, is inefficient and often subject to influence, executive branch intervention and favoritism, it is not generally considered oppressive or violent.

o **Policy and Program Implementation is Extremely Weak and Inefficient**

The centralized governmental system extends deep into the public administrative structure. No professional civil service exists to advise and implement administrative decisions in the Dominican Republic. Thus, poor policy formulation is exacerbated by poor administration and enforcement. Lacking a professional civil service, public sector performance is highly ineffective and suffers a crippling lack of continuity and direction. Critical programs live or die on the whim of individual ministers or directors. A lack of civil service authority combined with low pay and poor career potential has led to low morale, low output and low competence.

o **Working Around the System has Become a Way of Life**

Faced with the constraints to good governance detailed above, one could presumably endure it or try to change it. But Dominicans have perfected a third option: working around it. This results in an environment where governmental systems are cynically dismissed and puts emphasis on circumvention of the system rather than reform. As the competing opportunities and constraints play out, it will be essential in Dominican society to focus on the need to reform, rather than circumvent, its long-standing macro-economic policies and its political culture.

III. USAID/DOMINICAN REPUBLIC STRATEGY

The goal of U.S. economic assistance to the Dominican Republic is:

To enhance the close and cooperative relationship between the Dominican Republic and the United States as envisaged by the Enterprise for the Americas Initiative by supporting Dominican efforts to promote economic growth and to strengthen democratic institutions.

Specifically, U.S. economic assistance will focus on two major objectives:

- **Achievement of broad-based, sustainable economic growth; and**
- **Strengthening of a stable, democratic society in the Dominican Republic.**

To achieve sustainable broad-based growth, the Dominican economy must attract considerable private investment into emerging sectors with strong international market potential. For that to occur, the Dominican government must also dismantle the remnants of its old import-substitution strategy, liberalize the economy and rationalize the general subsidy schemes that the country cannot afford.

The joint objectives of economic growth and strengthening democracy are interdependent and mutually reinforcing. At the center of both is the issue of redefining and restructuring Government's role in a modern society. Decision-making and policy formulation must be more responsive to existing realities, both in the economic arena and in the society as a whole. How to proceed with economic liberalization -- who will bear the burdens and who will share in the benefits -- will require new thinking, and considerable public review and discussion. Public debate, stability and education will be key ingredients in pursuing the economic and democratic objectives. USAID's strategy in the Dominican Republic rests on the tenet that a very capable and dynamic basis is already in place within Dominican society, dedicated to modernizing the Dominican state along democratic lines. The program objective is to promote broader analysis, consolidation and wider consensus of proposals and agenda for reform. A.I.D.'s role will be that of a facilitator and enhancer, supporting very

specifically the processes within the Dominican society which foster sustained economic and democratic improvements. The strategy does not anticipate specific projects within the sectors, but rather the very narrow focus on supporting general processes leading to overall and sectoral reforms.

LAC OBJECTIVE NO. 1:

ACHIEVEMENT OF BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH.

Over the CDSS period, the Dominican Republic should be able to return to a real growth rate in GDP of around 5 percent and an inflation rate of under 10 percent. Greater participation in the economy will be fostered by key improvements in critical services to the poor, such as in education and family health. Private organizations will both take on delivery functions and push for governmental reform. Historical neglect of the environment can be reversed.

Key Assumptions

- o An internationally sanctioned economic policy program will result in debt rescheduling, and significantly increased capital flows to the Dominican Republic, both in the form of private investment and donor assistance.
- o Internationally sanctioned reform programs will lead to economic stabilization and growth.
- o Donor assistance will be important for the Dominican Republic to adhere to its program of policy reform aimed at stabilizing the economy, attracting foreign and private domestic investment and expanding trade;
- o Dominican products will continue to be economically competitive in international markets.
- o Outmigration will not deprive the country of critical human resources.

To achieve broad-based and sustainable economic growth, the LAC Bureau has outlined four mutually reinforcing sub-objectives to guide USAID 's program:

- Encourage the adoption of, and continued adherence to, economic policies that promote investment, productive employment and export-led economic diversification;
- Encourage a vigorous response by the private sector to a favorable policy environment;
- Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged; and
- Encourage preservation and sustainable use of the natural resource base.

Within the LAC economic growth objective and from sub-objectives, the Mission has crafted five strategic objectives. These are presented within the framework of long-term objectives, medium-term and those achievable during the CDSS period.

LAC SUB-OBJECTIVE:

ENCOURAGE THE ADOPTION OF, AND ADHERENCE TO, ECONOMIC POLICIES THAT PROMOTE INVESTMENTS, PRODUCTIVE EMPLOYMENT AND EXPORT-LED ECONOMIC DIVERSIFICATION.

USAID STRATEGIC OBJECTIVE NO. 1:

Promote sustained implementation of a governmental program of economic stabilization and structural reform needed to attract private foreign and domestic investment in key areas of economic opportunity.

Program Performance Targets	1991	(YES/NO)	1996
Internationally sanctioned economic stabilization program in place	Y		Y
Internationally sanctioned debt restructuring program in place	N		Y
Investment regime reformed	N		Y

Rationale: Over the long run, the Dominican Republic must put in place macroeconomic and sectoral policies and programs which foster and facilitate a dynamic, outward-looking, market driven economy. The viability and sustainability of such a policy system will depend on public education and support as well as on the existence of competent, independent public institutions such as monetary authorities. Over the medium term, focus should be on key sectoral policy reforms such as in energy and in the structure and administration of taxes. Over the CDSS period, the most immediate priority must be to stabilize the economy and to return to a solid growth path. To do so, the GODR must address the issues of low efficiency of investment caused by inflation, high public/private sector investment ratios, and sector and skills bottlenecks in the context of an internationally-sanctioned economic and debt restructuring stabilization program. This will create an environment conducive to private foreign and domestic trade and investment.

In 1990 the GODR began a vigorous economic stabilization and structural reform program. Over the CDSS period, we anticipate that the GODR will have adhered consistently to the program and that the country will see the fruits of stable monetary and fiscal policy, including low inflation, exchange rate stability, and sustained high economic growth and employment levels. We also anticipate that the GODR will have made significant progress in meeting the medium term objectives of improving the tax structure and administration of taxes, restructuring key sectors, especially energy and creating an independent, competent economic policy making system. Finally, we expect that the Dominican Republic will have concluded the arrangements to participate in the Enterprise for the Americas Initiative.

economic policy making system. Finally, we expect that the Dominican Republic will have concluded the arrangements to participate in the Enterprise for the Americas Initiative. The USAID strategy aims at supporting those elements of influence within Dominican society which will promote an understanding and consensus for sustaining positive reforms once undertaken.

Strategy: USAID's approach to this strategic objective will be to:

- Continue its policy dialogue with the GODR, linking U.S. assistance -- particularly balance of payments or budget support and the debt relief provisions of the Enterprise for the Americas -- to continued adherence to, and progress on important reforms, with an eye toward increasing domestic and foreign private investment and trade.
- Expand the policy dialogue with the private sector and, through the private sector with the GODR, focusing on the importance of certain policies to overall macroeconomic performance, particularly those which are not immediately perceived as beneficial by private sector interests, such as a market-based interest rate system, tariff and tax reform, and maintenance of internationally competitive exchange rates.
- Support private organizations which promote institutionalized study, public debate and national consensus on issues related to economic stabilization, debt rescheduling, increased investment and expanded trade. This element will constitute the central element of USAID's strategy to support the process which leads to sustainability of reforms, and will be entirely demand-driven. Activity agreements will be undertaken through a coordinating mechanism, either local or U.S., as appropriate;
- Assist in coordinating the efforts of the international donor community in support of economic stabilization and debt rescheduling. Areas of particular importance for donor coordination will be tax reform, public administration, privatization, electricity, agriculture and trade and investment in general.

LAC SUB-OBJECTIVE:

ENCOURAGE A VIGOROUS RESPONSE BY THE PRIVATE SECTOR TO A FAVORABLE POLICY ENVIRONMENT.

USAID STRATEGIC OBJECTIVE NO. 2:

Promote increased investment and trade by supporting private U.S. and Dominican initiatives.

<u>Program Performance Targets</u>	1991	1996
Private Investment (% of GDP)	18.0	20.0
Exports to U.S. (val. % of GDP)		
Traditional	6.8	6.0
Non-traditional	22.0	28.0
Imports from U.S. (% of GDP_{DR})	28.5	34.0
SOEs privatized/liquidated	0	4
Electricity privatized (Y/N)	N	Y
Amount of external debt reduced through debt conversion (\$ Millions)/yr	100	200

Rationale: When demand for traditional Dominican exports declined in the 1980s, growth of the Dominican economy plummeted. To return to economic growth, the Dominican economy must attract substantial new investment into those sectors with strong international market potential from private domestic and international investors.

State-owned Dominican enterprises are too slow and inefficient to respond to market forces, and, as in the case of sugar production and electricity, are a severe drain on the national budget, and a major cause of budget deficits. In virtually every sector, the Dominican state is an unreliable provider of goods and services such as electricity, water, waste disposal, glass

and packaging materials. Privatization is a key element in stimulating private investment and trading.

USAID's historical support for NGOs in such key areas as international investment promotion (IPC) and agribusiness (JACC) serves as the Mission's stepping stone to a more broadly based trade and investment program. USAID will reorganize and consolidate its portfolio in agriculture and manufacturing and explore new avenues to support private initiatives in this area. Because of its early innovative work in the private sector, especially with agribusiness and free trade zone promotion, USAID will be able to make a swift transition to a program focused on facilitating and supporting the efforts of Dominican and U.S. private investors -- as well as NGOs -- to identify and act upon the most potentially profitable targets of opportunity in trade and investment.

Strategy: The basis of USAID's new private investment and trade approach is to seek to expand the successful FTZ model to the entire economy by:

- Supporting GODR efforts to improve the policy and regulatory environment for private investment and trade, particularly in the area of tariffs, debt conversion and privatization.
- Working with private Dominican and U.S. organizations to improve exporter and investor services and enhance linkages among overseas and domestic investors and producers. Economic sectors and sub-sectors of emphasis will be determined by policy environment within the sector and the needs of the sector.
- Continuing efforts to assist the GODR in the design and implementation of an effective debt conversion program which will provide for reasonable and appropriate debt relief while at the same time increasing resources available for investment.
- Working closely with other interested agencies of the U.S. Government and with private U.S. investors and trade groups in establishing a common

understanding and approach to increased private investment and trade in the Dominican Republic.

- Supporting Dominican efforts to create intra-regional trade relationships in manufacturing and agriculture, largely through private organizations.
- Continuing current support to GODR efforts to privatize state-owned enterprises managed by CORDE and to privatize portions of the energy sector.

It is important to understand that, while the sub-sector addressed by objectives one and two span the entire spectrum of the economy, focus will be exclusively on supporting the process of analysis, understanding and consensus building which will assure that reforms are sustained once begun.

LAC SUB-OBJECTIVE:

ENCOURAGE ACCELERATED OPPORTUNITIES FOR INCREASED PARTICIPATION IN THE ECONOMY BY THE HISTORICALLY DISADVANTAGED.

To broaden the base of economic growth and promote participation, the Mission has developed a two-pronged approach. First, USAID will promote more direct linkages to the economic system by promoting employment, and linkages between resulting small savers and investors to the money economy. Second, the Mission will address critical human resource constraints to growth in the Dominican Republic, primarily through improved education, nutrition, health and family planning among the disadvantaged and poor.

USAID STRATEGIC OBJECTIVE NO. 3:

Expand participation in productive, private income-generating activities by segments of the society previously isolated from the economic system.

<u>Program Performance Targets</u>	1991	1996
Direct employment generated by		
A.I.D. program -Total	29,500	41,600
% women	67%	67%
Loans to Micro/Small		
enterprises (# firms/farms)	12,000	32,000
-value of loans (\$000)	6,000	22,400

Rationale: Growth in productive employment and incomes is the most efficient and self-sustaining way of improving the well-being of lower income groups and broadening their participation in the economy. The recent evaluation of the impact of the Mission's private sector growth strategy showed 108,700 net jobs added to the economy as a direct or indirect result of USAID programs over the last five years, and highlighted important improvements in the quality of life among the newly employed.

Broadening the base of small firms active in the economy also is a critical element to the Mission's economic and democratic objectives. Expanded participation by Dominicans in the economic system through saving and investing complements the Mission's strategy of increased investment. Such expanded participation in the system broadens popular support and informs debate on the importance of a private sector led growth strategy in the Dominican Republic. Broader participation will also strengthen both the economic and political stability of the system.

Strategy: The Mission will continue to promote economic growth by maximizing employment and income opportunities for Dominican workers by:

- Supporting private organizations promoting investment and trade in areas which maximize productive employment, such as export-oriented and domestic manufacturing, agribusiness, non-traditional agricultural, and micro-enterprises.
- Supporting the establishment and strengthening of innovative, sustainable financial institutions which make sizable amounts of financial resources available to the micro and small enterprise sector;
- Working with private sector employers to directly address critical constraints faced by potential workers including development of technical training and on-site maternal and child health services.

USAID STRATEGIC OBJECTIVE NO. 4:

Address critical socio-economic constraints to growth through improved educational opportunities and family health by supporting non-governmental programs in these areas.

<u>Program Performance Targets</u>	1991	1996
No. of students benefitting		
from improved systems	0	200,000
No. of participants receiving		
training abroad	160	300
(% women)	40%	40%
Child vaccination coverage	78%	80%
Infant Mortality Rate (IMR)	59%	45%
Contraception prevalence	56%	60%
AIDS risk: percent using protection	42%	50%

Rationale: A main tenet of USAID's strategy is that through the employment and income generation effects of improved economic performance, poorer segments of the Dominican population will be better able to address educational, nutritional, health and housing needs in a manner most suitable to their individual situation. However, the relative large size of

the Dominican Republic's poor population compared to the country's resources, the vital importance of certain socio-economic elements to development, and the effects of the worsening economic situation require a more immediate response. The Dominican government faces serious constraints in addressing social problems as it struggles with an inefficient civil service, lack of human resources and crippling budget deficits.

Over the last twenty-five years, the Dominican Republic has witnessed the establishment and growth of numerous, private, non-profit local institutions whose purpose it is to work for the social and economic development of the country. It is estimated that there are about 400 such organizations in the country today. These organizations have the advantage of being able to orient their activities to local interests and to be responsive to their members, thereby maximizing the impact of their efforts. Besides the NGOs, the private commercial sector also has a variety of health and education delivery systems in place which could provide the basis for expanded, low-cost services to the poorer population groups.

Educational Opportunities

Income and access to the economic system as well as the existence of an informed electorate, are determined to a great extent by investments in education. The Dominican Republic cannot fulfill its developmental potential without significant and immediate improvements in education. Areas of greatest growth in the economy -- financial services, tourism and free trade zones -- require a sophisticated labor pool and strong management capabilities. Areas of major concern are primary education and vocational training. While total access to a primary education is not a reality, the most pressing problem in the area of primary education is the poor quality of education.

Health

Healthy children constitute the basis for a productive work force in a dynamic and growing economy. Assessments have documented the close correlation between health status of mothers and that of their children. However, health conditions of poor children and mothers are not improving and the economic adjustments currently underway and yet to

come will further negatively impact on health status. With 3,700 cases of AIDS and a conservative estimate of 25,000 sero-positive individuals, AIDS has now become a life-threatening condition to a significant number of Dominicans. And while consumption of drugs in the Dominican Republic has not reached the point of serious concern, the continuing threat that the problem could increase due to external influence signifies that drug awareness and use prevention will increasingly require attention by concerned Dominicans.

Strategy: Improvements in the public provision of social services is a slow process which will extend well beyond the next five years. Therefore, over the CDSS period, support to non-governmental organizations providing social services is a key element to the Mission's goal of assuring that increased jobs and income translate into increased social well-being.

To achieve improvements in education opportunities and health status, the Mission will support efforts to:

- develop the institutional capacity of NGOs, PVOs and private providers to increasingly respond to the health and educational needs of families as their incomes increase and to undertake activities to foster and nurture strong families and cohesive local communities as the base for improved health and education;
- establish linkages among NGOs, PVOs, private providers, international donors, and where appropriate, relevant GODR ministries, to address policy and institutional constraints facing the education and health sectors -- including the long-term issues of private sector performance;
- in primary education, strengthen in-service training for teachers and school administrators; establish achievement testing; and develop and improve textbooks and other teaching materials.
- in health delivery, expand family planning services, reduce currently high infant mortality rates; alleviate malnutrition; and address water and sanitation problems;

- inform the public at large and specific high risk groups of the dangers of AIDS, its modes of transmission and where to seek information and competent diagnostic services.
- develop a public education campaign to inform Dominicans, and especially Dominican youth, of the dangers of the use of illicit drugs.
- address key bottlenecks of technical and managerial training, and provide selected short and long term training in keeping with other program objectives. (Areas of focus will be economic and public administration, business, agriculture, the environment, health and nutrition.)

LAC SUB-OBJECTIVE:

ENCOURAGE PRESERVATION AND SUSTAINABLE USE OF THE NATURAL RESOURCE BASE.

USAID STRATEGIC OBJECTIVE NO. 5:

Reduce legislative, regulatory and institutional impediments to rational management of natural resources by public and private sectors to assure long-term sustainability.

<u>Program Performance Target</u>	1991	1996
Area reforested (% of total land)	10%	15%
No. of parks working effectively	3	8
Coastal zones in improvement projects	1	5
Products rejected for chemical harm	18%	12%
Water management program in place	0	6

Rationale: Recent Mission assessments indicate great need for emphasis on the environment, bio-diversity and natural resources. Since completion of the 1980 environmental profile, the overall environmental situation has deteriorated. Deforestation has continued at an alarming rate. Pesticide contamination is such a concern that agroindustries are establishing their own private sector residue laboratory. Deterioration

of water quality is growing due to expanded urban, tourist and industrial activity along the coasts.

Strategy: USAID's environmental strategy will emphasize the four greatest areas of environmental concern: forestry, conservation and protection of national parks, integrated pest management and water and watershed management. Because the natural resource base is critical to success of a sustained economic growth program, this strategic objective will permeate all USAID activities as a cross-cutting concern. To assure integration of programs and projects, an environmental office will be established. In its approach, USAID will:

- develop the capacity within the private sector, particularly among NGOs and PVOs, to analyze environmental issues and to promote related public policy reforms;
- strengthen ties with U.S. environmental interest groups and assist them in expanding their support for similar groups in the Dominican Republic;
- support community-based programs designed and managed by Dominican NGOs to promote the conservation and sustainable use of natural resources;
- encourage and support initiatives by the business community to address adverse environmental effects of their activities and to adhere to the sustainable use of natural resources.

B. LAC OBJECTIVE NO. 2:

DEVELOPMENT/STRENGTHENING OF A STABLE DEMOCRATIC SOCIETY.

The Dominican Republic has been categorized as a "developing democracy", as opposed to the lower category, "democracies under siege" or a higher category "fully functioning democracies." It does not have the stable and developed democratic attitudes toward government and politics and the developed avenues for popular opinion and pressure that characterize the fully functioning democracies of the hemisphere. With its weak institutional

base, Dominican democracy remains vulnerable to reversals of the accomplishments already achieved.

The development and strengthening of Dominican democracy will contribute to the success of the macroeconomic, trade, investment and environmental policy reforms described as essential to the first five objectives of the CDSS. There is a need to encourage greater citizen participation and involvement in the process of government. On the one hand, Dominicans must come to believe that it is more productive to work through rather than around the system to promote lasting reforms. On the other hand, reforms that have been designed and adopted based on extensive prior debate should have much broader support within Dominican society. This will be vital to managing the difficult adjustments that necessarily follow any process of reform.

Having arrived at the laws and policies through an open and participatory process, it is equally important that they be implemented impartially and efficiently. Investors, for example, look for clear and consistent "rules of the game". The Dominican Republic must make important strides in the next years toward a more open and participatory process of government and toward the more efficient and impartial conduct of government.

To support the objective of promoting stable democratic societies, A.I.D. has proposed two broad objectives to guide USAID strategy:

- Promoting democratic values among citizens through greater participation and debate in key areas.
- Strengthening government institutions to be more responsive to citizens.

In both objectives, USAID's activities will be directed exclusively at developing analyses, understanding and consensus needed for democratic reform; support is not contemplated to actually support specific reform projects. Thus, while the objectives span a wide array of areas, the focus will remain highly concentrated on fostering the process. Activities will be demand-driven.

Within the two LAC sub-objectives, USAID has crafted two strategic objectives for the CDSS period:

USAID STRATEGIC OBJECTIVE NO. 6:

Support Dominican initiatives to facilitate participation and encourage involvement by citizens in the process of government.

Program Performance Target	1991	1996
Public legislative/administrative		
hearings on proposed reforms	0	6
Public debate of proposed reforms		
initiated by NGOs	2	8
No of community-based PVO projects	0	33

Rationale: While Dominicans enjoy relatively open and free elections on a regular basis, they do not yet enjoy a corresponding high level of participation in government between elections. The considerable freedoms of expression and assembly do not yet translate readily into public influence on major policies or on the decisions of elected officials.

Key to establishing the linkages between freedom of speech and government responsiveness to public will is the prior public review and debate of proposed laws and public policies. This can be done at the initiative of official institutions, e.g., the legislature or government regulatory bodies. Debate can also occur at the initiative of non-governmental organizations, as the NGO EDUCA is doing with the proposed reform of the national education law. Closely related is the need to move the political culture to expect and demand responsibility and accountability of elected officials and government at all levels. Greater decentralization of authority to local governments facilitates participation by citizens in determining the scope and quality of services they need on a daily basis. The perception

USAID's relationship with PVOs that work at the community level takes on particular significance in promoting grass-roots democracy. PVOs which provide services, such as in health, education and community development provide a living example of how citizens can participate in the design and implementation of programs. PVOs can also establish the concept of responsibility on the part of beneficiaries in managing such activities.

Strategy. Over the CDSS period, USAID will:

- promote an open and transparent legislative and public policy-making process based on extensive prior review and discussion of alternative solutions, adopting such a process as the norm for policy reform efforts which receive assistance from A.I.D.;
- assist in the development of a neutral and credible public opinion survey capability to trace the evolution of democratic attitudes and values in Dominican society;
- encourage and support the teaching of democratic values through the primary education system;
- support measures, such as legal and regulatory reform and training, which encourage and enable legislators, local officials and local governments to respond to needs and priorities of constituents;
- work with PVOs and NGOs to expand beneficiary participation in the design and implementation of their programs.

USAID STRATEGIC OBJECTIVE NO. 7:

Promote improved efficiency and impartiality of government institutions.

<u>Program Performance Targets</u>	1991	1996
No. of Courses for Legislators, Judges:	1	6
Reform of the Electoral Code	0	1

Rationale: As procedures of government become more open and participatory, the institutions of democratic governance must be strengthened to enhance their impartiality, fairness and efficiency. Institutions such as the legislature and the judiciary or electoral and monetary authorities must become independent not only in practice but also in the perception of the public at large.

The ability and willingness of citizens, acting individually or through interest groups, to influence policy reforms becomes far less meaningful in the absence of an efficient and impartial implementation of those reforms. Electoral reform is impaired by the inability to make ballots and polling places readily accessible and if results are not counted and reported quickly. Fiscal reform aimed at constraining public expenditures takes real meaning in the ability of the executive branch to formulate a budget and of the legislative branch to review and approve it in a timely fashion. Tax or tariff reforms must be accompanied by the efficient implementation of the new schedules. Finally, citizens and the government must feel that disputes arising in any and all of these areas will be addressed by an independent judiciary.

Of all the objectives in the proposed CDSS, this is the one which will have the longest time frame. What is realistic within the five-year period covered by the CDSS is to establish a lasting basis for some of the broad changes, such as the reform of the civil service, while looking for opportunities to make improvements in very specific areas such as the conduct of elections or the administration of the tariff regime.

Strategy: Over the CDSS period, USAID will:

- support public and private initiatives to adopt a comprehensive civil service reform act, while encouraging other donors to provide assistance to implement the reform;
- provide training and technical support through Dominican non-governmental organizations to the legislature and to the judicial system to improve their operations;

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- provide training and technical support through Dominican non-governmental organizations to the legislature and to the judicial system to improve their operations;

- assist broadly-based efforts by Dominicans to develop and implement measures to improve the efficiency and timeliness of the conduct of the next general elections in 1994, working closely with CAPEL;
- support efforts to improve public sector performance, but only in narrowly-focused areas which are closely related to other objectives, such as privatization of energy or debt conversion.

LAC OBJECTIVE NO 3:

ATTAINMENT OF EFFECTIVE REGIONAL COOPERATION.

The Dominican Republic is a solid, constitutional Democracy which supports U.S. objectives of promoting democratic governments throughout the Western Hemisphere. The country also enjoys a private sector oriented open economy and shares strong interests in free trade and investment in the area. These strong commonalities with the United States and other countries in the region provide the basis for specific areas of regional cooperation.

USAID has identified three areas of vital hemispheric cooperation: 1) intra-regional trade; 2) the AIDS epidemic; and 3) illicit drug use. Because these three issues are well integrated into the Mission 's other strategic objectives, they are treated only in that section.

IV. RESOURCES AND OPERATIONAL STRATEGY.

1. Program Resources

The Mission is proposing reduced levels in 1991 and then a return, beginning in FY 1992, to levels more in keeping with past experience in DA, ESF and PL 480 . The Mission 's assessment of resource requirements is based on three tenets. First, the GODR will put in place and implement faithfully an internationally sanctioned economic stabilization and debt restructuring program. Second, as one of the poorest countries in the hemisphere, the Dominican Republic will need concessional financing to complement its private investment program. Third, the Dominican Republic will continue to play a positive role in support of U.S. objectives in the Western Hemisphere.

The following two summary tables outline the levels and types of U.S. assistance the Mission proposes and provides the basic underlying assumptions for these.

	90	91	92	93	94	95
DA	9,870	13,000	19,000	19,000	19,000	19,000
ESF	0	0	40,000	40,000	20,000	0
PL-						
480 II	3,750	3,750	5,000	5,000	5,000	5,000
T'L	13,620	16,750	64,000	64,000	44,000	24,000

2. Operational Strategy

While the Mission has proposed a program which reflects the higher levels of resources of the past, it is clear that diminishing resources to fund operating expenses will require

changes in operational style. Thus, over the CDSS period, the Mission will continue its aggressive consolidation program begun in FY 1988.

- Poorly performing projects or those marginal to the new goals and objectives will be de-obligated or not extended beyond their PACD.
- New starts will be designed with larger management units.
- Mission activities will focus on program level impact; where appropriate, projects with the same goal will be combined.
- New project design will minimize commodity procurement and will seek to base disbursements on completed outputs rather than on individual inputs.
- Small activities, vital to Mission objectives, will be approved only if there is an implementation mechanism in place that is not Mission labor-intensive.
- Host Country owned local currency for which USAID has joint programming responsibility will be approved only for counterpart for USAID projects and on rare occasions for projects of other donors. The number of local currency activities which are not associated as counterpart for DA projects will be reduced from a high of 183 in FY 1988 to 3 in FY 1991 and remain at that level.
- Mission dollar-funded management units will have decreased from 37 in FY 1988 to 19 in FY 1992 and 13 thereafter.
- Consolidation of management units will be matched by a consolidation in Mission organizational units. Mission staffing will then be reduced to reflect the new management realities. USDH will decrease from the historical average of 22 to 16 by FY 1992.
- USAID will actively seek local hire employees in appropriate positions previously held by overseas hire.
- USAID will actively seek to consolidate office space in no more than two office buildings over the CDSS period.

TABLE II**USAID/DOMINICAN REPUBLIC STAFFING LEVELS (FTE)**

	1992	1993	1994	1995	1996
USDH	16.0	16.0	16.0	16.0	16.0
US/TCN PSC	4.5	3.5	3.5	1.5	1.5
FNDH	28.0	28.0	28.0	28.0	28.0
FN PSC	56.9	54.9	51.6	49.6	49.6
TOTALS	105.4	102.4	99.1	95.1	95.1

TABLE III**USAID/DOMINICAN REPUBLIC OPERATING EXPENSE LEVELS**

	1992	1993	1994	1995	1996
Dollar	1791.7	2856.5	2820.0	2963.7	3111.5
LC Trust Fund	982.1	0.0	0.0	0.0	0.0
TOTAL	2773.8	2856.5	2820.0	2963.7	3111.5

STRATEGIC OBJ. NO. 1: BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH

	<u>91</u>	<u>92</u>	<u>93</u>	<u>94</u>	<u>95</u>
Policy Environment					
DA:	1,193	1,755	2,960	3,210	2,460
ESF:	0	40,000	40,000	20,000	0
Priv. Sector Resp.	3,034	3,119	4,331	5,136	5,420
Incr'd Part.	3,521	5,728	7,230	6,113	6,183
Envir. Protec'n	949	863	1,968	2,076	2,888
<u>TOTAL</u>	8,697	51,465	56,489	36,535	16,951
% Total Program	87	97	96	95	91

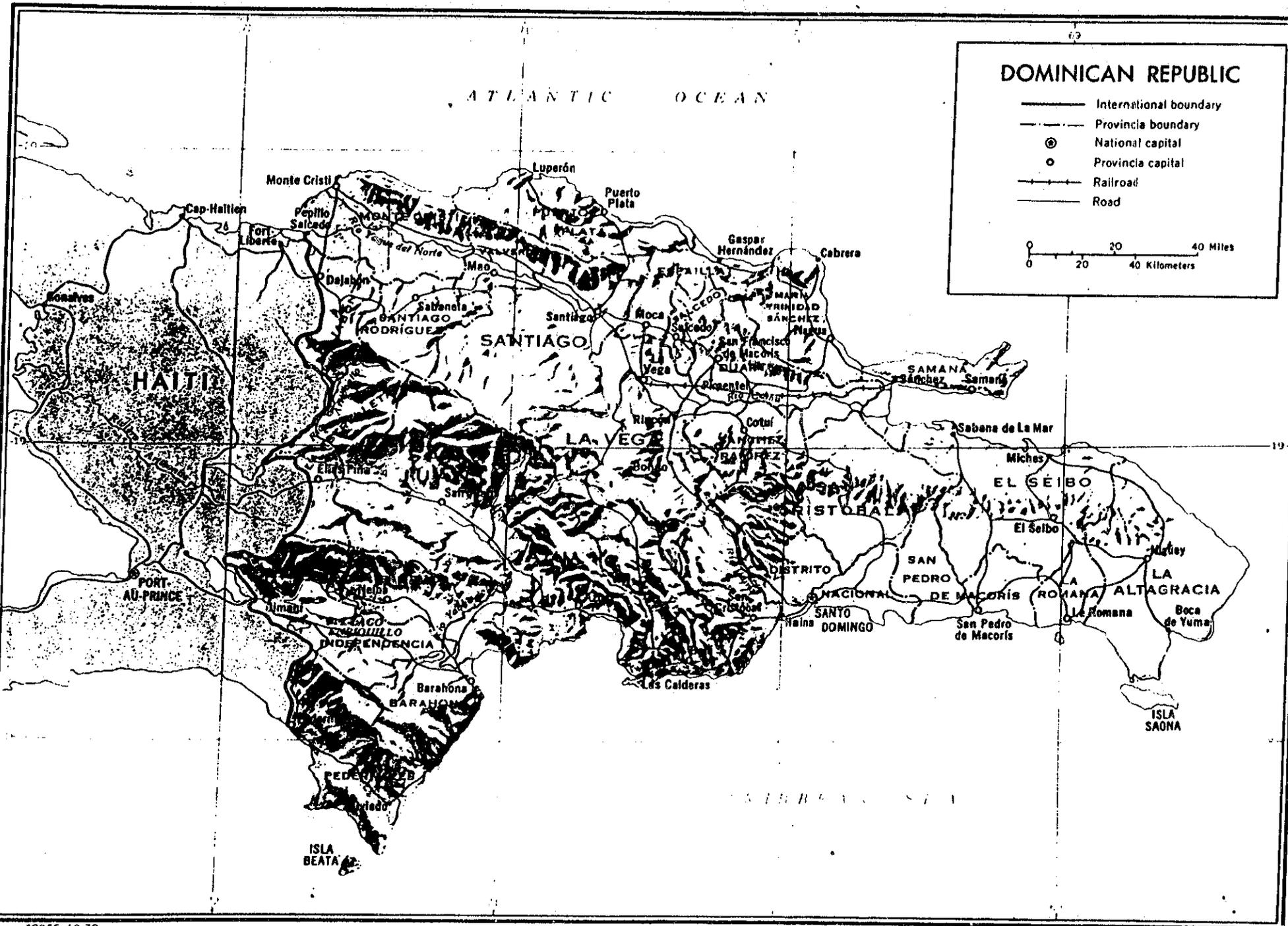
STRATEGIC OBJ. NO. 2: STRENGTHEN STABLE DEMOCRATIC SOCIETY

	<u>91</u>	<u>92</u>	<u>93</u>	<u>94</u>	<u>95</u>
Institutions					
DA	0	375	625	500	500
Processes					
DA	1,272	1,160	1,424	1,447	1,162
<u>TOTAL</u>	1,272	1,535	2,049	1,947	1,662
% total prgrm	13	3	4	5	9

DOMINICAN REPUBLIC

- International boundary
- - - - Provincia boundary
- ⊙ National capital
- Provincia capital
- +—+—+—+—+—+ Railroad
- Road

0 20 40 Miles
0 20 40 Kilometers



ANNEX B

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