9/3/91

AGENCY FOR INTERNATIONAL DEVELOPMENT
Santo Domingo, Dominican Republic

UNITED STATES GOVERNMENT
MEMORANDUM

Date: January 8, 1993

From: Larry K. Laird, TIO Chief

To: Project Committee and The Files

Subject: Project Assistance Completion Report for the Export and Investment Promotion Project (517-0190)

I. SUMMARY PROJECT HISTORY

A. Introduction

This project was authorized on August 28, 1985, as a Grant in the amount of $6.0 million to the Investment Promotion Council (IPC), a Commission established by Presidential Decree in 1982 to mobilize private sector resources to seek new foreign investment. The purpose of the project was to strengthen the Investment Promotion Council as a mechanism to coordinate public and private efforts for the promotion and development of investment and export opportunities in the Dominican Republic (D.R.). Among the special provisions in the Grant Agreement, the IPC was instructed to furnish A.I.D., prior to a disbursement for year three [1988], a plan to obtain additional and permanent sources of revenue for salary, operational and program expenses.

The authorization was amended on January 31, 1990. It changed the Grant to a Cooperative Agreement, extended the PACD from February 1, 1990 to December 31, 1992, increased the level of A.I.D. funding to $10.6 million, and recast the project purpose, "to establish the IPC as an effective mechanism for promoting investment in, and exports from the Dominican Republic, and for coordinating and facilitating efforts of other public and private sector organizations with related objectives."

The project was initiated with a GODR counterpart contribution of RD$1.0 million. The counterpart contribution was reprogrammed twelve times, increasing the level to a total of RD$18.8 million. The original Grant Agreement required that the IPC commit itself to obtaining additional and permanent sources of revenue. The Cooperative Agreement (CA) of 1990 quantified that requirement and committed the IPC to generate the local currency equivalent of US$764,000 from private sector sources over the three year period, 1990 through 1992.

The IPC was unable to meet its fund generation commitments for the latter half of 1991, and after an intensive fund raising campaign, acknowledged that it would be unable to do so in 1992. The Council's Board of Directors then requested early termination of the project. The USAID concurred with the IPC request, and the project was terminated on May 15, 1992.

As of the date of project termination, A.I.D. expenditures totalled US$7,766,467, and counterpart and IPC contributions totalled RD$16,610,679. Planned and actual expenditures by source of funding are as follows:

Source	Planned		Actual	
	US$	RD$	US$	RD$
USAID	10,600,00		7,766,467	
Counterpart		18,025,619		14,993,319
IPC		4,810,480		1,017,360
	10,600,000	22,836,099	7,766,467	16,010,679

During the course of the project, USAID obligations reached $9,819,064. These obligations, listed by date and amounts, are shown in the following tabulation with final fund-expenditures and accruals.

Date	Amount obligated	Total obligation	Total expenditure
08/28/85	$6,600,000	$6,600.000	-
01/31/90	$1,492,064	$8,092,064	-
	$1,727,000	$9,819,064	$7,766,467

B. Rationale and Project Design

The enactment of U.S. legislation permitting duty free entry of goods produced in the nations of the Caribbean Basin offered an opportunity to exploit more fully the competitive advantage of the Dominican Republic. The country had already demonstrated its apparent competitive advantage through a small number of enterprises operating in Free Zones. In cognizance of the high export growth potential which these circumstances provided, the project was designed to carry out three functions: (1) improve the Dominican business climate, contributing to domestic and foreign investment in the export sector; (2) carry out a comprehensive program to attract and service foreign investors; and (3) strengthen the capacity of the country to promote, produce and sell non-traditional exportable goods.

The project envisaged strengthening and "privatizing " an existing, public-sector organization, the Investment Promotion Council, thus enabling it to better function as the lead institution within a network of other, existing private sector institutions (e.g. American Chamber of Commerce, Dominican Chamber of Commerce and Industry, Association of Dominican Exporters, Dominican Association of Foreign Investment Companies, etc). The roles of these institutions vis-à-vis the Investment Promotion Council were to be defined by appropriate agreements, and then, with coordination and modest resources provided by the IPC, these roles were to be carried out as elements of a comprehensive and cohesive program.

C. Implementation

The Investment Promotion Council, established by Presidential Decree in 1982, was selected to implement the project. It had been originally supported by funds provided by the Ministry of Industry and Commerce, and managed under the direction of the Minister, who held the position of Chairman of the Board of Directors. A condition precedent of the Grant Agreement called for conversion of the Commission to a private sector institution. Five months were required to convert the IPC to a not-for-profit foundation, governed by a Board consisting of private sector and government representatives.

However, selection of the private sector members was influenced by the government, and though the IPC had legally become a private institution, it remained dominated by government related interests and procedural norms. The Council's governmental antecedents influenced its organizational structure and administrative practices. Project design had assumed the IPC's Board would function as a policy maker and facilitator. Instead, the President of the Board functioned as Chief Executive Officer and the Board occupied itself with programmatic and administrative details, frequently of a trivial nature. The administrative and financial practices of the new IPC were derived from those of the Ministry of Industry and Commerce. These were not consistent with the provisions of the grant agreement, thus causing periodic suspension of A.I.D. disbursements and consequent programmatic delays. Project guidance from USAID produced only piece-meal adjustments in the administrative practices of the IPC until late 1991, when in response to a suspension of A.I.D. and counterpart funding, the Council seriously addressed the remaining compliance issues.

The USAID carried out almost continuous negotiations with IPC leaders, strongly encouraging them to: 1) adjust the composition of the Board of Directors to make it more representative of the private sector; (2) clarify the role of the Board; (3) transfer operational control to the hands of a qualified executive officer; (4) broaden their base of financial support; and (5) dramatically increase their membership, which had become static. It became increasingly evident that the IPC had made little progress in meeting self-sufficiency goals as called for in the Grant Agreement.

Negotiations culminated in an amendment to the Grant Agreement in January, 1990. The amendment converted the grant to a Cooperative Agreement, formalized the structure and role of the Board and the role and authority of the Executive Director, imposed more stringent administrative and financial requirements on IPC management, and committed the IPC to generate increasing amounts of funds in each of the three successive years preceding a new PACD of December 31, 1992. The originally envisaged role of the IPC as a lightly staffed (4 to 5 persons), coordinating, policy-impacting foundation was re-asserted. The amendment increased authorized A.I.D. funding to $10.6 million, raised the obligation level to $9,819,064, and established a budget for use of D.A., counterpart, and IPC self-generated funds for the three year period, 1990-1992.

The organizational and administrative problems that characterized the IPC during the project's initial years distracted the organization from its intended role. Although it made several sub-grants to private-public sector institutions to facilitate export promotion related functions, and did obtain cooperation of other private sector institutions for specific aspects of the promotion process, it increasingly became the sole implementation agency. With the exception of the Association of Free Zones (ADOZONA), the principal beneficiary of its export promotion efforts, and the International Executive Service Corps (IESC), a major resource in promotion and productivity improvement, IPC relationships with other institutions were of an ad hoc nature.

Another impact occasioned by the IPC's internal problems was the delay in obtaining long-term technical assistance until April 1987. Eventually, a competent and dedicated executive director with recognized analytical, administrative and negotiating skills was hired, and the IPC recruited and trained competent staff, established promotional strategies and work plans, introduced a management information system, and began to execute a program to attract investors, increase exports and generate foreign exchange and employment. Perhaps because many appropriate free market and infrastructure conditions already existed in the Dominican Free Zones, thus providing an easily achieved target, promotion activities carried out with ADOZONA were increasingly a major focus of IPC resources.

Aware that similar conditions would have to be created outside the Free Zones, the IPC increasingly dedicated itself to the tasks of defining policy issues, educating the community and lobbying for export enhancing legislation. Based in large part upon the executive director's previous contacts and prior reputation for solid analysis and effective promotion, the IPC received grants from the IBRD, the UNDP, the Government of Japan, and the Government of the Republic of China, to carry out policy studies and investigations of procedures and regulations which affect the performance of the export sector.

Eventually, the IPC began to address issues which would affect the country's competitive position in an increasingly international free trade environment. In its final annual plan, the IPC elaborated a strategy which responded to predictable international developments and perceived domestic obstacles. The plan was predicated upon the ability of the IPC to fulfill its self-sufficiency commitments and to demonstrate wide-spread support for its program.

These assumptions proved to be invalid and the IPC requested termination of the project. In the year prior to termination, it was apparent that ADOZONA members, collectively or individually, were increasing their promotion efforts and that the promotion role of the IPC could be reduced and eventually eliminated. It was also clear that free market policy issues were increasingly being addressed by other, more effective institutions. The IPC and its Board of Directors were simply unable to effectively implement a very simple and limited institutional role for the IPC, establishing it as a forum where industrial, trade, commercial and investment interests could come together, determine their common interests, and jointly channel their own and donated resources to achieve goals which would not only benefit their own interests, but also those of the nation at large.

The IPC and the Mission jointly concluded that the project had served its purpose to the degree possible and that its continuation to the planned PACD would have, at best, marginal benefits. The USAID therefore concurred with the IPC's request for termination.

II. DELIVERY OF PROJECT INPUTS

A. Technical Assistance

Budgeted	Actual
$5,218,391	$4,463,251

Of the total amount budgeted, $650,000 was budgeted for contracting the services of the Chicago Association of Industry and Commerce through an A.I.D. Cooperative Agreement. The Association maintained a local representative in the D.R. to work with the IPC and other organizations to follow-up on trade and investment leads.

The bulk of TA funding, $3,786,054, was budgeted for 210 person months of long term services from the Stanford Research Institute (SRI) and for the purchase of hardware and software for a management information system. Short-term contracts which addressed specific issues accounted for $199,421 of the TA budget. A budgeted amount of $682,916 remained un-earmarked due to the early termination of the Project. Of this amount $100,000 was reprogrammed to termination costs.

B. Sub-Grants

Budgeted	Actual
$945,900	$836,455

The bulk of the funds budgeted and expended were utilized to purchase commodities for organizations which were involved with one or more aspects of investment and export promotion or investor services.

A grant of $60,000 to the International Executive Service Corps (IESC) was budgeted to provide trade and investment services which that organization provided directly to the IPC. Disbursements to the IESC were limited to about $20,000 due to the early termination of the project. Governmental agencies also received computer networks (or components) to remedy weaknesses in their information and service systems.

C. IPC Program

Budgeted	Actual
$2,250,198	$1,662,690

Funds budgeted and expended for IPC program purposes were utilized to cover costs associated with investment and export promotion activities, and servicing foreign investors and buyers in the D.R.

D. Administration

Budgeted	Actual
$275,000	$83,245

Major administrative costs of the IPC were funded by counterpart contributions. A.I.D. funds were used for the purchase of office equipment and for adaptation of the accounting and material control system to a computerized system. The computerized management information system was utilized for administration as well as programmatic purposes.

E. Evaluation and Audits

Budgeted	Actual
$204,625	$127,099

As a condition precedent to disbursement, the IPC was required to demonstrate that it had the capacity to administer A.I.D provided funding in accordance with acceptable accounting practices. An evaluation was conducted by a local auditing firm at a cost of $23,226. Subsequently a financial review was conducted by another local auditing firm in 1987 at a cost of $9,862, followed in 1990 by a full scale audit, conducted by Price Waterhouse, at a cost of $37,575. A close-out audit was contracted at a cost of $25,623.

During 1988, an international consulting firm conducted a design and performance evaluation of the IPC at a cost of $20,903. Recommendations by the firm were included in subsequent project adjustments.

F. Termination Costs

Budgeted	Actual
RD$118,300	RD$68,601

This account line was established to permit allocation and disbursement of funds associated with project close-out.

III. COUNTERPART CONTRIBUTIONS

Planned	Actual
$18,800,000	$14,993,319

At the outset of the project, RD$1,000,000 of counterpart administered by the Technical Secretariat of the Presidency was programmed for IPC administrative and program purposes. The funding levels were reprogrammed twelve times, increasing the total level to RD$18,800,000.

IV PROJECT ACCOMPLISHMENTS

Planned	Actual
1. IPC competitively staffed with professionals capable of carrying out all institutional functions.	Highly competent and motivated staff carrying out many functions effectively.
2. IPC Board of Directors will reflect and represent the significant public and private sector constituencies served by the Council.	A Board consisting of four public sector members, three private members and representatives of five private sector organizations, provides adequate, though not ideal constituency representation.
3. IPC providing services to and receiving financial support from 2 to 5 international donor agencies per year.	Grants for policy and administrative reform studies were provided by the IBRD, the Governments of Japan and the Republic of China and by the UNDP.
4. IPC proposing new and/or modified legislation concerning investment and exports.	Modification in laws affecting the operations of Free Zones and non-Free Zones firms with export potential were proposed by the IPC and partially implemented by the GODR.
5. IPC establishing contact with at least 500 potential investors, and from these inducing at least 150 firms to make visits to the D.R. each year. Induce the establishment of about 17 new plants in the D.R. each year with resultant generation of 5,000 new jobs (ratio 1:300).	IPC was able to contact about 4,000 firms and induced 150 of these to invest a total of $120.0 million in the D.R. Over 28,000 jobs were directly generated (ratio 1:187).
6. The IPC will arrange 50-70 export production contracts per year with an annual value of $2.0 million, and from these generate at least 600 person/years of employment.	The IPC arranged export contracts with a total value of $14.9 million over the life of the project. Approximately 5,500 jobs were generated.

V. PROGRESS TOWARD ACHIEVEMENT OF PROJECT PURPOSE

The purpose of the Project Amendment was to "to establish the IPC as an effective mechanism for promoting investment in, and exports from the Dominican Republic, and for coordinating and facilitating efforts of other public and private sector organizations with related objectives."

The Project was highly successful in making the IPC into an effective agent for improvement of the Dominican investment climate, for promotion of investment and for improved investor and exporter services. Even in activity areas which were only marginally responsive to IPC initiative, e.g., customs services, the heightened awareness of problems brought about by its intervention and public pronouncements has triggered reform efforts which continue to be pressed forward by the private sector and some elements of the GODR.

As noted in the Section IV, ACCOMPLISHMENTS, the IPC exceeded the more specific, narrow indicators for investment and employment generation. A highly competent technical staff was hired and trained, and the IPC's administrative and financial controls were gradually approaching acceptable standards for an organization of this kind. Despite several adjustments in the composition of the Board of Directors, the IPC remained dominated by a politically influential faction, wedded to an outmoded restrictive philosophy and operational procedure.

VI PROJECT DESIGN ADJUSTMENTS

The project was designed during a period when both A.I.D. and Dominican experts were optimistic regarding the potential for converting a public sector institution into an open forum, where both public and private interests could converge to achieve significant policy reforms which would increase investment, trade and production of non-traditional exports.

The design effort involved expert technical assistance and local participation. In retrospect, and given the largely Dominican determined end of project status, there is really nothing more which could have been provided during the design stage which could have averted the outcome.

VII REQUIREMENT FOR CONTINUED MONITORING

None.

VIII REQUIREMENT FOR FURTHER DATA ANALYSIS OR EVALUATION

None.

IX SUMMARY OF LESSONS LEARNED

1. The project was successful in achieving the more narrowly defined objectives of investment and employment generation, following a mid-course adjustment (Grant Amendment). We attribute these achievements to the ability among USAID and contract personnel to accurately monitor and assess project implementation, and their willingness to continue investing the resources required to make the necessary adjustments to modify an on-going project.

2. It is apparent from this project experience that substantial modifications in attitudes, i.e. the degree by which the accepted ways of thinking can be changed, must be carefully gauged and monitored, especially where these modifications are essential to the achievement of the project purpose and/or such modifications are required among those responsible for implementing the project.

3. When it has become apparent that a project will not and cannot achieve the project purpose, both the USAID and local participants must be able to acknowledge that prior investment in the project can never be utilized as the basis or rationale for continued investment of resources. This project provides a step-by-step implementation guide for the measured and appropriate response by Mission and contract personnel when it is suspected that such a point in project implementation has arrived.

TIO:PACR2nd.IPC

Clearances:

TIO:JMCarroll draft Date 6-29-92
CON:WButtler draft Date 12-15-92
A/PDO:PAmato draft Date 6-23-92
DD:FJConway draft Date 12-18-92
D:RRifenburg RR Date 2/8/93