

PDKAE 513

AID 1120-1 PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 517-K-601
		2. COUNTRY Dominican Republic
		3. CATEGORY Cash Transfer
		4. DATE
5. TO: A/AID, M. Peter McPherson	6. OYB CHANGE NO.	7. FROM: AA/LAC, Victor M. Rivera
8. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 50,000,000		9. OYB INCREASE
10. APPROPRIATION - 72-114/51037 LES485-35517-KG31		11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT
12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD FY1985	14. TRANSACTION ELIGIBILITY DATE Date of Approval
15. COMMODITIES FINANCED		

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: \$50,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: \$50,000,000	Other:

18. SUMMARY DESCRIPTION

The proposed \$50 million grant will provide immediate balance of payments support to the Dominican Republic, help relieve the debt overhang by supporting a long-term rescheduling of debt service requirements and encourage a restructuring of the economy to base it more on market forces.

In addition to satisfying the standard conditions precedent to disbursement involving the submission of a legal opinion and the designation of authorized representatives, the Government of the Dominican Republic (GODR), in a memorandum of understanding required under terms of the Grant Agreement, will agree to implement exchange rate unification and the necessary monetary, fiscal, and pass-through measures associated with such a unification. Unification will occur no later than January 31, 1985 and the associated measures will be implemented simultaneously with or shortly after unification. Specific actions in addition to unification to be undertaken are:

19. CLEARANCES	20. ACTION
LAC/DR: DBJohnson <i>[Signature]</i> 12/21/84	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
LAC/CAR: MDagata <i>[Signature]</i> 12/21/84	<i>[Signature]</i> AUTHORIZED SIGNATURE _____ DATE _____
LAD/DP: JOleson <i>[Signature]</i> 12/20/84	
GC/LAC: RMeighan <i>[Signature]</i> 12/21/84	TITLE _____
M/EM: CChristensen <i>[Signature]</i> 12/24/84	
ARA/ECP: RBeckham <i>[Signature]</i> 12/24/84	
PPC/PDPR: EHullander <i>[Signature]</i> 12/24/84	
AA/PPC: RDerham <i>[Signature]</i>	
GC: HFry <i>[Signature]</i>	
CLASSIFICATION:	

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- Adjusting petroleum prices to reflect the unified exchange rate.
- Appropriate restructuring of electricity tariffs.
- A comprehensive FY-85 public sector budget calculated at the unified exchange rate that does not require net domestic credit financing from the central bank or reserve bank.
- Appropriate monetary measures such as the issuance of market rate stabilization bonds, at least partial deregulation of interest rates, and a ceiling on reserve bank reserve deficiencies.

The GODR will also agree to covenants pertaining to:

- 1) the importation of spare parts, capital goods and industrial and agricultural inputs from the United States in an amount at least equivalent to \$50 million within a period not to exceed one year from initial disbursement of the grant.
- 2) Preparation of a memorandum of understanding on procedures for programming and disbursing the local currency counterpart of the ESF, and establishment of a special account for local currency counterpart.

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DOMINICAN REPUBLIC
1984 SUPPLEMENTAL/FY 1985
ESF PAAD
(\$95.0 MILLION)

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I. BACKGROUND

THE DOMINICAN REPUBLIC CONTINUES TO FACE A SERIOUS ECONOMIC CRISIS THAT THREATENS THE ECONOMIC AND POLITICAL STABILITY OF THE YOUNG, STILL FRAGILE, DEMOCRACY. THE ECONOMY HAS BEEN HARD HIT BY SEVERAL ADVERSE INTERNATIONAL AND DOMESTIC EVENTS WHICH HAVE CONTRIBUTED TO BOTH BALANCE OF PAYMENTS AND FISCAL CRISES. EXTERNALLY, THE PROBLEM OF TRADE IMBALANCES BECAME INCREASINGLY SEVERE WITH THE DOUBLING OF OIL PRICES IN 1979-1980, AND WITH DEPRESSED PRICES FOR TRADITIONAL EXPORTS SUCH AS SUGAR AND GOLD. INTERNALLY, THE COUNTRY HAS NOT BEEN ABLE TO ADJUST OPPORTUNELY TO THE REALITIES OF THE INTERNATIONAL ECONOMIC SITUATION AND TO ADAPT SPENDING TO INCOME. INCREASINGLY HIGH LEVELS OF PUBLIC SPENDING HAVE NOT BEEN SUPPORTED BY AN ADEQUATE REVENUE BASE AND PUBLIC SECTOR DEFICITS HAVE BEEN RAPIDLY MOUNTING; A MAJOR CAUSE OF THIS HAS BEEN LOSSES INCURRED BY PUBLIC SECTOR ENTERPRISES. THE DOMINICAN REPUBLIC ALSO HAS A STRUCTURAL IMBALANCE IN THE PRIVATE IMPORT SUBSTITUTION INDUSTRY, INHIBITING THE GROWTH OF EXPORTS NEEDED TO GENERATE VITAL FOREIGN EXCHANGE. UNECONOMIC RELATIVE PRICES, DISTORTED BY INAPPROPRIATE AND UNREALISTIC EXCHANGE RATES, TRADE POLICIES FAVORING HIGH COST IMPORT SUBSTITUTION AND DISCRIMINATING AGAINST EXPORTS, AND OTHER STRUCTURAL INEFFICIENCIES ARE AT THE ROOT OF THE INABILITY OF THE DOMINICAN REPUBLIC TO ADJUST ADEQUATELY TO CHANGING CIRCUMSTANCES.

AS OF DECEMBER 1984, THE DOMINICAN REPUBLIC'S EXTERNAL LIABILITIES EXCEEDED US DOLS. 3 BILLION INCLUDING ACCUMULATED DEBT ARREARAGES; THAT IS, ROUGHLY THE SAME AS TOTAL 1983 GDP EVALUATED AT TODAY'S MARKET EXCHANGE RATE. THE TOTAL DEBT IS EQUIVALENT TO MORE THAN 3 YEARS OF ESTIMATED 1984 MERCHANDISE EXPORT PROCEEDS. DEBT SERVICE REQUIREMENTS FOR 1984 TOTAL US DOLS. 729 MILLION OF WHICH AMORTIZATION PAYMENTS EQUAL APPROXIMATELY US DOLS. 400 MILLION. BALANCE OF PAYMENTS DIFFICULTIES HAVE WORSENERD IN RECENT MONTHS. CASH FLOW FORECASTS PORTEND CENTRAL BANK RESERVE LOSSES FOR CY-1984 OF ABOUT US DOLS. 400 MILLION. UNEMPLOYMENT NOW EXCEEDS 24 PERCENT OF THE WORKFORCE, AND MAY REACH 30 PERCENT BEFORE A TURNAROUND CAN BE ACHIEVED. GDP IS EXPECTED TO INCREASE VERY LITTLE THIS YEAR; IN REAL TERMS, PER CAPITA GDP GROWTH WILL BE NEGATIVE. PER CAPITA INCOME IS AT PRESENT ONLY ABOUT US DOLS. 525. NO SIGNIFICANT IMPROVEMENT IS EXPECTED DURING 1985. INFLATION MAY EXCEED 30 PERCENT THIS YEAR AND IS UNLIKELY TO BE LESS THAN 35 PERCENT DURING 1985. THE GODR HAS NOW EFFECTIVELY SUSPENDED PAYMENT OF MOST EXTERNAL DEBT, PENDING AN IMF STAND-BY AGREEMENT AND FURTHER RESCHEDULING.

AFTER HIS INAUGURATION IN AUGUST 1982, PRESIDENT JORGE BLANCO PREPARED A BROAD BASED FINANCIAL AND ECONOMIC REFORM PROGRAM AND REQUESTED IMF SUPPORT THROUGH A 3-YEAR EXTENDED FUND FACILITY (EFF) ARRANGEMENT. THE IMF EXECUTIVE BOARD FORMALLY APPROVED THE EFF PROGRAM OF AN AMOUNT EQUIVALENT TO SDR 371.25 MILLION (AT THAT TIME, ABOUT US DOLS. 450 MILLION) FOR THE 3-YEAR PERIOD, 1983-1985. ON THE STRENGTH OF THE IMF AGREEMENT, NEGOTIATIONS WERE BEGUN WITH FOREIGN COMMERCIAL BANKS TO RESCHEDULE UP TO US DOLS. 600 MILLION OF SHORT-TERM COMMERCIAL CREDITS. THESE NEGOTIATIONS LASTED THROUGHOUT 1983, AND FINALLY AN AGREEMENT WAS REACHED LATE IN THAT YEAR. THE AGREEMENT REQUIRED A DOWN PAYMENT OF 5 PERCENT, WITH AMORTIZATION TO BE MADE IN 17 QUARTERLY INSTALLMENTS STARTING JANUARY 1985.

THE GODR MET THE PERFORMANCE CRITERIA OF THE IMF EFF AGREEMENT THROUGH SEPTEMBER 1983, BUT BY THE END OF THAT YEAR IT WAS SUBSTANTIALLY OUT OF COMPLIANCE. SUBSEQUENT EFF NEGOTIATIONS WITH THE IMF WERE NOT SUCCESSFUL, AND IN MAY THE NEGOTIATIONS WERE SUSPENDED DUE TO DISAGREEMENT WITH THE IMF REQUIREMENT TO IMMEDIATELY TRANSFER PETROLEUM IMPORTS TO AN INTERMEDIATE EXCHANGE RATE. THE GODR EVENTUALLY AGREED TO THIS MEASURE BUT NEGOTIATIONS FOR THE SECOND YEAR EFF PROGRAM WERE TERMINATED IN MAY; THE PRINCIPLE OBSTACLE WAS GODR RELUCTANCE TO CARRY OUT A SCHEDULE FOR COMPLETING TRANSFERS OF IMPORTS TO A PARALLEL MARKET RATE OF EXCHANGE, PRIMARILY PETROLEUM IMPORTS, WITH AN APPROPRIATE PASS-THROUGH TO CONSUMERS. THIS WAS BASED ON THE GOVERNMENT'S POLITICAL JUDGMENT THAT CONTINUED RAPID REDUCTION IN REAL INCOME COULD INCITE FURTHER VIOLENCE LIKE THE APRIL 23-25 PROTESTS WHICH RESULTED IN MORE THAN 60 DEATHS. IN SUBSEQUENT DISCUSSIONS IN JULY FOR A POSSIBLE STAND-BY ARRANGEMENT, THE GODR WAS PREPARED TO PROCEED WITH THE TRANSFER OF PETROLEUM IMPORT PAYMENTS TO AN APPROPRIATE INTERMEDIATE EXCHANGE RATE, BUT THE TWO SIDES COULD NOT AGREE ON WAYS TO REDUCE SUBSIDIES TO THE DOMINICAN ELECTRIC COMPANY (CDE).

IN LATE AUGUST 1984, THE GODR ISSUED AN ECONOMIC POLICY STATEMENT OUTLINING A SET OF POLICY REFORM MEASURES FOR THE NEXT 18 MONTHS. THE PAPER STATES THAT THESE CONSTITUTE QUOTE A COMPREHENSIVE ADJUSTMENT PROGRAM FOR THE REMAINDER OF 1984 UNQUOTE. WITH APPROPRIATE SPECIFICATION OF MEASURES TO BE TAKEN DURING 1985, THE POLICY STATEMENT DID FORM THE BASIS OF AN IMF STANDBY NEGOTIATIONS DURING 1985. WHILE NOT A FORMAL AGREEMENT, THE IMF STAFF WELCOMED THIS STATEMENT AS QUOTE A TRANSITIONAL PROGRAM LEADING INTO A STAND-BY ARRANGEMENT UNQUOTE, AND NEGOTIATIONS WITH THE IMF ARE UNDERWAY FOR A IMF STAND-BY ARRANGEMENT. THE GODR ALSO TOOK THE IMPORTANT STEP OF MOVING PETROLEUM IMPORTS TO AN INTERMEDIATE EXCHANGE RATE AND RAISED THE PRICES OF PETROLEUM PRODUCTS BY AN AVERAGE OF 70 PERCENT. WITH THE PASSING OF MOST PETROLEUM IMPORTS TO AN INTERMEDIATE EXCHANGE RATE, PRACTICALLY ALL IMPORT TRANSACTIONS EXCEPT PUBLIC DEBT, PRIVATE DEBT REGISTERED PRIOR TO APRIL 17, 1984, SOME BASIC FOODS AND MEDICINE AND PETROLEUM IMPORTS DESTINED FOR USE BY CDE, ARE AT SOME EXCHANGE RATE GREATER THAN THE OFFICIAL PARITY. THE GOVERNMENT ALSO ANNOUNCED, IN ITS ECONOMIC POLICY STATEMENT, ITS INTENTION TO UNIFY THE EXCHANGE RATE AT QUOTE A REALISTIC LEVEL BY THE END OF 1985 UNQUOTE, AND TO TAKE VARIOUS MEASURES TO REDUCE PUBLIC SECTOR DEFICITS, LIMIT MONEY SUPPLY, AND MAINTAIN LESS THAN 10 PERCENT A YEAR INFLATION.

II. CURRENT BALANCE OF PAYMENTS SITUATION

AS A RESULT OF GODR POLICY REFORMS, THE BALANCE OF PAYMENTS CURRENT ACCOUNT HAS IMPROVED REMARKABLY IN RECENT YEARS. TRANSFER OF IMPORTS TO THE PARALLEL MARKET, PROMOTION OF NON-TRADITIONAL EXPORTS, AND ENCOURAGEMENT OF TOURISM INDUSTRY HAVE REDUCED IMPORTS AND INCREASED EXPORTS WITH A SUBSTANTIAL NET DECLINE IN THE CURRENT ACCOUNT DEFICIT IN 1984. THE BALANCE OF GOODS AND SERVICES IS ESTIMATED TO DECLINE FROM NEGATIVE US DOLS. 636 MILLION IN 1983 TO NEGATIVE US DOLS. 422 MILLION IN 1984, A REDUCTION OF US DOLS. 214 MILLION. IT IS PROJECTED THAT THIS BALANCE WILL BE FURTHER REDUCED TO DOLS. 315 MILLION IN 1985. MORE REMARKABLY, THE 1984 CURRENT ACCOUNT DEFICIT, INCLUDING THE UNREQUITTED TRANSFERS, IS ESTIMATED AT ONLY US DOLS. 210 MILLION, A PERFORMANCE UNMATCHED IN RECENT HISTORY. THE PROJECTION FOR 1985 SHOWS THE CURRENT ACCOUNT DEFICIT TO DECREASE TO AN UNPRECEDENT LOW LEVEL OF US DOLS. 86 MILLION (SEE TABLE I IN THE ANNEX). (NOTE: ANNEX CONTAINING TABLES I THROUGH VII HAS BEEN POUCHED VIA ISLAND COURIERS TO MR. KEN BEASLEY, LAC/DP.)

THIS POSITIVE PERFORMANCE HAS BEEN THE RESULT OF THE POLICY REFORM INITIATED BY THE JORGE BLANCO ADMINISTRATION. UNFORTUNATELY, THE POLICY ADJUSTMENT HAS NOT YET BEEN COMPLETED. PETROLEUM, SOME BASIC FOOD, AND MEDICINE ARE STILL IN THE OFFICIAL MARKET WITH DIFFERENT EXCHANGE RATES ADMINISTERED BY THE GOVERNMENT. TRADITIONAL EXPORTS, NON-TRADITIONAL EXPORTS OF MANUFACTURED GOODS, AND PROFIT REMITTANCES ARE ADMINISTERED IN STILL DIFFERENT EXCHANGE RATES. THE MULTIPLE EXCHANGE POLICY HAS CREATED SERIOUS UNCERTAINTIES AMONG INVESTORS, HAS PROVIDED INCENTIVES TO UNDER-INVOICE EXPORT PROCEEDS, AND HAS CAUSED CAPITAL FLIGHT. ALTHOUGH THE TRADE BALANCE SHOWS IMPROVEMENT, THE CAPITAL ACCOUNT CONTINUES TO DETERIORATE. MAJOR SOURCES OF THE PROBLEM ARE THE CONTINUOUS DETERIORATION OF NET FOREIGN PRIVATE INVESTMENT AND THE ENORMOUS DEBT OVERHANG. THE NET FOREIGN PRIVATE SECTOR CAPITAL POSITION SLIPPED TO NEGATIVE US DOLS. 41 MILLION IN 1984 AND IS PROJECTED TO DECLINE FURTHER TO NEGATIVE US DOLS. 158 MILLION IN 1985. THE FOREIGN EXCHANGE SHORTAGE, INCONVERTIBILITY OF THE DOMINICAN PESO, UNCERTAINTY OF POLICY REFORM PROBLEMS HAVE CONTRIBUTED TO THE CREATION OF A SHORT-RUN UNFAVORABLE INVESTMENT CLIMATE. THE BIGGEST SINGLE PROBLEM IS THE HUGE DEBT OVERHANG. IT IS ESTIMATED THAT THE GODR MUST RESCHEDULE IN 1985 ABOUT US DOLS. 300 MILLION OF DEBT DUE TO COMMERCIAL BANKS AND ABOUT US DOLS. 270 MILLION DUE TO PARIS

CLUB. A SUBSTANTIAL PORTION OF THIS US DOLS. 570 MILLION WAS IN ARREARS IN 1983 AND 1984. DURING 1984, THE CENTRAL BANK WAS COMMITTED TO MAKE THE INTEREST PAYMENT TO THE COMMERCIAL BANKS WITH AMORTIZATION TO BE RESCHEDULED, BUT COULD NOT ADHERE TO THE COMMITMENT AFTER SEPTEMBER 1984 DUE TO SHORTAGE OF FOREIGN EXCHANGE INFLOWS TO THE CENTRAL BANK. BOTH INTEREST AND AMORTIZATION NEED TO BE RESCHEDULED FOR THE PARIS CLUB DEBT. WITH THE RESCHEDULING, THE 1985 OVERALL BALANCE OF PAYMENTS COULD MANAGE A SURPLUS OF ABOUT US DOLS. 186 MILLION WHICH WILL BE A WELCOME ADDITION TO ITS NEGATIVE US DOLS. 800 MILLION NET INTERNATIONAL RESERVES.

THE US DOLS. 95 MILLION ESF IS NEEDED TO CONTINUE THE REFORM EFFORTS TO UNIFY THE EXCHANGE RATE, TO REDUCE FISCAL IMBALANCE, TO RESCHEDULE THE OPPRESSING DEBT PAYMENT, AND TO RESTORE THE ECONOMY ON THE GROWTH PATH WITH MINIMUM INFLATION. TO UNIFY EXCHANGE RATES AND TO READJUST THE ECONOMIC STRUCTURE WILL REQUIRE STABILIZATION IN THE SHORT-RUN, AND INVESTMENT, EXPORT EXPANSION, AND RAPID GROWTH IN THE MEDIUM-TERM. THE DEBT RESCHEDULING AND RESERVE BUILD-UP NEEDED TO STABILIZE PARALLEL MARKET EXCHANGE ARE PRE-REQUISITES FOR THE INITIATION OF MEDIUM-TERM INVESTMENT AND SELF-SUSTAINING GROWTH. SINCE MORE THAN 90 PERCENT OF EXTERNAL DEBTS ARE PUBLICLY GUARANTEED, THE CENTRAL BANK IS ULTIMATELY RESPONSIBLE FOR DEBT SERVICES. UNDER THE ASSUMPTION OF SUCCESSFUL RESCHEDULING OF COMMERCIAL BANK AND PARIS CLUB DEBTS, THE CENTRAL BANK OVERALL EXCHANGE DEFICIT IN 1984 IS PROJECTED AT NEGATIVE US DOLS. 53 MILLION (SEE TABLE II). THE US DOLS. 95 MILLION ESF AND THE PROPOSED IMF STAND-BY FUND OF ABOUT US DOLS. 70 MILLION WILL BE MORE THAN SUFFICIENT TO COVER THE DEFICIT. THE EXCESS WILL BE USED TO REDUCE NEGATIVE INTERNATIONAL RESERVES. HOWEVER, IF THE CENTRAL BANK WERE TO MAKE PAYMENTS OF ALL DEBT SERVICES DUE IN 1984, THE OVERALL EXCHANGE BALANCE WOULD BE ESTIMATED AT NEGATIVE US DOLS. 365 MILLION, FAR ABOVE THE ESF AND IMF FUNDS AVAILABLE.

FURTHERMORE, THE CENTRAL BANK IS FACED WITH THE IMMEDIATE PROBLEM OF NOT BEING ABLE TO MEET THE HIGHEST PRIORITY PAYMENTS DUE IN DECEMBER 1984. THE HIGHEST PRIORITY PAYMENTS FOR DECEMBER 1984 AND JANUARY AND FEBRUARY 1985 ARE ESTIMATED AS US DOLS. 98.1 MILLION, US DOLS. 133.8 MILLION, AND US DOLS. 25.2 MILLION, RESPECTIVELY (SEE TABLE III). SINCE THE ESTIMATED INFLOW FOR DECEMBER 1984 IS US DOLS. 58.6 MILLION, A NET DEFICIT OF US DOLS. 47.7 MILLION IS ANTICIPATED. THE MOST URGENT PAYMENTS AMONG THE HIGHEST PRIORITY PAYMENTS ARE US

DOLS. 14.6 MILLION FOR THE INTER-BANK FINANCIAL COOPERATION AGREEMENT; US DOLS. 10 MILLION TO THE VENEZUELAN CENTRAL BANK; US DOLS. 6.6 MILLION TO IDB, IBRD, AID, AND OPEC; US DOLS. 30.6 MILLION TO COMMERCIAL BANKS; US DOLS. 12 MILLION TO MEXICO; AND US DOLS. 3.7 MILLION TO THE IMF, A SUM TOTALING US DOLS. 77.5 MILLION. THE ABSOLUTE MINIMUM ADDITIONAL FOREIGN EXCHANGE INFLOW NECESSARY DURING DECEMBER 1984, THEREFORE, IS US DOLS. 18.9 MILLION. TO MAKE MATTERS WORSE, THE LIQUID RESERVE OF THE CENTRAL BANK WAS ALREADY REDUCED TO A MERE US DOLS. 18 MILLION AT THE END OF OCTOBER 1984. THE CENTRAL BANK HAS VIRTUALLY NO HARD CURRENCY ON HAND, AND IT HAS STRETCHED ITSELF AS FAR AS IT CAN. WITHOUT MINIMUM DEBT SERVICING, VENEZUELA AND MEXICO MAY CUT OFF THEIR OIL SHIPMENTS, COMMERCIAL BANKS MAY FORMALLY DECLARE NON-PERFORMANCE, WRITE OFF THE D.R.'S DEBTS AS LOSSES, AND TAKE LEGAL ACTIONS TO RECOVER THE LOST LOANS. ANY COMBINATION COULD HAPPEN.

III. THE IMF DRAFT LETTER OF INTENT

BASED ON THE IMF STAFF WELCOME OF THE GODR ECONOMIC POLICY STATEMENT, A FORMAL DISCUSSION FOR AN IMF STAND-BY PROGRAM BEGAN IN OCTOBER 1984. ON NOVEMBER 18, THE IMF NEGOTIATING TEAM PREPARED A DRAFT LETTER OF INTENT (LOI) AS AN INITIAL ATTEMPT TO FINALIZE THE NEGOTIATION. THE MAIN THRUST OF THE LOI IS AIMED AT ECONOMIC STABILIZATION DURING 1985, WHILE THE GODR IMPLEMENTS IMMEDIATELY POLICY REFORM MEASURES DESIGNED TO BRING ABOUT EQUILIBRIUM IN THE EXTERNAL AND INTERNAL IMBALANCES. THE PROPOSED REFORM MEASURES ARE COMPREHENSIVE. THEY INCLUDE POLICY ACTIONS REGARDING EXCHANGE RATES, NEW TAX MEASURES TO COVER PUBLIC SECTOR DEFICITS, RESTRICTIONS ON CREDIT, MONEY SUPPLY AND WAGE INCREASES; AND LIBERALIZATION OF INTEREST RATES. THE FOLLOWING DESCRIBES THE IMF LOI CONDITIONS IN A NUTSHELL.

A. ON EXCHANGE RATES: AS OF JANUARY 1, 1985, THE GODR WILL UNIFY ALL EXCHANGE TRANSACTIONS AT THE MARKET RATE. WITH THE UNIFICATION MEASURE, ALL PUBLIC SECTOR ENTITIES WILL REVALUE THEIR FOREIGN EXCHANGE ASSETS AND LIABILITIES AT THE PREVAILING EXCHANGE RATE, AND WILL RECORD THEIR FUTURE

OPERATIONS AT THE CORRESPONDING EXCHANGE RATE. ALL EXPORTS OF GOODS AND SERVICES WILL RECEIVE THE PARALLEL MARKET EXCHANGE RATE EXCEPT THE TRADITIONAL EXPORTS WHICH WILL OBTAIN 64 PERCENT OF THE EXCHANGE RATE, THE REMAINING 36 PERCENT BEING A TRANSITORY SURCHARGE. THE SURCHARGE ESTIMATED AT ABOUT DR PESOS 486 MILLION A YEAR WILL BE USED TO COMPENSATE THE HIGHER PESO COSTS OF THE PUBLIC SECTOR DUE TO THE EXCHANGE UNIFICATION.

B. ON PUBLIC SECTOR FINANCES: THE CODR WILL REDUCE THE NET FINANCING REQUIREMENTS OF THE PUBLIC SECTOR FROM 5.7 PERCENT OF GNP IN 1984 TO 3.3 PERCENT IN 1985. THE OBJECTIVE IS TO ELIMINATE THE NEED FOR PUBLIC SECTOR DEFICIT FINANCING FROM THE CENTRAL BANK AND RESERVE BANK IN 1985.

1. CY-1985 CENTRAL GOVERNMENT BUDGET. THE BUDGET WILL INCLUDE THE FOLLOWING INCOME AND EXPENDITURE MEASURES TO BALANCE THE BUDGET WITHOUT RECOURSE TO CENTRAL BANK OR RESERVE BANK FINANCING:

(A) AN INTEREST PAYMENT OF DR PESOS 105 MILLION TO THE CENTRAL BANK.

(B) A FISCAL PACKAGE TO GENERATE DR PESOS 145 MILLION. THIS PACKAGE INCLUDES: A WIDER APPLICATION OF THE VALUE ADDED TAX (VAT) BY ELIMINATING EXEMPTIONS FOR RAW MATERIALS, PACKAGING MATERIALS, AND BY INCLUDING SOME SERVICES; THE IMMEDIATE APPLICATION OF THE COVERAGE TO RETAILERS WITH ANNUAL SALES EXCEEDING DR PESOS 300,000; RAISING THE CURRENT VAT TAX RATE FROM 6 PERCENT TO 10 PERCENT; AND A 50 PERCENT REDUCTION IN EXEMPTIONS FROM IMPORT TAXES.

(C) THE APPLICATION OF THE MARKET EXCHANGE RATE (RATHER THAN DR PESOS 2.00 TO US DOLS. 1.00) FOR CALCULATING THE PESO VALUE OF IMPORTS ON WHICH TO IMPOSE IMPORT TAXES. THIS MEASURE IS ESTIMATED TO GENERATE DR PESOS 100 MILLION A YEAR.

(D) A 15 PERCENT INCREASE IN THE PETROLEUM FUEL PRICE (PETROLEUM DERIVED COMBUSTIBLE PRODUCTS) WHICH WILL GENERATE ANOTHER DR PESOS 100 MILLION A YEAR. A KEY EMPHASIS IS THAT THE PRICE INCREASE MUST BE PASSED ON TO CONSUMERS AND NOT BE SUBSIDIZED BY THE GOVERNMENT.

(E) ADDITIONAL MEASURES TO COVER THE REMAINING GAP OF DR PESOS 130 MILLION.

2. PUBLIC SECTOR ENTERPRISES (PSE). THE GENERAL PRINCIPLE TO BE APPLIED TO THE PSE IS THAT THEY WILL HAVE ACCESS TO CREDIT FROM OFFICIAL AND COMMERCIAL BANKS ONLY FOR THEIR OPERATIONS AND NOT FOR FINANCING OF DEFICITS.

(A) STATE SUGAR COMPANY (CEA): CEA WILL RECEIVE INCREASED INCOME FROM THE EXCHANGE RATE UNIFICATION. TO PROVIDE AN ADDITIONAL DR PESOS 20 MILLION TO CEA, DOMESTIC SUGAR PRICES WERE RECENTLY ADJUSTED BY ANOTHER 20 PERCENT. SIMILARLY, THE DOMESTIC MOLASSES PRICE HAS BEEN ADJUSTED TO THE WORLD MARKET LEVEL. THESE ACTIONS MUST PRECEDE THE STAND-BY AGREEMENT.

(B) STATE ELECTRICITY CORPORATION (CDE): A NEW ELECTRICITY TARIFF SYSTEM SHOULD BE ADOPTED TO ELIMINATE THE DEFICIT BY 1987. THE NEW RATES INCLUDE AN INITIAL INCREASE AVERAGING 25 PERCENT FOR LARGE RESIDENTIAL AND COMMERCIAL USERS, AND A MONTHLY UPWARD ADJUSTMENT OF 2 PERCENT FOR ALL USERS. CDE REVENUE IS EXPECTED TO INCREASE IN 1985 BY ABOUT DR PESOS 100 MILLION. THE REMAINING DEFICIT, ESTIMATED AT DR PESOS 250 MILLION IN 1985, WILL BE COMPENSATED FOR BY TRANSFERS FROM THE PROCEEDS OF THE EXCHANGE SURCHARGE.

(C) PRICE STABILIZATION INSTITUTE (INESPRE): THE INESPRES BUDGET SHOULD BE FORMULATED SO AS NOT TO RESORT TO DOMESTIC OR EXTERNAL FINANCING WITH TERMS OF LESS THAN 12 YEARS. TO ELIMINATE THE INESPRES FINANCING GAP OF ABOUT DR PESOS 54 MILLION, THE GODR IS TO SUBMIT TO IMF PRICE, SUBSIDY AND EXPENDITURE POLICIES FOR INESPRES.

C. ON INFLATION: DUE TO PROPOSED ADJUSTMENTS, THE AVERAGE PRICE INCREASE IN 1985 WILL BE IN THE ORDER OF MAGNITUDE EXPERIENCED IN 1984. TO AVOID ENTERING AN INFLATIONARY SPIRAL, HOWEVER, THE GODR SHOULD CONTINUE THE APPLICATION OF LIQUIDITY CONTROL.

1. WAGE INCREASES. THE 1985 BUDGET OF THE CENTRAL GOVERNMENT AND DECENTRALIZED INSTITUTIONS DOES NOT INCLUDE PROVISIONS FOR WAGE INCREASES. WAGE INCREASES WILL BE AUTHORIZED ONLY IF EITHER OTHER EXPENSES ARE REDUCED OR NEW FISCAL RESOURCES WITHOUT RECOURSE TO CREDIT ARE IDENTIFIED.

2. CENTRAL BANK AND RESERVE BANK OPERATIONS. IT IS NECESSARY THAT THE CENTRAL BANK AND RESERVE BANK DO NOT GRANT CREDIT TO THE PUBLIC SECTOR. IN ADDITION, THE OPERATING LOSSES OF THE CENTRAL BANK MUST BE COVERED WITH RESOURCES WHICH DO NOT INCREASE EMISSIONS. THESE RESOURCES ARE THE EXCHANGE RATE SURCHARGE ON TRADITIONAL EXPORTS, THE US DOLS. 95 MILLION ESF (ONLY US DOLS. 23 MILLION-EQUIVALENT PESOS WILL BE SPENT DURING 1985 AND THE REMAINING US DOLS. 72 MILLION-EQUIVALENT PESOS WILL BE KEPT IN A SPECIAL ACCOUNT IN THE CENTRAL BANK), AND THE CENTRAL GOVERNMENT INTEREST PAYMENT OF DR PESOS 105 MILLION. (NOTE: THE MISSION DOES NOT FULLY AGREE WITH THE AMOUNT OF TEMPORARY STERILIZATION SUGGESTED BY THE IMF, AND A PREFERABLE ALTERNATIVE IS PRESENTED IN THE LOCAL CURRENCY USE SECTION.) BASED ON THESE FUNDS AND THE MONETARY AND INTEREST RATE POLICY DESCRIBED BELOW, THE CENTRAL BANK WILL BE ABLE TO REDUCE THE NET DOMESTIC ASSETS BY DR PESOS 400 MILLION IN 1985 (NET DOMESTIC ASSETS EQUAL THE MONEY SUPPLY LESS NET INTERNATIONAL RESERVES).

3. CENTRAL BANK STABILIZATION BONDS. NEW GUIDELINES FOR STABILIZATION BONDS SHOULD BE ESTABLISHED. THE MAXIMUM LIMIT WHICH THE CENTRAL BANK CAN ISSUE HAS BEEN ELIMINATED AND THEIR USE OF STABILIZATION BONDS TO COVER SHORTFALLS IN LEGAL DEPOSIT REQUIREMENTS HAS BEEN PROHIBITED. THE BONDS ARE TO BE PLACED IN THE COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS AT NEGOTIATED RATES OF INTEREST. THE CENTRAL BANK WILL INCREASE THE USE OF STABILIZATION BONDS DURING 1985 THROUGH PERIODIC AUCTIONS.

4. INTEREST RATE. TO INCREASE PRIVATE FINANCIAL SAVINGS THE GODR SHOULD INTENSIFY ITS EFFORT TO INCREASE THE FLEXIBILITY OF INTEREST RATE CHARGES. FOR THE FINANCIAL CERTIFICATE, THE MINIMUM INTEREST RATE WAS SET AT 9.5 PERCENT AND THE MAXIMUM AT 18 PERCENT. WITHIN THIS BAND, THE FINANCIAL INTERMEDIARIES WILL MAKE UP THEIR OWN COMBINATIONS. UNDER THIS SYSTEM THE MONETARY BOARD WILL SET THE UPPER AND LOWER LIMITS OF THE INTEREST RATES AND LEAVE IT TO MARKET FORCES TO FIND THE EQUILIBRIUM LEVEL. THE GODR SHOULD REVISE TOTALLY THE INTEREST RATE STRUCTURE, INCLUDING OTHER DEPOSIT RATES, LENDING RATES, CENTRAL BANK REDISCOUNT RATES, AND THE RATE PAID FOR THE RESERVE REQUIREMENTS. AS FOR THE RESERVE REQUIREMENTS, THE RESERVE BANK IS NO LONGER EXEMPTED FROM THE RESERVE REQUIREMENTS FOR PUBLIC SECTOR DEPOSITS. WITH THIS MEASURE THE RESERVE BANK IS SUBJECT TO THE SAME RESERVE REQUIREMENTS AS THE OTHER COMMERCIAL BANKS.

D. ON BALANCE OF PAYMENTS AND EXTERNAL DEBTS: DUE TO THE PROPOSED POLICY REFORM, THE CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT WILL IMPROVE DURING 1985 TO ABOUT LESS THAN 1 PERCENT OF GNP, COMPARED TO AN ESTIMATED 3 PERCENT IN 1984. NEVERTHELESS, THE OVERALL BALANCE OF PAYMENTS DEFICIT FOR 1985 WILL BE LARGE DUE TO MAJOR DEBT SERVICE REQUIREMENTS. ACCORDING TO A CENTRAL BANK CASH FLOW PROJECTION, TOTAL FOREIGN EXCHANGE INFLOW FOR 1985 WILL BE AROUND US DOLS. 627 MILLION. THIS AMOUNT IS LESS THAN THAT NEEDED TO MAKE DEBT SERVICE PAYMENTS AS WELL AS TO INCREASE MODERATELY GROSS INTERNATIONAL RESERVES. THE ESTIMATED GAP WOULD BE AROUND US DOLS. 306 MILLION. CONSEQUENTLY, THE GODR WILL HAVE TO OBTAIN A RESTRUCTURING OF ITS EXTERNAL OBLIGATIONS. TOTAL DEBT THAT CAN BE RESCHEDULED IN 1985 WITH THE PARIS CLUB AND COMMERCIAL BANKS IS ESTIMATED AT ABOUT US DOLS. 320 MILLION. IN ADDITION, APPROXIMATELY US DOLS. 250 MILLION IN ARREARAGES WITH THESE TWO GROUPS AT THE END OF 1984 ALSO COULD BE RESCHEDULED. THE GODR, FURTHERMORE, MUST RESOLVE THE PROBLEM OF PROFIT REMITTANCES AT THE OFFICIAL EXCHANGE RATE, WHICH IS GUARANTEED UNDER THE FOREIGN INVESTMENT LAW, BUT HAS BEEN SUSPENDED BY THE MONETARY BOARD SINCE MAY 10, 1984. IT IS EXPECTED THAT THE RESTRUCTURINGS AND THE STAND-BY ARRANGEMENT PAYMENT WILL PROVIDE SUFFICIENT RESOURCES TO COVER ANY GAP AND AN INCREASE IN THE NET INTERNATIONAL RESERVES OF US DOLS. 195 MILLION DURING 1985. FURTHERMORE, IN ORDER TO RESOLVE THE CRITICAL DEBT SERVICE PROBLEM, NECESSARY EXTERNAL FINANCING WILL BE FILLED WITH LONG-TERM LOANS ONLY. THE FOLLOWING ARE LIMITS ON EXTERNAL FINANCING FOR THE PUBLIC SECTOR AND PRIVATE SECTOR WITH PUBLIC GUARANTEES:

(1) NO NET DISBURSEMENTS OF DEBT LESS THAN 12 YEARS WILL BE PERMITTED.

(2) NO NEW LOANS WILL BE CONTRACTED FOR TERMS OF ONE TO FIVE YEARS, EXCLUDING THE USE OF IMF RESOURCES AND THE CONTEMPLATED RESTRUCTURINGS.

IV. THE PROPOSED 1985 CENTRAL GOVERNMENT BUDGET

THE ADMINISTRATION PRESENTED ON NOVEMBER 26, 1984, ITS PROPOSED 1985 CENTRAL GOVERNMENT BUDGET OF DR PESOS 1,505 MILLION, WHICH CONSISTS OF INTERNAL RESOURCES OF DR PESOS 1,332 MILLION AND EXTERNAL RESOURCES OF DR PESOS 173 MILLION (CALCULATED AT THE OFFICIAL EXCHANGE RATE). THE ESTIMATED

INTERNAL REVENUE, HOWEVER, IS EXPECTED TO BE ABOUT DR PESOS 135 MILLION SHORT OF THE BUDGETED EXPENDITURES. IN ORDER TO BALANCE THE BUDGET, THE ADMINISTRATION ANNOUNCED A NEW TAX PACKAGE WHICH IT SUBMITTED TO CONGRESS TO GENERATE ADDITIONAL REVENUES OF DR PESOS 135 MILLION. THE TAX PACKAGE INCLUDES: (1) EXTENSION OF THE VALUE ADDED TAX (ITBI) TO CERTAIN SERVICES, SUCH AS HOTELS, MOTELS, TELEX, TELEGRAMS, AND CABLE TV, AND THE ELIMINATION OF EXEMPTIONS PREVIOUSLY GRANTED TO SOME RAW MATERIAL IMPORTS, ALCOHOLIC BEVERAGES, AND CIGARETTES; (2) ELIMINATION OF EXEMPTIONS FROM THE AD VALOREM IMPORT TAX; AND (3) REDUCTION OF ALLOWABLE INCOME TAX DEDUCTIONS. ALL THESE MEASURES ARE INCLUDED IN THE IMF LOI.

THE SOURCES OF BUDGET REVENUES FOR 1985 (SEE TABLE V) INDICATE A SUBSTANTIAL INCREASE IN TAX AND FEE INCOME, PRIMARILY FROM TAXES ON GOODS AND SERVICES (ITBI) AND FOREIGN TRADE (PESO EVALUATION OF IMPORTS BASED ON THE PARALLEL MARKET EXCHANGE RATE AND REDUCTION OF IMPORT DUTY EXEMPTIONS, ETC.). HOWEVER, IT IS UNLIKELY THAT THE ACTUAL REVENUE COLLECTION OF TAX AND FEE INCOME WILL BE REALIZED AS BUDGETED. TWO MAIN REASONS ARE THAT THE NEW TAX PACKAGE SUBMITTED TO THE DOMINICAN CONGRESS HAS LITTLE CHANCE OF PASSAGE AND THAT THE TAX BASE HAS NOT EXPANDED SINCE 1981 DUE TO SLUGGISH REAL GROWTH. FOR 1984, REAL GROWTH IS ESTIMATED AT LESS THAN 1 PERCENT. MOST LIKELY TOTAL CENTRAL GOVERNMENT REVENUES FOR 1985 WILL REACH SHORT OF THE BUDGETED DR PESOS 1,505 MILLION. WHAT WILL LIKELY HAPPEN IN 1985 IS THAT DOMESTIC TAX AND FEE REVENUES WILL BE LESS THAN THE BUDGETED AMOUNT AND EXPENDITURES, PARTICULARLY CAPITAL EXPENDITURES, WILL BE REDUCED TO MAINTAIN THE SEMBLANCE OF A BALANCED BUDGET.

TOTAL BUDGETED EXPENDITURES FOR 1985 ARE 12 PERCENT HIGHER THAN FOR 1984 (SEE TABLE IV). SINCE INFLATION IN 1985 IS ESTIMATED AT ABOUT 35 PERCENT, ASSUMING THE GODR COMES TO A STAND-BY AGREEMENT WITH THE IMF, THE 12 PERCENT INCREASE IN TOTAL EXPENDITURES IMPLIES LESS REAL RESOURCES TO THE CENTRAL GOVERNMENT. THIS IS CONSISTENT WITH THE GODR'S INTENTION TO MAINTAIN AN AUSTERE LEVEL OF SPENDING TO CHECK INFLATION AT A TOLERABLE LEVEL. THE STRUCTURE OF 1985 BUDGETED EXPENDITURES, HOWEVER, IS QUITE DIFFERENT FROM THAT OF 1984. CURRENT EXPENDITURES ARE BUDGETED TO INCREASE BY MORE THAN 31 PERCENT, WHILE CAPITAL EXPENDITURES ARE TO DECLINE BY 18.5 PERCENT. THE REASONS FOR THIS ARE THAT THE 1985 BUDGET CONTAINS THE BUDGET INCREASE TO COVER THE WAGE INCREASE GRANTED IN MAY 1984, THE

CHRISTMAS BONUS PAYMENT WHICH WAS PAID BUT NOT BUDGETED IN THE PAST, AND A MODERATE WAGE COMPENSATION FOR INFLATION. AN INTERESTING OBSERVATION ABOUT THE 1984 BUDGET IS THAT THE GOVERNMENT INTENTION OF INCREASING CAPITAL AND DECREASING CURRENT EXPENDITURES WAS NOT REALIZED. THE ESTIMATED 1984 CURRENT EXPENDITURES ARE DR PESOS 984 MILLION AS COMPARED TO DR PESOS 820.6 MILLION BUDGETED. SIMILARLY, 1984 ACTUAL CAPITAL EXPENDITURES ARE ESTIMATED AT ABOUT DR PESOS 294 MILLION RATHER THAN THE DR PESOS 525.2 MILLION BUDGETED. IN THIS RESPECT, THE PROPOSED 1985 BUDGET IS MORE REALISTIC WITH REGARD TO EXPENDITURE ALLOCATION. THE LARGEST INCREASE IN PERCENTAGE TERMS IS THE CURRENT TRANSFERS TO MUNICIPALITIES AND DECENTRALIZED ORGANIZATIONS. THE 1985 BUDGET PROVIDES A 72 PERCENT INCREASE IN CURRENT TRANSFERS FROM DR PESOS 161.7 MILLION TO DR PESOS 278.1 MILLION. THIS INCREASE, HOWEVER, IS COUNTER-BALANCED BY A 23.6 PERCENT REDUCTION IN CAPITAL TRANSFERS FROM DR PESOS 253.8 MILLION TO DR PESOS 193.9 MILLION. THE NET AGGREGATE TRANSFER, THEREFORE, IS PROPOSED TO INCREASE 13.6 PERCENT IN 1985. THIS INCREASE WOULD BE INSUFFICIENT TO COVER THE EXPECTED INFLATION.

DATA ON ACTUAL REVENUES AND EXPENDITURES (SEE TABLES VI AND VII) FOR JANUARY-SEPTEMBER 1984 INDICATE THAT THE ESTIMATED ORDINARY REVENUE FOR THE WHOLE YEAR WILL NOT EXCEED DR PESOS 1,000 MILLION, SOME DR PESOS 124 MILLION LESS THAN ANTICIPATED. THE ESTIMATED CAPITAL EXPENDITURE IS ABOUT DR PESOS 292 MILLION, FAR SHORT OF THE BUDGETED AMOUNT, DR PESOS 525 MILLION. THE KEY FISCAL QUANTITY TO WATCH DURING 1985 IS THE CURRENT EXPENDITURE, PARTICULARLY WAGE PAYMENTS AND CURRENT TRANSFERS. IF THE ADMINISTRATION CAN HOLD CURRENT EXPENDITURES AT THE BUDGET LEVEL OF DR PESOS 1,077 MILLION DURING 1985, CENTRAL GOVERNMENT FISCAL OPERATION WILL BE IN CHECK WITH THE NECESSARY STABILIZATION MEASURES. HOWEVER, THE ADMINISTRATION WILL BE UNDER GREAT PRESSURE TO INCREASE WAGE AND TRANSFER PAYMENTS DUE TO INFLATION.

V. DESCRIPTION OF PROGRAM

A. MISSION ASSISTANCE OBJECTIVES AND STRATEGY

THE SHORT-TERM OBJECTIVES ARE TO ALLEVIATE THE CURRENT FOREIGN EXCHANGE CRUNCH BY PROVIDING IMMEDIATE BALANCE OF PAYMENTS ASSISTANCE AND TO RELIEVE THE DEBT OVERHANG BY ENCOURAGING A LONG-TERM RESCHEDULING OF DEBT SERVICE

REQUIREMENTS. THE MEDIUM- TO LONG-TERM OBJECTIVES ARE TO RESTRUCTURE THE DOMINICAN ECONOMY SO AS TO MAKE DOMINICAN GOODS AND SERVICES COMPETITIVE IN TERMS OF QUALITY AND PRICE IN THE WORLD MARKET, AND TO PROVIDE PRODUCTIVE JOB OPPORTUNITIES TO THE UNEMPLOYED AND UNDEREMPLOYED.

THE BASIC STRATEGY CONSISTS OF THREE APPROACHES: THE FIRST IS TO ESTABLISH A FAVORABLE ECONOMIC ENVIRONMENT FOR INVESTMENT AND FOREIGN EXCHANGE EARNINGS BY ENCOURAGING EXCHANGE UNIFICATION, PRICE POLICY REFORM, TAX STRUCTURE REFORM, INTEREST RATE STRUCTURE REFORM, CREDIT AND MONETARY POLICY REFORM, ETC. THIS WILL REQUIRE EXTENSIVE ECONOMIC POLICY ANALYSIS IN EACH AREA TO PROVIDE TO THE POLICY MAKERS OPTIONS AND IMPLICATIONS OF POLICY REFORMS OR NON-REFORMS. THE SECOND IS TO PROMOTE EXPORT EXPANSION OF NON-TRADITIONAL GOODS AND SERVICES THAT HAVE RELATIVE ADVANTAGE, BY PROVIDING TIMELY CREDITS AND APPROPRIATE TECHNICAL ASSISTANCE IN MANUFACTURING AND MARKETING KNOW-HOW, BY ENCOURAGING JOINT VENTURES WITH FOREIGN CAPITAL, AND BY ELIMINATING ADMINISTRATIVE IMPEDIMENTS THROUGH REDUCTION OF BUREAUCRATIC REQUIREMENTS FOR EXPORTS AND IMPORTS FOR EXPORTS. THE THIRD IS TO REINFORCE HUMAN CAPITAL AND INFRASTRUCTURE SUPPORT BY PROVIDING OPPORTUNITIES FOR BASIC AND TECHNICAL EDUCATION, BY MAKING AVAILABLE BASIC PUBLIC HEALTH SERVICES, BY IMPROVING POWER SUPPLY AND TRANSPORTATION-COMMUNICATION AT REASONABLE COSTS, AND BY REDUCING NATURAL RESOURCE DEGRADATION. THE ESF LOCAL CURRENCY WILL BE UTILIZED IN SUPPORT OF THIS STRATEGY.

WITH RESPECT TO THE FORMATION OF A BETTER INVESTMENT CLIMATE, AID PLANS TO ASSIST THE GODR IN CARRYING OUT A NUMBER OF SPECIFIC ECONOMIC POLICY ANALYSES DURING FY-1985. THESE WERE OUTLINED IN THE CONCEPTS PAPER APPROVED BY AID/W. THEY INCLUDE ANALYSIS OF THE EXCHANGE RATE, CREDIT AND MONETARY POLICIES, TAXATION AND TARIFFS, STATUS OF PARASTATAL ENTERPRISES, AND INTEREST RATE POLICY. FURTHERMORE, WE PLAN TO PROVIDE TRAINING ASSISTANCE TO DOMINICAN POLICY ANALYSTS AT THE SAME TIME. AS THESE STUDIES AND TRAINING ARE UNDERTAKEN, WE WILL BE EXPLORING THE FEASIBILITY AND DESIRABILITY OF ESTABLISHING A MORE PERMANENT, NON-POLITICAL, INDEPENDENT POLICY ANALYSIS CAPABILITY AVAILABLE TO DOMINICAN DECISION MAKERS. WE WOULD LIKE TO HELP ESTABLISH AN INSTITUTIONAL CAPACITY WITHIN THE PRIVATE SECTOR TO PERFORM THIS INDEPENDENT ANALYSIS FUNCTION, AND WILL EXAMINE DURING 1985 THE GODR'S INTEREST IN THIS APPROACH. ACTION ON THESE STUDIES SHOULD

RESULT IN MORE APPROPRIATE AND TIMELY ECONOMIC POLICIES AND A BETTER ENVIRONMENT TO ATTRACT DOMESTIC AND FOREIGN INVESTMENT.

THE MISSION IS FULLY AWARE THAT THE EXPANSION OF NON-TRADITIONAL EXPORTS OF GOODS AND SERVICES IS THE SINGLE MOST IMPORTANT TASK THE DOMINICAN REPUBLIC CAN ACCOMPLISH IN THE NEAR FUTURE. IT IS CONTEMPLATED THAT THE DOMINICAN ECONOMY WILL BE ABLE TO EXPAND RAPIDLY EXPORTS OF NON-TRADITIONAL AGRICULTURAL PRODUCTS FOR THE NEXT TWO TO THREE YEARS. DURING 1984, FRUITS AND VEGETABLES EXPORTS HAVE INCREASED MORE THAN 45 PERCENT. THIS RAPID MOVEMENT IS EXPECTED TO CONTINUE FOR THE NEXT FEW YEARS. HOWEVER, IF THE DOMINICAN REPUBLIC IS TO PROVIDE PRODUCTIVE JOB OPPORTUNITIES TO THE URBAN UNEMPLOYED, IT MUST LEARN TO PRODUCE EFFICIENTLY LABOR INTENSIVE MANUFACTURED PRODUCTS, SUCH AS TEXTILES, ELECTRONICS, SHOES, WOOD PRODUCTS, ETC., AND TO EXPORT TO THE WORLD MARKET COMPETITIVELY. THE LOCAL CURRENCY COUNTERPART UNDER THE PROPOSED ESF PROGRAM WILL SUPPORT AN EXPORT EXPANSION PROGRAM WHICH WILL PROVIDE NECESSARY INGREDIENTS TO ESTABLISH THE BASIC PRODUCTIVE FOUNDATION FOR A LARGE NUMBER OF TODAY'S MEDIUM TO SMALL MANUFACTURERS TO BECOME COMPETITIVE IN THE WORLD MARKET IN ABOUT TWO TO THREE YEARS.

THE MISSION ASSISTANCE STRATEGY IS BASED ON THE PREMISE THAT ADEQUATE HUMAN CAPITAL AND INFRASTRUCTURE SUPPORT WILL BE MADE AVAILABLE. FOR HUMAN CAPITAL DEVELOPMENT, EMPHASIS WILL CONTINUE TO BE IN PRIMARY, BASIC EDUCATION; BUT LOOKING AHEAD THREE TO FIVE YEARS, THE MISSION EXPECTS THERE WILL BE INCREASING DEMAND FOR WORKERS WITH VOCATIONAL TECHNICAL BACKGROUND. UPGRADING AND STRENGTHENING ON THE JOB TRAINING AND SECONDARY TECHNICAL SCHOOL EDUCATION MAY BE UNDERTAKEN AS PART OF THE MISSION STRATEGY. ANOTHER MAJOR EMPHASIS WILL BE THE MANAGEMENT OF POWER SUPPLY AS WELL AS CAPACITY EXPANSION. RELIABLE LOW COST POWER IS A PRE-REQUISITE TO EXPORT EXPANSION OF MANUFACTURED PRODUCTS. EFFICIENT POWER SUPPLY MANAGEMENT WILL CONTINUE TO BE A MAJOR UNDERTAKING IN THE FUTURE. OTHER HIGH PRIORITY SUPPORTS INCLUDE INFRASTRUCTURE INVESTMENT IN ROADS, PORTS, POWER TRANSMISSION, AND IRRIGATION.

TABLE I

Balance of Payments: 1983-1985
(In DR\$ Millions)

	1983	Est. 1984	Proj. 1985
I. <u>Current Account</u>	<u>-421.1</u>	<u>-210.1</u>	<u>-86.1</u>
A. <u>Exports, FOB</u>	<u>785.2</u>	<u>892.3</u>	<u>829.5</u>
1. Sugar and Derivatives	298.9	338.7	266.5
2. Coffee and Processed	76.4	91.3	81.9
3. Cocoa and Processed	60.9	77.1	67.7
4. Tobacco and Processed	24.0	43.3	44.3
5. Bauxite	-	-	-
6. Ferronickel	83.5	107.0	119.1
7. Gold and Silver	164.5	129.9	120.0
8. Others	77.0	105.0	130.0
B. <u>Imports, FOB</u>	<u>1,282.2</u>	<u>1,215.0</u>	<u>1,100.0</u>
<u>Trade Balance (A-B)</u>	<u>-497.0</u>	<u>-322.7</u>	<u>-270.5</u>
C. <u>Service Income</u>	<u>463.5</u>	<u>534.2</u>	<u>593.8</u>
1. Freight and Insurance	11.7	13.3	12.2
2. Other Transportation	15.8	15.0	10.0
3. Travel	320.5	402.9	470.6
4. Investment Income	6.9	7.0	5.0
5. Government Transactions	5.5	6.0	6.0
6. Other Services	103.1	90.0	90.0
D. <u>Service Expenses</u>	<u>602.6</u>	<u>633.6</u>	<u>638.4</u>
1. Freight and Insurance	136.2	102.0	99.0
2. Other Transportation	14.0	15.0	17.0
3. Travel	87.9	85.5	84.5
4. Investment Income	304.0	334.1	340.9
5. Government Transactions	6.6	7.0	7.0
6. Other Services	53.9	90.0	90.0
<u>Service Balance (C-D)</u>	<u>-139.1</u>	<u>-99.4</u>	<u>-44.6</u>
<u>Balance of Goods and Services</u>	<u>-636.1</u>	<u>-422.1</u>	<u>-315.1</u>
E. <u>Unrequited Transfer</u>	<u>215.0</u>	<u>212.0</u>	<u>229.0</u>
Private	195.0	197.0	204.0
Public	20.0	20.0	25.0

II. <u>Capital Account</u>	<u>421.1</u>	<u>210.1</u>	<u>86.1</u>
A. <u>Private Sector</u>	<u>105.0</u>	<u>-40.6</u>	<u>-158.0</u>
1. Foreign Investment	48.2	68.5	42.0
2. Long- and Medium-Term Loan	-67.6	-48.9	-33.6
-- Disbursement	4.2	4.3	2.5
-- Amortization	-71.8	-53.2	-36.1
3. Short-Term Loan	-5.6	-0.3	-4.0
-- Disbursement	17.9	13.0	13.0
-- Amortization	-23.5	-13.3	-17.0
4. Other Assets	130.0	-59.9a/	-162.4a/
B. <u>Public Sector</u>	<u>537.1</u>	<u>251.6</u>	<u>429.8</u>
1. Long- and Medium-Term Loan	-66.5	39.0	-71.3
a. Central Government			
--Disbursement	87.8	223.3	387.7
--Amortization	-86.7	-184.3	-459.0
b. Autonomous Organization	-29.9	-	-
--Disbursement	52.2	-	-
--Amortization	-82.1	-	-
c. Public Financial Institution	-13.8	-	-
--Disbursement	13.1	-	-
--Amortization	-26.9	-	-
d. Public Enterprise	-23.9	-	-
--Disbursement	13.1	-	-
--Amortization	-37.0	-	-
2. Short-Term Loan	11.7	-11.6	-45.1
--Disbursement	68.6	54.5	75.5
--Amortization	-56.9	-66.1	-120.6
3. Other Assets (Long-Term)	55.6	-17.7	-26.5
4. Paris Club b/	81.7	119.0	229.8
5. Commercial Banks Reschedule, 1983 b/	454.6	42.9	-
6. Commercial Banks Reschedule, 1984/1985 b/	-	80.0	285.1
7. CEA Reschedule	-	-	57.8
C. <u>Errors and Omissions</u>	<u>22.8</u>	-	-
D. <u>Adjustment of Reserves</u>	<u>-14.6</u>	<u>-3.4</u>	<u>-0.1</u>
1. SDR Allocation	-	-	-
2. Gold Revaluation	-	-3.4	-0.1
3. Gold Monetization	-	-	-
E. <u>Net Int'l Reserve Position (Increase -)</u>	<u>-229.2</u>	<u>2.5</u>	<u>-185.6</u>
1. Central Bank	-243.0	21.0	-181.6

a. Assets	-31.4	52.7	30.8
-- Gold	-	-	-
-- IMF Position	-	-	-
-- Divisas	-	-	-
-- Others	-	-	-
b. Liabilities	-211.6	-31.7	-212.4
-- IMF Credit	175.0	-13.5	-33.7
-- Commercial Debts	-358.1	30.2	-
-- Other Liabilities	-28.5	-48.4	-178.7
2. Commercial Banks	13.8	-18.5	-4.0

a/ Includes errors and omissions.

b/ The Central Bank treats rescheduling of Paris Club and commercial bank debts as a capital inflow, which offsets the assumed payments appeared in current and capital accounts.

SOURCE: Central Bank of the Dominican Republic.

TABLE II

Central Bank Exchange Balance
1984
(In DR\$ Millions)

	Jan. Sep. 1984	Jan. - Dec. 1984 Alternatives a/ (A) (B)	
I. <u>INFLOW (A + B + C)</u>	<u>769.5</u>	<u>1,046.5</u>	<u>1,046.5</u>
A. <u>Current (1 + 2)</u>	<u>572.3</u>	<u>800.9</u>	<u>800.9</u>
1. <u>Exports</u>	<u>475.4</u>	<u>674.4</u>	<u>674.4</u>
a. Sugar and Derivatives	195.5	285.8	285.8
b. Coffee and Processed	59.9	89.5	89.5
c. Cocoa and Processed	67.2	75.5	75.5
d. Tobacco and Processed	13.7	40.0	40.0
e. Bauxite	3.3	3.3	3.3
f. Ferronickel	8.6	10.0	10.0
g. Gold and Silver	92.8	127.3	127.3
h. Others	34.4	43.0	43.0
2. <u>Service and Transfer</u>	<u>96.7</u>	<u>126.5</u>	<u>126.5</u>
a. Transportation	12.9	15.0	15.0
b. Travel	9.7	15.0	15.0
c. Investment Income	4.8	7.0	7.0
d. Government Transaction	4.7	4.7	4.7
e. Industrial Free Zone	33.7	45.0	45.0
f. Foreign Expenditure	1.3	1.1	1.1
g. Factor Income	2.3	2.3	2.3
h. Other Services	23.3	30.0	30.0
i. Transfers	1.5	2.0	2.0
j. Devolutions	2.5	5.0	5.0
B. <u>Non-Bank Capital (3 + 4)</u>	<u>41.2</u>	<u>61.9</u>	<u>61.9</u>
3. <u>Official/Private Loan Disbursement</u>	<u>37.9</u>	<u>58.6</u>	<u>58.6</u>
a. IDB	18.7	27.0	27.0
b. IBRD	10.4	16.0	16.0
c. Other Int'l Organizations	3.6	3.6	3.6
d. Government Organizations	5.2	12.0	12.0
e. USA	(2.9)	(9.0)	(9.0)
f. Commercial Banks	-	-	-
g. Others	-	-	-

4. <u>Other Capital</u>	<u>3.3</u>	<u>3.3</u>	<u>3.3</u>
C. <u>Bank Capital (5 + 6)</u>	<u>156.0</u>	<u>183.7</u>	<u>183.7</u>
5. <u>Central Bank</u>	<u>121.8</u>	<u>144.5</u>	<u>144.5</u>
a. Acceptance (Net)	-	-	-
b. Financial Cooperative Agreement	-	-	-
c. Interbank	-	-	-
d. San Jose Agreement: Venezuela	19.9	30.6	30.6
e. Santo Domingo Agreement	2.4	2.4	2.4
f. Venezuela Central Bank	50.0	50.0	50.0
g. Venezuela Investment Fund	-	-	-
h. IMF	2.5	7.6	7.6
i. ESF	34.0	34.0	34.0
j. Dividends	-	-	-
k. Commercial Bank Reschedule	9.9	9.9	9.9
l. Others	4.0	19.0	15.0
6. <u>Commercial Banks</u>	<u>34.2</u>	<u>39.2</u>	<u>39.2</u>
II. <u>OUTFLOW (D + E + F)</u>	<u>793.8</u>	<u>1,079.2</u>	<u>1,391.3</u>
D. <u>Current (7 + 8)</u>	<u>583.6</u>	<u>788.0</u>	<u>842.5</u>
7. <u>Imports</u>	<u>404.3</u>	<u>524.0</u>	<u>524.0</u>
a. Petroleum & Derivatives	277.2	387.5	387.5
b. Others	127.1	136.5	136.5
8. <u>Service and Transfer</u>	<u>179.3</u>	<u>264.0</u>	<u>318.5</u>
a. Transportation	1.8	2.0	2.0
b. Travel	3.4	4.0	4.0
c. Dividend	-	-	-
d. Interest	146.2	223.0	277.5
--External Debt & Arrears	(105.1)	(171.3)	(225.6)
--Central Bank Liability	(41.1)	(51.7)	(51.7)
e. Government Transactions	3.0	10.0	10.0
f. Technical Assistance	6.0	6.0	6.0
g. Commission & Royalty	2.7	2.7	2.7
h. Insurance	1.9	1.9	1.9
i. Transfers (Grants)	0.6	0.6	0.6
j. Exchange Incentive (Law 69)	2.9	4.0	4.0
k. Others	9.8	9.8	9.8
E. <u>Non-Bank Capital (9 + 10)</u>	<u>18.0</u>	<u>41.8</u>	<u>299.4</u>
9. <u>Loans</u>	<u>19.0</u>	<u>41.8</u>	<u>299.4</u>

	a. Central Government	6.5	-	-
	b. Autonomous Institutions	8.2	-	-
	c. Public Enterprises	-	-	-
	d. Private Sector	4.3	-	-
	10. <u>Others</u>	-	-	-
F.	<u>Bank Capital (11 + 12)</u>	<u>191.2</u>	<u>249.4</u>	<u>249.4</u>
	11. <u>Central Bank</u>	<u>150.9</u>	<u>189.9</u>	<u>189.9</u>
	a. Acceptance (Net)	1.5	6.3	6.3
	b. Financial Cooperative Agreement	0.9	15.5	15.5
	c. San Jose Agreement: Venezuela	23.0	36.8	36.8
	d. Santo Domingo Agreement	2.4	2.4	2.4
	e. Venezuela Central Bank	70.0	80.0	80.0
	f. Venezuela Investment Fund	25.0	25.0	25.0
	g. IMF	10.2	10.2	10.2
	h. Commercial Bank Reschedule	-	-	-2
	i. Gold Revaluation	-	3.4	3.4
	j. Others	7.9	10.3	10.3
	12. <u>Commercial Banks</u>	<u>40.3</u>	<u>59.5</u>	<u>59.5</u>
III.	<u>SPECIAL DOLLAR ACCOUNT (NET) (13-14)</u>	<u>15.9</u>	-	-
IV.	<u>PAYMENT OF ARREARS</u>	-	-	-
V.	<u>COMPENSATION FUND (MARKET INTERVENTION)</u>	<u>-20.0</u>	<u>-20.0</u>	<u>-20.0</u>
VI.	<u>GRAND TOTAL (I - II + III - IV - V)</u>	<u>-28.4</u>	<u>-52.7</u>	<u>-364.8</u>

a/ The scenario A assumes no payment of principal to commercial banks and no payment of principal and interest to Paris Club. The scenario B assumes the payment of all principal and interest to both Paris Club and commercial banks.

SOURCE: Central Bank of the Dominican Republic.

TABLE III

Central Bank Exchange Balance
December 1984 - February 1985

(In DR\$ Millions)

		P R O J E C T I O N S		
		Dec. 84	Jan. 85	Feb. 85
I.	<u>REVENUES</u>	<u>78.0</u>	<u>73.5</u>	<u>57.7</u>
	A. <u>Exports</u>	<u>65.1 a/</u>	<u>50.5</u>	<u>40.9</u>
	1. Sugar and Derivatives	28.7	17.2	16.6
	2. Coffee and Processed	8.1	14.0	4.0
	3. Cocoa and Processed	3.3	3.4	4.0
	4. Tobacco and Processed	5.0	3.2	3.2
	5. Bauxite	-	-	-
	6. Ferronickel	2.0	0.8	0.8
	7. Gold and Silver	16.7	8.4	9.1
	8. Others	1.3	3.5	3.2
	B. <u>Service and Transfers</u>	<u>8.9</u>	<u>8.6</u>	<u>7.8</u>
	1. Industrial Free Zones	4.0	4.0	4.0
	2. Others	4.9	4.6	3.8
	C. <u>Non-Bank Capital</u>	<u>4.0</u>	<u>14.4</u>	<u>9.0</u>
	1. IDB	1.4	6.0	3.9
	2. IBRD	1.6	3.7	2.3
	3. Others	1.0	4.7	2.8
	D. <u>Bank Capital</u>	-	-	-
	1. Central Bank	-	-	-
	2. Commercial Banks	-	-	-
II.	<u>EXPENSES</u>	<u>98.1 b/</u>	<u>234.8 c/</u>	<u>121.1 c/</u>
	A. <u>Imports</u>	<u>19.4</u>	<u>116.3 d/</u>	<u>33.8</u>
	1. Petroleum and Derivatives	15.4	114.6	32.8
	2. Others	4.0	1.7	1.0

B. <u>Services and Transfer</u>	<u>48.1</u>	<u>32.4</u>	<u>18.8</u>
1. Interest	45.7	30.2	16.6
--Commercial Banks	30.9	0.6	3.7
--International Organizations	10.3	4.1	1.2
--Other <u>e/</u>	4.5	25.5	11.7
2. Others	2.4	2.2	2.2
C. <u>Non-Bank Capital</u>	-	<u>10.0</u>	<u>41.9</u>
1. Commercial Banks	-	1.7	34.0
2. International Organizations	-	3.6	0.7
3. Others	-	4.7	7.2
D. <u>Bank Capital</u>	<u>30.6</u>	<u>76.1</u>	<u>26.6</u>
1. Central Bank	30.6	69.1	26.6
2. Commercial Banks	-	7.0	-
<u>BALANCE (I minus II)</u>	<u>-20.1</u>	<u>-161.3</u>	<u>-63.4</u>

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- a/ Assumes foreign exchange surrender to the Central Bank of \$19.4 million by commercial banks and advance surrender of \$8.3 million from 1985 CEA sales.
- b/ Includes only the Central Bank highest priority payment.
- c/ Assumes payments of all external debts that come due.
- d/ Includes DR\$95 million liquidation of credit arrangement for the past four quarters.
- e/ Includes interest payments of Central Bank liabilities.

SOURCE: Central Bank of the Dominican Republic.

TABLE IV
 Central Government Budgeted Expenditures
 1984-1985
 (In DR\$ Millions)

	1984	1985	Percent Change
A. <u>Current Expenditures</u>	<u>820.6</u>	<u>1,077.4</u>	<u>31.3</u>
1. Operating Costs	584.6	734.9	25.7
a. Wages	421.9	522.2	-
b. Goods and Services	162.7	212.7	-
2. Current Transfers	161.7	278.1	72.0
a. Municipalities	70.1	58.1	-
b. Decentralized Institutions	-	118.0	-
c. Others	91.6	102.0	-
3. Interest on Debt, Deferred Costs	74.3	64.4	-13.3
B. <u>Capital Expenditures</u>	<u>525.2</u>	<u>428.0</u>	<u>-18.5</u>
1. Investment	228.4	208.0	-8.9
a. Machinery and Equipment	13.9	7.6	-
b. Construction	206.9	184.7	-
c. Agricultural Infrastructure	7.6	15.7	-
2. Acquisition of Existing Assets	0.8	1.0	25.0
3. Capital Transfers	253.8	193.9	-23.6
a. Decentralized Institutions	241.1	190.5	-
b. Other	12.7	3.4	-
4. Amortization	38.5	24.4	-36.6
5. Feasibility Studies	3.5	0.8	-
TOTAL	<u>1,345.8</u>	<u>1,505.4</u>	<u>11.8</u>

a/ Actual expenditures are estimated at DR\$1,278 million.

SOURCE: National Budget Office, Budget for Revenues and Public Expenditure Law of the Central Government, 1984 and 1985.

TABLE V
 Central Government Budget Revenues
 1984-1985
 (In DR\$ Millions)

	1984	1985	Percent Change
<u>Ordinary Revenue</u>	<u>1,124.0</u>	<u>1,325.9</u>	<u>18.0</u>
A. <u>Tax and Fee Income</u>	<u>1,019.6</u>	<u>1,209.2</u>	<u>18.6</u>
1. Income	229.8	243.9	-
2. Patrimony	27.1	27.3	-
3. Goods and Services	349.8	449.5	-
4. Foreign Trade	376.6	430.0	-
a. Import	366.3	403.0	-
b. Export	10.3	27.0	-
5. Others	20.0	36.7	-
6. Fees	16.3	21.8	-
B. <u>Non-Tax Income (Transfers)</u>	<u>104.4</u>	<u>116.7</u>	<u>11.8</u>
<u>Extraordinary Revenue</u>	<u>221.8</u>	<u>179.5</u>	<u>-19.0</u>
A. <u>External Resources</u>	<u>211.8</u>	<u>173.0</u>	<u>-</u>
B. <u>Internal Resources (Sale of Assets)</u>	<u>10.0</u>	<u>6.5</u>	<u>-</u>
TOTAL	<u>1,345.8</u>	<u>1,505.4</u>	<u>11.8</u>

SOURCE: National Budget Office, Budget for Revenues and Public Expenditure Law of the Central Government, 1984 and 1985.

TABLE VI

Sources of Budget Income
1984
(In DR\$ Millions)

	January-September		Percent Change
	Actual 1983	Actual 1984	
<u>Ordinary Revenue</u>	<u>668.9</u>	<u>787.4</u>	<u>17.7</u>
A. <u>Tax and Fee Income</u>	<u>588.5</u>	<u>727.0</u>	-
1. Taxes	576.7	713.2	-
a. Income Tax	162.4	175.2	-
b. Patrimony Taxes	21.7	22.5	-
c. Goods and Services Taxes	211.7	288.9	-
d. Foreign Trade	167.5	207.3	-
(1) Import Taxes	163.2	192.2	-
(2) Export Taxes	4.3	15.1	-
e. Others	13.4	19.3	-
2. Fees	11.8	13.8	-
B. <u>Non-Tax Income</u>	<u>80.4</u>	<u>60.4</u>	-
<u>Extraordinary Revenue</u>	<u>155.4</u>	<u>129.0</u>	<u>-17.0</u>
A. External Resources	73.7	100.1	-
B. Internal Resources	81.7	28.9	-
1. Bonds	64.5	16.8	-
2. Bank Loans	-	-	-
3. Sale of Assets	5.2	5.3	-
4. Donations	-	-	-
5. Transfers	10.8	1.1	-
6. Others	1.2	5.7	-
TOTAL BUDGET	<u>824.3</u>	<u>916.4</u>	<u>11.2</u>
Deposits	3.4	5.4	58.8
TOTAL AVAILABLE	<u>827.7</u>	<u>921.8</u>	<u>11.4</u>

SOURCE: Secretariat of State for Finance, Quarterly Bulletin, July-September 1983.

TABLE VII

Executed Central Government Expenditures
1984
(In DR\$ Millions)

	January-September		Percent Change
	Actual 1983	Actual 1984	
A. <u>Current Expenditures</u>	<u>635.7</u>	<u>700.2</u>	<u>10.2</u>
1. Operating Costs	393.8	436.8	-
2. Current Transfers	140.1	163.1	-
3. Interest on Public Debt and Deferred Costs	78.9	60.5	-
4. Other Costs	22.9	39.8	-
B. <u>Capital Expenditures</u>	<u>242.1</u>	<u>211.4</u>	<u>-12.7</u>
1. Investment	77.8	54.0	-
2. Acquisition of Existing	0.5	1.0	-
3. Capital Transfers	90.4	96.0	-
4. Public Debt Amortization	47.1	27.2	-
5. Other Financial Investments	20.6	13.4	-
6. Other Costs	5.7	19.8	-
TOTAL EXPENDITURES	<u>877.8</u>	<u>911.6</u>	<u>3.9</u>

SOURCE: Secretariat of State for Finance, Quarterly Bulletin, July-September 1984.

B. DOLLAR PROGRAM

1. USES

THE USG THROUGH AID WILL PROVIDE ADDITIONAL BOP RELIEF TO THE DOMINICAN ECONOMY THROUGH THE PROVISION OF A CASH TRANSFER TO THE CENTRAL BANK, TOTALING US DOLLARS 95 MILLION. THE FUNDS SHOULD BE MADE AVAILABLE TO THE GODR, ON AN EXCEPTIONAL BASIS, AS A GRANT. THIS DECISION, AS OUTLINED IN THE ESF CONCEPTS PAPER, IS BASED PRINCIPALLY ON THE REALIZATION THAT GIVEN THE REQUIREMENT FOR DOMINICAN CONGRESSIONAL APPROVAL OF ALL LOAN AGREEMENTS A PUBLIC DEBATE OF AID CONDITIONALITY WOULD SERIOUSLY IMPEDE THE TIMING FOR DISBURSEMENT OF THE AID FUNDS.

AS A SLIGHT DEPARTURE FROM THE PREVIOUS DOLLARS 83 MILLION ESF PROGRAM — PRIVATE ENTERPRISE SECTOR DEVELOPMENT (LOAN NO. 517-K-039) — (WHICH REQUIRES THE GOVERNMENT TO PROVIDE TO THE PRIVATE SECTOR DOLLARS FOR ACCEPTABLE IMPORTS), THE GODR WILL BE REQUIRED TO AGREE THAT THE COUNTRY WILL MAKE AVAILABLE AN EQUIVALENT AMOUNT OF DOLLARS TO THE PRIVATE SECTOR FOR THE IMPORTATION OF RAW MATERIALS, SPARE PARTS, MACHINERY AND EQUIPMENT FROM THE U.S. (THIS IS ESSENTIAL SINCE THE CENTRAL BANK NO LONGER PROVIDES SIGNIFICANT DOLLARS TO THE PRIVATE SECTOR WHICH HAS THEREFORE TURNED TO COMMERCIAL BANKS FOR ITS DOLLARS.) THESE WILL BE MADE AVAILABLE OVER THE COURSE OF ONE YEAR FROM THE DATE OF THE FIRST DISBURSEMENT OF THE GRANT TO THE CENTRAL BANK. DOCUMENTATION WILL BE REQUIRED FROM THE GODR TO VERIFY THAT DOLLARS 95 MILLION WORTH OF ELIGIBLE IMPORTS FOR THE PRIVATE SECTOR WERE ACTUALLY RECEIVED. THIS VERIFICATION TAKES THE FORM OF CUSTOMS RECEIPTS, BILLS OF LADING, CENTRAL BANK AUTHORIZATION OF FOREIGN EXCHANGE FOR IMPORTS AND OTHER STANDARD BANKING DOCUMENTS WHICH IDENTIFY THE TYPE OF GOOD IMPORTED THE SOURCE AND ORIGIN AND US DOLLAR VALUE.

UNDER THE PREVIOUS ESF PROGRAM THE CENTRAL BANK UTILIZED ITS EXISTING MECHANISMS TO ASSURE COMPLIANCE WITH THE REQUIREMENTS. AFTER DISBURSEMENT OF THE LOAN, WITHIN THE FIRST SIX MONTHS, THE DEPARTMENT OF FOREIGN EXCHANGE WITHIN THE CENTRAL BANK PREPARED A REPORT FOR AID ON THE GOODS IMPORTED UNDER THE PROGRAM. THE REPORT INCLUDED A SUMMARY LISTING OF THE IMPORTERS, GOODS, VALUES AND IMPORTING DATES. THE REPORT ALSO INCLUDES SUPPORTING DOCUMENTATION (E.G. BILLS OF LADING, LETTERS OF CREDIT) ASSOCIATED WITH THE ELIGIBLE IMPORTS.

AT THE TIME OF WRITING OF THIS DOCUMENT AN OUTSIDE AUDIT IS BEING CONDUCTED OF THE ESF PROGRAM INCLUDING AN ANALYSIS OF THE DOLLAR USES. THE AUDIT DEALS WITH THOSE IMPORTS MADE WITH DOLLAR RESOURCES MADE AVAILABLE FROM OCTOBER 1, 1982 UNTIL NOVEMBER 30, 1983 FOR A TOTAL OF DOLLARS 49 MILLION (I.E., EXCLUDING AMENDMENT NO. 2 FOR DOLLARS 34 MILLION). ALL AVAILABLE DOCUMENTS ARE BEING ANALYZED WITH FOLLOW-UP LETTERS BEING SENT REQUESTING VERIFICATION OF INFORMATION FROM 100 PERCENT OF THE LOCAL FINANCIAL INTERMEDIARIES, 100 PERCENT OF THE LOCAL BENEFICIARIES, SELECTED U.S. BANKS THAT SUPPLIED LETTERS OF CREDIT AND SELECTED U.S. SUPPLIERS.

PRELIMINARY FINDINGS INDICATE THAT THE GODR IS IN COMPLIANCE WITH THE TERMS OF THE AGREEMENT CONCERNING THE USES OF THE US DOLLAR RESOURCES. THE USAID IS SATISFIED WITH THE PROCEDURES ESTABLISHED FOR VERIFICATION AND WILL, THEREFORE, EMPLOY THE SAME PROCEDURES IN RELATION TO THE PROPOSED ESF AGREEMENT.

2. DISBURSEMENT TIMING

A MEMORANDUM OF UNDERSTANDING TO BE SIGNED BY THE GODR AND AID WILL DEFINE THE BASIS FOR DISBURSEMENT OF THE ESF RESOURCES. THIS MOU WILL PROVIDE THAT THE US DOLLAR GRANT FUNDS WILL BE DISBURSED TO THE CENTRAL BANK IN THREE TRANCHEs.

THE FIRST DISBURSEMENT OF US DOLLARS 50 MILLION WILL BE PREDICATED UPON THE GODR AGREEING IN THE MOU TO THE UNIFICATION OF THE EXCHANGE RATE. IT IS IMPORTANT THAT THIS STEP WILL BE ACCOMPLISHED BY THE END OF DECEMBER 1984. A SECOND TRANCHE OF US DOLLARS 20 MILLION WILL BE DISBURSED UPON THE ACTUAL UNIFICATION OF THE EXCHANGE RATE. A THIRD AND FINAL TRANCHE OF US DOLLARS 25 MILLION WILL BE DISBURSED UPON RECEIPT OF ACCEPTABLE EVIDENCE THAT SUBSTANTIAL PROGRESS HAS BEEN MADE BY THE GODR ON THE RESTRUCTURING OF ITS OFFICIAL DEBT. THE SCHEDULING OF A PARIS CLUB MEEETING COULD BE VIEWED AS ACCEPTABLE EVIDENCE FOR THE FINAL TRANCHE.

3. PAYMENT VERIFICATION

(A) THE METHOD OF PAYMENT FOR NON-PROJECT ASSISTANCE AUTHORIZED UNDER THIS PAAD IS DOLLAR PAYMENT THROUGH ELECTRONIC FUND TRANSFER (EFT) WHICH IS A PREFERRED METHOD OF FINANCING UNDER THE ADMINISTRATOR'S PAYMENT VERIFICATION POLICY STATEMENT. THEREFORE, NO FURTHER JUSTIFICATION IS REQUIRED.

(B) SINCE THIS IS A CASH TRANSFER, NO METHOD OF IMPLEMENTATION IS APPLICABLE.

(C) THIS CASH TRANSFER WILL BE CONDITIONED UPON THE PROVISION OF AN EQUIVALENT AMOUNT OF COUNTERPART FUNDS BY THE GODR WHICH WILL BE JOINTLY PROGRAMMED AND MONITORED BY AID AND THE HOST COUNTRY AS OUTLINED IN PARA. V SECTION C.1.

(D) THE USAID/CONTROLLER HAS REVIEWED AND APPROVED THE METHODS OF IMPLEMENTATION/FINANCING CONTAINED HEREIN.

C. LOCAL CURRENCY PROGRAM

1. INTRODUCTION

AS A CONDITION FOR RECEIVING THE CASH TRANSFER, THE GODR WILL BE REQUIRED TO PROVIDE AND DEPOSIT THE PESO EQUIVALENT OF THE CASH TRANSFER INTO A SPECIAL ACCOUNT AS PROGRAM COUNTERPART. THE BASIC ALLOCATION OF THIS LOCAL CURRENCY HAS BEEN DISCUSSED WITH AND AGREED TO IN PRINCIPLE BY THE GODR. THIS PROGRAM REFLECTS BOTH THE PRIORITIES OF THE GODR AND THE MISSION DEVELOPMENT STRATEGY AS ELABORATED IN THE FY 1986 CDSS AND THE ESF CONCEPTS PAPER. THE LOCAL CURRENCY HAS BEEN ALLOCATED IN SUPPORT OF PRIVATE SECTOR EXPANSION AND THE GODR INVESTMENT PROGRAM, AND INCLUDES FUNDING FOR FIVE BASIC CATEGORIES: PRIVATE SECTOR CREDIT, PRODUCTIVE INFRASTRUCTURE, MANUFACTURING SUPPORT, INSTITUTIONAL SUPPORT AND DEVELOPMENT AND THE ESTABLISHMENT OF A LOCAL CURRENCY TRUST FUND.

THE EXCHANGE RATE USED TO CALCULATE THE AMOUNT OF COUNTERPART REQUIRED OF THE GODR WILL BE THE HIGHEST RATE NOT ILLEGAL AT THE TIME OF DISBURSEMENT. IN RECENT WEEKS THAT RATE ON THE PARALLEL MARKET HAS RANGED FROM PESOS 2.80 TO 3.00 = US DOLLARS 1.00. ONCE THE UNIFICATION OF THE EXCHANGE RATE IS ACHIEVED ALL OTHER DOLLARS EXCHANGED FOR LOCAL CURRENCY, WHETHER FOR OE OR DA PROJECTS, WOULD BE PROCURED AT THE NEW OFFICIAL EXCHANGE RATE. PL-480 TITLE I COUNTERPART WOULD CONTINUE TO BE GENERATED AT A RATE WHICH REFLECTS THE LOCAL MARKET VALUE OF THE COMMODITIES AT THE TIME OF THE SALE (I.E., THE RATE OF EXCHANGE IS NOT RELEVANT TO PL-480 LOCAL CURRENCY GENERATIONS).

THE PROCEDURES FOR THE USE OF THE LOCAL CURRENCY COUNTERPART WERE DEVELOPED AS A CONDITION PRECEDENT TO THE

DISBURSEMENT OF THE PREVIOUS ESF PROGRAM (LOAN NO. 517-K-039). THESE PROCEDURES HAVE WORKED WELL UNDER THE ORIGINAL LOAN AND THE TWO SUBSEQUENT AMENDMENTS. SIMILAR PROCEDURES WILL BE FOLLOWED FOR THE LOCAL CURRENCY COUNTERPART UNDER THE PROPOSED PROGRAM. THE MISSION WILL ATTEMPT TO NEGOTIATE THAT, WITHIN APPROXIMATELY 30 DAYS AFTER DISBURSEMENT, THE GODR'S LOCAL CURRENCY COUNTERPART WILL BE DEPOSITED IN A SPECIAL ACCOUNT IN THE CENTRAL BANK. HOWEVER, GIVEN THE MAGNITUDE OF THIS DEPOSIT, THE GODR IS LIKELY TO ARGUE FOR A SCHEDULE WHICH WILL SPREAD THE LOCAL CURRENCY DEPOSIT OVER A LONGER PERIOD. ONCE DEPOSITED, THE CENTRAL BANK WILL INFORM THE TECHNICAL SECRETARIAT OF THE PRESIDENCY (STP) OF THE DEPOSIT OF ALL PROCEEDS WHO WILL THEN ADVISE USAID. THIS COUNTERPART WILL THEN BE PROGRAMMED JOINTLY BY THE GODR AND AID FOR THE AGREED UPON HIGH PRIORITY PRIVATE SECTOR DEVELOPMENT AND GODR INVESTMENT PROGRAM NEEDS. ONAPLAN WILL COORDINATE THE GODR PLANNING AND PROGRAMMING OF SPECIFIC ACTIVITIES. PRIOR TO THE DISBURSEMENT OF THE PROCEEDS FOR PROJECTS OR ACTIVITIES, ONAPLAN WILL SUBMIT FOR USAID APPROVAL, A DESCRIPTION AND DETAILED IMPLEMENTATION PLAN FOR EACH. THE GODR HAS IDENTIFIED NUMEROUS PRIORITY PROJECTS WITHIN THE ESF PROGRAM WHICH REQUIRE ADDITIONAL LOCAL CURRENCY AS WELL AS NEW ACTIVITIES NOT FUNDED UNDER PAST ESF PROGRAMS. SPECIFIC ALLOCATIONS WILL BE THE SUBJECT OF FURTHER NEGOTIATIONS, HOWEVER, THE FOLLOWING TABLE ILLUSTRATES THE BASIC GODR/USAID ALLOCATION TO DATE:

GENERAL PURPOSE	AMOUNT	
PRIVATE SECTOR CREDIT PROGRAM	RD PESOS 100	MILLION
PRODUCTIVE INFRASTRUCTURE	88	MILLION
MANUFACTURING SUPPORT	19	MILLION
INSTITUTIONAL SUPPORT AND DEV.	29	MILLION
TRUST FUND	30	MILLION
TOTAL	266 <u>1/</u>	MILLION

1/ THE EXCHANGE RATE OF 2.80 RD PESOS TO 1.00 US DOLLARS WAS USED FOR THIS CALCULATION.

2. THE CREDIT FACILITY

(A) STATUS OF ON-GOING PROGRAM

THE GODR HAS SET INCREASING EXPORTS AS A HIGH PRIORITY. THUS UNDER THE PREVIOUS ESF PROGRAM, A LARGE PORTION

OF THE LOCAL CURRENCY COUNTERPART WAS PROGRAMED TO PROVIDE CREDIT TO THE PRIVATE SECTOR. TO DATE A TOTAL OF RD PESOS 35 MILLION HAS BEEN CHANELED THROUGH THE ECONOMIC DEVELOPMENT AND INVESTMENT FUND (FIDE) MECHANISM IN THE CENTRAL BANK FOR AGRO-INDUSTRY AND EXPORT PROMOTION. THE 35 MILLION PESOS IS FULLY COMMITTED AND 20 MILLION PESOS HAS THUS FAR BEEN RELEASED WITH THE REMAINDER TO BE TRANCHED TO SUBBORROWERS. THE CREDIT, PROVIDED TO SMALL, MEDIUM AND LARGE BUSINESSES IS MAINLY USED FOR MEDIUM TERM CREDIT FOR INFRASTRUCTURE, EQUIPMENT AND OTHER CAPITAL INVESTMENTS NEEDED TO EXPAND THE EXISTING PRODUCTION AND MARKETING FACILITIES FOR THE EXPORT OF NON TRADITIONAL AGRICULTURAL AND MANUFACTURED PRODUCTS. SOME CREDIT FOR SHORT TERM WORKING CAPITAL HAS ALSO BEEN EXPENDED.

THE CREDIT PROGRAM AS ESTABLISHED WITHIN THE CENTRAL BANK PROVIDES ACCESS BY ANY QUALIFIED BANK OR FINANCIERA, INCLUDING COOPERATIVES WHICH HAVE THEIR OWN FINANCIAL INTERMEDIARY. THE PROGRAM USES STANDARD CREDIT POLICIES AND PROCEDURES FOR LENDING TO THE MANUFACTURING AND AGRO INDUSTRIAL SECTORS WHICH REFLECT THE HIGHEST SUBLENDING RATES UNDER THE LAW. THE USAID, WHILE ON THE WHOLE PLEASED WITH THE FUNCTIONING OF THE FIDE CREDIT MECHANISM, IS CURRENTLY EVALUATING THE PROCEDURES. WHEN COMPLETED, THE RESULTS OF THE EVALUATION WILL BE USED TO MODIFY AND IMPROVE THE SUBLENDING PROCEDURES NOW EMPLOYED.

(B) THE EXPANDED CREDIT PROGRAM

WHILE THE PREVIOUS PROGRAM PROVIDED SIGNIFICANT AMOUNTS OF CREDIT RESOURCES FOR EXPORT PROMOTION, THERE IS STILL A SIGNIFICANT CREDIT SHORTAGE IN THE BANKING SYSTEM. THUS, MORE REMAINS TO BE DONE. UNDER THE PROPOSED PROGRAM, ADDITIONAL CREDIT RESOURCES WILL BE PROVIDED. FURTHER, THE CREDIT PROGRAM WILL BE MODIFIED TO INCLUDE OTHER TYPES OF CREDIT, ALL OF WHICH WILL BE DIRECTED TO THE PRIVATE SECTOR. THE CREDIT PROGRAMS TO BE COVERED ARE (1) THE CONTINUATION OF AGRO-INDUSTRY/EXPORT PROMOTION LENDING (RD PESOS 40 MILLION); (2) THE ADDITION OF LENDING FOR WORKING CAPITAL FOR EXPORTERS (RD PESOS 40 MILLION); AND (3) LENDING FOR CREDIT FOR PRODUCTIVE AGRICULTURAL ACTIVITIES (RD PESOS 20 MILLION).

THE AGRO INDUSTRY/EXPORT PROMOTION LENDING WILL BE SIMILAR TO THE ONGOING PROGRAM IN FIDE, I.E., FOR MEDIUM TERM CREDIT FOR NON TRADITIONAL EXPORT AND SELECTED IMPORT

SUBSTITUTION PROJECTS. THIS WINDOW WILL SERVE AN ADDITIONAL FUNCTION OF PROVIDING CREDIT TO SELECTED AGRIBUSINESSES UNDER THE NEW AID DA PROJECT FOR AGRIBUSINESS DEVELOPMENT (PROJECT NO. 517-0186). IT IS EXPECTED THAT RD PESOS 20 MILLION WILL BE DIRECTED TO SUBLENDING ACTIVITIES PROMOTED UNDER THIS PROJECT.

LENDING FOR WORKING CAPITAL FOR EXPORTERS WILL BE GEARED DIRECTLY TO THOSE ENTERPRISES WHICH HAVE A NEED FOR CREDIT FOR RAW MATERIALS, LABOR, AND OTHER EXPENSES RELATED TO THE PRODUCTION OF GOODS TO FULFILL A SHORT TERM (6-8 MONTHS) CAPITAL REQUIREMENT. TO BE ELIGIBLE FOR THIS CREDIT, WE ANTICIPATE THAT RECIPIENTS MUST HAVE AN IRREVOCABLE LETTER OF CREDIT FROM A FOREIGN BUYER. THE LEVEL OF CREDIT WILL BE BASED ON THE AMOUNT OF THE LETTER OF CREDIT. WE EXPECT PROCEDURES FOR MAKING THESE SUB-LOANS TO BE SIMPLE AND EXPEDITIOUS. THE MISSION IS ASSESSING THE NEED FOR ANOTHER MECHANISM FOR HANDLING THIS CREDIT INCLUDING CREATING A REDISCOUNT WINDOW IN THE CENTRAL BANK.

CREDIT FOR PRODUCTIVE AGRICULTURAL ACTIVITIES IS DESIGNATED TO PROVIDE SHORT-TERM CREDIT FOR PRODUCERS OF IMPORT SUBSTITUTION AND FOOD CROPS. CREDIT WILL BE EXTENDED FOR A CROP CYCLE FOR SEEDS, FERTILIZER AND OTHER REQUIRED INPUTS. THIS LENDING IS DESIGNED TO COMPLEMENT THE AGRICULTURAL DEVELOPMENT BANK'S LENDING ACTIVITIES AND BE CHANNLED THROUGH PRIVATE COMMERCIAL BANKING INSTITUTIONS WHICH FACE A LIQUIDITY CRISIS AND CONFRONT HIGH DEMAND FOR AGRICULTURAL CREDIT FROM THE PRIVATE SECTOR. FIDE HAS DONE THIS IN THE PAST AND IS EXPECTED TO CHANNEL THIS CREDIT UNDER THE PROGRAM.

3. PRODUCTIVE INFRASTRUCTURE

THE LOCAL CURRENCY COUNTERPART RESOURCES ALLOCATED FOR PRODUCTIVE INFRASTRUCTURE WILL BE USED TO SUPPORT PROJECTS WHICH ARE CRITICAL TO THE EXPANSION OF THE DOMINICAN PRIVATE SECTOR AND THE GODR INVESTMENT PROGRAM. PRODUCTIVE INFRASTRUCTURE WAS FUNDED UNDER THE ORIGINAL ESF LOAN WHICH PROVIDED RD PESOS 27 MILLION TO SUPPORT HIGH PRIORITY PROJECTS FUNDED BY THE IBRD, IDB AND AID. PROJECTS WHICH HAVE BEEN SUPPORTED THUS FAR INCLUDE, INTER ALIA, A KEY IBRD HIGHWAY PROJECT, RURAL ROADS PROJECTS FUNDED BY THE IDB AND AID, EXPANSION AND UPGRADING OF THE HAINA PORT FACILITIES, AND IRRIGATION PROJECTS. ALL FUNDS EXCEPT 5 MILLION PESOS HAVE

BEEN APPROVED FOR SPECIFIC PROJECT ACTIVITIES. IT IS EXPECTED THAT THESE REMAINING FUNDS WILL BE APPROVED TO SUPPORT PRIORITY PROJECT COUNTERPART NEEDS.

UNDER THE PROPOSED PAAD, LOCAL CURRENCY COUNTERPART AMOUNTING TO RD PESOS 88 MILLION HAS BEEN ALLOCATED FOR SIMILAR ACTIVITIES. PRIORITY WILL BE GIVEN TO PROVIDING COUNTERPART RESOURCES FOR USAID PROJECTS SUCH AS RURAL ROADS, ENERGY CONSERVATION AND RESOURCE DEVELOPMENT, EXPORT PROMOTION, AND MINERALS DEVELOPMENT. FOR THESE PROJECTS A TOTAL OF 10 MILLION PESOS IS NEEDED TO PROVIDE COUNTERPART TO COVER CY 1985 NEEDS.

OTHER PRIORITY PROJECTS IN THE GODR INVESTMENT PROGRAM WILL BE FUNDED. THIS INCLUDES PROJECTS, MAINLY SUPPORTED BY OTHER DONORS, SUCH AS THE DUARTE HIGHWAY, THE HAINA PORT, AN IBRD ANIMAL FEED PRODUCTION PROJECT, IRRIGATION AND TOURISM PROJECTS OF THE IDB AND IBRD, AND HIGHWAY PROJECTS FINANCED WITH THE VENEZUELAN INVESTMENT FUND. THE GODR HAS ALSO EXPRESSED PRIORITY INTEREST IN A NUMBER OF RURAL ROADS ACTIVITIES AND A COAL TERMINAL PROJECT.

ONAPLAN IN COLLABORATION WITH OTHER GOVERNMENT ENTITIES WILL DEVELOP A COMPLETE LISTING OF PRIORITY PRODUCTIVE INFRASTRUCTURE PROJECTS. FUNDING FOR SPECIFIC PROJECTS WILL REQUIRE AID CONCURRENCE. ONAPLAN, AS BEFORE, WILL SUBMIT QUARTERLY REPORTS TO AID ON THE DISBURSEMENT AND USAGE OF THESE FUNDS.

4. MANUFACTURING SUPPORT

(A) FREE ZONES (RD PESOS 14 MILLION)

FREE ZONES DEVELOPMENT WAS SUPPORTED UNDER THE ORIGINAL ESF PROGRAM AND LOCAL CURRENCY COUNTERPART TOTALING 2.0 MILLION PESOS WAS PROGRAMED. CONSTRUCTION OF FACILITIES IS CURRENTLY BEING CARRIED OUT AT THE PUERTO PLATA FREE ZONE, AND THE MISSION BELIEVES THAT THE ZONE OFFERS OPPORTUNITY FOR BOTH INCREASING EMPLOYMENT AND FOREIGN EXCHANGE EARNINGS. IN ADDITION, FREE ZONES EXPECTED TO RECEIVE COUNTERPART TOTALING 5.5 MILLION PESOS UNDER THE ORIGINAL PROGRAM INCLUDE THOSE LOCATED AT SAN PEDRO DE MACORIS, BANI, AND PUERTO PLATA (PHASE III).

UNDER THE PROPOSED PROGRAM, THE FOURTH AND FINAL PHASE OF THE PUERTO PLATA FREE ZONE WILL BE FUNDED (EST.

RD PESOS 3 MILLION); THE EXPANSION OF THE SANTIAGO FREE ZONE IS ALSO BEING CONSIDERED (EST. RD PESOS 6 MILLION); AND THE ESTABLISHMENT AND CONSTRUCTION OF OTHER FREE ZONES, WITH A POSSIBLE SITE BEING BARAHONA (EST. RD PESOS 5 MILLION).

(B) INDUSTRIAL PARKS

WITHIN THE DOMINICAN REPUBLIC, ESPECIALLY THE SANTO DOMINGO AREA, INDUSTRIAL PARKS WERE ESTABLISHED IN DESIGNATED LOCATIONS TO HOUSE MANUFACTURING AND OTHER ENTERPRISES. HOWEVER, THESE SITES HAVE EXPERIENCED A DETERIORATION IN BOTH BASIC SERVICES AND INFRASTRUCTURE. TO FURTHER SUPPORT THE PRIVATE SECTOR, IT IS PROPOSED THAT RD PESOS 5 MILLION BE ALLOCATED TO IMPROVE SERVICES SUCH AS WATER AND ELECTRICITY AND INFRASTRUCTURE SUCH AS ROADS, LOADING FACILITIES, WAREHOUSING, ETC. SPECIFIC ATTENTION IS BEING FOCUSED ON A MAJOR INDUSTRIAL AREA IN SANTO DOMINGO, WHICH HOUSES SEVERAL MAJOR DOMINICAN EXPORT AND IMPORT SUBSTITUTION ENTERPRISES. IN ADDITION, THE GODR IS CONSIDERING THE DEVELOPMENT OF OTHER INDUSTRIAL PARKS.

5. INSTITUTIONAL SUPPORT AND DEVELOPMENT

(A) STUDIES

1. FEASIBILITY STUDIES (RD 2 MILLION PESOS)

THE ONGOING LOCAL CURRENCY PROGRAM FINANCED RD PESOS 1 MILLION FOR STUDIES GEARED TO EXPLORING AND DEVELOPING PRIVATE SECTOR INITIATIVES. SEVERAL STUDIES HAVE BEEN COMPLETED OR ARE NEAR COMPLETION IN AREAS SUCH AS EXPORT INFRASTRUCTURE REQUIREMENTS, FREE ZONES, ANALYSIS OF BUSINESSES AND BUSINESS OPPORTUNITY IN THE SOUTHWEST REGION, DAIRY PRODUCT PROCESSING, ETC. HOWEVER, IT HAS BECOME APPARENT THAT FOLLOW-UP FUNDING FOR ACTUAL FEASIBILITY STUDIES NEEDS TO BE MADE AVAILABLE. THE LEVEL OF INTEREST IN NEW INVESTMENT OPPORTUNITIES IN THE DOMINICAN REPUBLIC HAS DEVELOPED TO SUCH A POINT THAT AVAILABILITY OF FUNDS FOR CARRYING OUT FEASIBILITY STUDIES IS NOW A CONSTRAINT AND FUNDING IS NOW NECESSARY TO ENABLE INVESTORS TO MAKE INVESTMENT DECISIONS AND PROVIDE A SOUND BASIS FOR UNDERTAKING BUSINESS OPPORTUNITIES IDENTIFIED BY THE PRIVATE SECTOR IN THE D.R. FUNDS FOR FEASIBILITY STUDIES ARE EXPECTED TO BE MADE AVAILABLE FOR PRIVATE INVESTORS ON A REIMBURSABLE BASIS. IN ADDITION, THE FUNDS WOULD ALSO BE USED BY FIDE, BANKS OR INDIVIDUALS TO EXAMINE THE POTENTIAL OF ENTIRE SECTORS SUCH AS THE LABOR INTENSIVE MANUFACTURING INDUSTRY. THESE FUNDS WILL BE MADE AVAILABLE THROUGH FIDE OR THE PRE-INVESTMENT FUND OF STP.

2. POLICY STUDIES (RD 2 MILLION PESOS)

THE DOMINICAN GOVERNMENT IN ORDER TO KNOWLEDGEABLY CONFRONT THE ECONOMIC PROBLEMS OF THE COUNTRY REQUIRES AN EXAMINATION OF GOVERNMENT POLICIES, LAWS AND REGULATIONS AND THEIR EFFECTS ON THE ECONOMIC AND SOCIAL DEVELOPMENT OF THE COUNTRY. QUANTITATIVE ANALYSIS IS NEEDED IN SEVERAL AREAS SUCH AS EXCHANGE RATES, TARIFF RATES, MONETARY AND CREDIT POLICY, FOREIGN INVESTMENT LAWS, PRICE POLICY, EXPORT LAWS AND REGULATIONS, ETC. THE FUNDING PROGRAMED WOULD BE USED BOTH TO CARRY OUT STUDIES BY DOMINICANS AND TO SUPPORT WITH LOCAL CURRENCY THE FINANCING OF STUDIES AND DATA COLLECTION/ANALYSIS EFFORTS CARRIED OUT BY OTHER US OR THIRD COUNTRY NATIONALS. IN THE LATTER AREA, THE MISSION ESTIMATES THE NEED FOR US 750,000 DOLLARS IN PD AND S DURING 1985 TO CONTRACT WITH U.S. AND THIRD COUNTRY CONTRACTORS.

(B) PRIVATE SECTOR SUPPORT (RD PESOS 10 MILLION)

SPECIFIC PROJECT ACTIVITIES WILL BE FUNDED UNDER THIS CATEGORY TO DIRECTLY SUPPORT THE INVESTMENT AND EXPORT EFFORTS OF THE DOMINICAN AND OTHER FOREIGN PRIVATE SECTOR INVESTORS. PROJECT PROPOSALS HAVE BEEN RECEIVED FROM THE INVESTMENT PROMOTION COMMISSION, THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY, THE JOINT AGRICULTURAL CONSULTING CORPORATION AND THE INTERNATIONAL EXECUTIVE SERVICE CORPS FOR THE EXPANSION OF LOCAL OFFICES AND PROGRAMS IN THE DOMINICAN REPUBLIC. EACH PROPOSAL WILL BE REVIEWED AND APPROVED BY THE JOINT ONAPLAN/USAID CBI COMMITTEE. THESE PROJECTS WILL SERVE TO BRING NEW MARKET INFORMATION, TECHNICAL ASSISTANCE AND OTHER BUSINESS RELATED SERVICES TO THE COUNTRY.

(C) PVO'S (RD PESOS 15 MILLION)

PVO's PROVIDE A VALUABLE CONTRIBUTION TO LOCAL SELF-HELP EFFORTS, ESPECIALLY TO RURAL AND PRIVATE SECTOR INITIATIVES IN THE DOMINICAN REPUBLIC. UNDER THE PREVIOUS ESF PROGRAM, 8 MILLION PESOS WERE ALLOCATED TO FINANCE PROJECTS AND ACTIVITIES OF THE NUMEROUS US AND DOMINICAN PRIVATE VOLUNTARY ORGANIZATIONS ACTIVE IN THE DOMINICAN REPUBLIC. OF THE 8 MILLION, 4 MILLION INCLUDED IN THE ORIGINAL PROGRAM HAVE BEEN COMMITTED AND 4 MILLION PESOS FROM THE LAST AMENDMENT REMAIN TO BE PROGRAMMED. HOWEVER, THERE ARE MORE PVO PROPOSALS THAN FUNDS AVAILABLE BY SEVERAL MILLION PESOS.

UNDER THE PROPOSED PAAD, AN ALLOCATION OF 15 MILLION PESOS WILL CONTRIBUTE TO THE ECONOMIC DEVELOPMENT OF AREAS OR SECTORS IN THE DOMINICAN REPUBLIC THAT WOULD NOT OTHERWISE BE REACHED WITHOUT THE EFFORTS OF PVO'S. EMPHASIS WILL BE GIVEN TO THOSE ACTIVITIES AND PROJECTS WHICH LEAD TO SELF-SUFFICIENCY FOR THE PVO AND ITS PROGRAM OR INCOME-GENERATING ACTIVITIES. 5 MILLION PESOS HAS BEEN EARMARKED FOR A TWO YEAR ADEMI PROGRAM TO CONTINUE TECHNICAL ASSISTANCE AND CREDIT TO SMALL AND MICRO BUSINESS. SEVERAL EXPRESSIONS OF INTEREST HAVE ALSO BEEN RECEIVED FOR TRAINING PROJECTS, PRODUCTIVE AGRICULTURAL PROJECTS, SMALL FARMER CREDIT, ARTESANIA AND COOPERATIVE ASSISTANCE PROJECTS MAINLY FOCUSED IN RURAL AREAS OF THE COUNTRY.

6. TRUST FUND

THE GODR AND USAID HAVE INITIATED DISCUSSIONS ON THE ESTABLISHMENT OF A TRUST FUND, COVERING AN ESTIMATED THREE YEARS NEED, UTILIZING A PORTION OF THE LOCAL CURRENCY COUNTERPART UNDER THE PROPOSED PROGRAM. IN GENERAL, A TRUST ACCOUNT AGREEMENT WOULD BE SIGNED BETWEEN THE GODR AND USAID. SUBSEQUENT TO THE SIGNING OF THE AGREEMENT, THE GODR WILL DEPOSIT LOCAL CURRENCY INTO AN ACCOUNT IN THE CENTRAL BANK IN THE NAME OF THE U.S. DISBURSING OFFICER. THE FUNDS WOULD BE USED IN FURTHERANCE OF THE ECONOMIC ASSISTANCE PROGRAMS IN THE DOMINICAN REPUBLIC INCLUDING ADMINISTRATIVE AND OPERATING COSTS OF THE USAID TO CARRY OUT THESE PROGRAMS. ESTABLISHMENT OF THIS TRUST FUND WOULD NOT BE POSSIBLE IF THE PROGRAM WERE LOAN FINANCED RATHER THAN A GRANT. (SEE SANTO DOMINGO 4646 FOR FULL DISCUSSION.)

(A) OE/PSI USES

TRUST FUNDS WILL BE USED BY THE USAID FOR THE HIRING OF ADDITIONAL PROFESSIONAL STAFF TO SUPPORT AND ASSIST IN CARRYING OUT THE EXPANDED AID PROGRAM IN THE COUNTRY; IN-COUNTRY TRAVEL; AND FOR OTHER USAID OFFICE OPERATIONAL COSTS. THE USAID WOULD ALSO USE TRUST FUNDS FOR PROGRAM SUPPORT AND IMPLEMENTATION (PSI) ACTIVITIES IN THE AGRICULTURE, HEALTH, EDUCATION, POPULATION SECTORS, AND FOR EXPORT PROMOTION AND SPECIAL PEACE CORPS SUPPORT. TRUST FUNDS HAVE BEEN ALLOCATED IN SUPPORT OF THESE ACTIVITIES FOR FISCAL YEARS 1985, 1986 AND 1987. THE USAID WILL MAINTAIN RECORDS ON ALL DISBURSEMENTS FROM THE ACCOUNT WHICH MAY BE INSPECTED BY THE GODR AT ANY REASONABLE TIME. THE USAID WILL PREPARE AND FURNISH AN ANNUAL REPORT TO THE GODR ON THE DEPOSITS, DISBURSEMENTS AND BALANCES IN THE ACCOUNT.

(B) PROGRAM MONITORING, COORDINATION, AND OVERSIGHT

PROCEDURES FOR MONITORING BY THE GODR OF THE LOCAL CURRENCY PROGRAM HAVE BEEN ESTABLISHED, ARE WORKING WELL AND WILL BE CONTINUED AND ENHANCED UNDER THE PROPOSED ESF PROGRAM. MAJOR RESPONSIBILITY FOR PROGRAM MONITORING ON THE GODR SIDE RESTS WITH ONAPLAN'S SPECIALLY ESTABLISHED PL-480/CBI COORDINATING OFFICE. THIS OFFICE, STAFFED WITH AUDITORS, ENGINEERS AND PLANNERS AND WITH AN ANNUAL BUDGET OF RD 400,000 PESOS, EXAMINES PROJECT PROPOSALS, CARRIES OUT AUDITS, CONDUCTS FIELD SITE VISITS, AND WRITES END OF PROJECT REPORTS ON ALL PROGRAM ACTIVITIES. IT IS ALSO RESPONSIBLE FOR THE QUARTERLY REPORTS REQUIRED BY AID ON BOTH THE LOCAL CURRENCY AND U.S. DOLLAR PROGRAMS. THIS OFFICE ALSO CONTRACTS FOR SPECIAL OUTSIDE AUDITS OF PROGRAM ACTIVITIES. AN OUTSIDE AUDIT OF THE OVERALL LOCAL CURRENCY AND US DOLLAR PROGRAM UNDER THE PREVIOUS ESF PROGRAM IS UNDERWAY AND WHEN COMPLETED WILL BE PRESENTED TO THE USAID FOR REVIEW. WITH THE EXPANSION OF THE LOCAL CURRENCY PROGRAM UNDER THIS GRANT, THE COORDINATING OFFICE WILL BE EXPANDED. THE OVERALL OFFICE BUDGET WILL INCREASE TO RD PESOS 1.1 MILLION AND ADDITIONAL STAFF WILL BE HIRED.

PRINCIPAL RESPONSIBILITY FOR COORDINATING THE LOCAL CURRENCY PROGRAM FOR THE USAID RESIDES WITH THE CAPITAL RESOURCES DEVELOPMENT OFFICE. THIS INCLUDES WORKING CLOSELY WITH (1) USAID MANAGEMENT WHICH ESTABLISHES PRIORITIES, SETS DIRECTIONS, AND MAKES FINAL DECISIONS ON ALLOCATIONS AND PROGRAMMING, AND (2) ONAPLAN ON THE DESIGN AND SELECTION OF THE PROJECTS AND ACTIVITIES FOR FINANCING UNDER THE PROGRAM. IN ADDITION, CRD COORDINATES THE USAID PROJECT APPROVAL PROCESS, INCLUDING ALL CHANGES AND MODIFICATIONS, RELYING ON INPUTS FROM BOTH THE FRONT OFFICE AND APPROPRIATE USAID TECHNICAL DIVISIONS. FINALLY CRD CONDUCTS REVIEWS OF THE PROGRAM WITH ONAPLAN AND PROGRAM REVIEWS WITHIN THE USAID.

PRINCIPAL OVERSIGHT OF PROJECTS AND ACTIVITIES SUPPORTED WITH COUNTERPART UNDER THE PROGRAM WILL BE SHARED AMONG A NUMBER OF USAID OFFICES AND DIVISIONS. THE TRADE AND DEVELOPMENT DIVISION WILL OVERSEE PRIVATE SECTOR SUPPORT PROJECTS AND ACTIVITIES (INCLUDING ACTIVITIES OF IESC, JAOC AND CACI), SOME PVC ACTIVITIES (PRINCIPALLY ADEMI), AND THE CREDIT PROGRAM ACTIVITIES. THE CONTROLLER'S OFFICE WILL OVERSEE THE TRUST FUND ACCOUNT, GODR COMPLIANCE WITH THE CONDITION REQUIRING DOLLAR IMPORTS FROM THE U.S. AND ALL FINANCIAL TRANSACTIONS RELATED TO THE PROGRAM INCLUDING THE MAINTENANCE OF NECESSARY FINANCIAL RECORDS ON ALL RELEASES OF LOCAL CURRENCY COUNTERPART. THE PROGRAM ECONOMIST WILL OVERSEE THE STUDIES FUNDING INCLUDING BOTH POLICY AND PROJECT FEASIBILITY STUDIES. USAID TECHNICAL DIVISIONS WILL OVERSEE ALL USAID, OTHER DONOR, AND GODR PRODUCTIVE INFRASTRUCTURE PROJECTS AND PVO ACTIVITIES IN THEIR RESPECTIVE SECTORS RECEIVING COUNTERPART UNDER THE PROGRAM. THE CRD OFFICE ENGINEERING UNIT WILL BACKSTOP ALL PROJECTS AND ACTIVITIES WITH SIGNIFICANT CONSTRUCTION (PRIMARILY PRODUCTIVE INFRASTRUCTURE AND MANUFACTURING SUPPORT PROJECTS). THE CRD OFFICE WILL CARRY OUT GENERAL OVERVIEW ACTIVITIES RELATED TO THE PROGRAM. TO CARRY OUT THIS EXPANDED SET OF RESPONSIBILITIES WILL REQUIRE THE HIRING OF SOME ADDITIONAL STAFF.

7. OPTIONS

THE ABOVE DESCRIBED LOCAL CURRENCY COUNTERPART PROGRAM IS BASED ON THE PRESUMPTION THAT ALL DOLLAR FUNDS ARE EXCHANGED AT THE HIGHEST EXCHANGE RATE NOT ILLEGAL AT THE TIME THE AGREEMENT IS SIGNED. THREE OTHER OPTIONS FOR PROGRAMMING THE COUNTERPART ARE PRESENTED BELOW.

A. THE IMF OPTION

WITH REGARD TO THE USE OF LOCAL CURRENCY COUNTERPART UNDER THE PROPOSED PROGRAM, THE INTERNATIONAL MONETARY FUND LETTER OF INTENT STATES THAT ONLY US 23 MILLION DOLLARS EQUIVALENT IN LOCAL CURRENCY COUNTERPART WOULD BE MADE AVAILABLE FOR PROGRAMMING IN FY 1985. ASSUMING AN EXCHANGE RATE OF US DOLLAR 1.00 = RD PESO 2.80, RD 64.4 MILLION OF LOCAL CURRENCY COUNTERPART COULD BE PROGRAMMED. THE LOCAL CURRENCY COUNTERPART ASSOCIATED WITH THE REMAINING US 72 MILLION DOLLARS WOULD BE DEPOSITED IN A SPECIAL ACCOUNT IN THE CENTRAL BANK,

WOULD NOT BE PROGRAMMED BUT PRESUMABLY COULD BE UTILIZED IN FUTURE YEARS. THE EFFECT OF THIS WOULD BE THE DE FACTO STERILIZATION OF APPROXIMATELY 75 PERCENT OF THE LOCAL CURRENCY COUNTERPART. LOCAL CURRENCY COUNTERPART AVAILABLE FOR PROGRAMMING WOULD BE USED TO FUND JOINT USAID/GODR PRIORITIES. IN THE EVENT THAT IMF PREVAILS IN IMPOSING ITS VIEW ON GODR AND USG, THE MISSION WOULD PLACE FIRST PRIORITY ON THE ESTABLISHMENT OF THE TRUST FUND FOR THE SUPPORT OF THE ECONOMIC ASSISTANCE PROGRAMS IN THE DOMINICAN REPUBLIC AND ON PROVIDING PESO FUNDING FOR USAID DEVELOPMENT ASSISTANCE PROJECTS. OUR NEXT PRIORITY WOULD BE THE PROVISION OF CREDIT FOR PRIVATE SECTOR WORKING CAPITAL FOR NON TRADITIONAL EXPORT ACTIVITY. ALSO WE WOULD CONTINUE OUR ASSISTANCE TO PVO'S AND FOR PRIORITY PRIVATE SECTOR SUPPORT AND STUDIES AT REDUCED LEVELS. THE PROGRAMMING BREAKDOWN WOULD BE AS FOLLOWS:

PROJECTS	RD PESOS
1. TRUST FUND	30 MILLION
2. USAID PROJECTS COUNTERPART	10 MILLION
3. CREDIT	21.4 MILLION
4. INSTITUTIONAL SUPPORT AND DEVELOPMENT	3 MILLION
TOTAL	64.4 MILLION

B. THE USAID FALLBACK OPTION

BECAUSE OF THE SEVERE RESTRICTION THAT THE IMF OPTION WOULD CAUSE TO THE AVAILABILITY OF LOCAL CURRENCY FOR SUPPORT OF NEEDED PRIORITY PROJECTS AND ACTIVITIES, A SECOND MORE ACCEPTABLE OPTION WOULD BE THE UTILIZATION OF APPROXIMATELY HALF OF THE LOCAL CURRENCY EQUIVALENT OF THE US DOLLAR 95.0 OR 154 MILLION PESOS. THIS AMOUNT WOULD BE PROGRAMMED IN FY 1985 WITH THE REMAINING PESOS 112 MILLION DEPOSITED IN A SPECIAL ACCOUNT IN THE CENTRAL BANK FOR USE IN FUTURE YEARS. THE PRIORITIES FOR PROGRAMMING OF THE COUNTERPART WOULD REMAIN BASICALLY AS DESCRIBED ABOVE, I.E., COUNTERPART FOR ESTABLISHMENT OF A TRUST FUND, USAID DA PROJECTS, INSTITUTIONAL SUPPORT AND CREDIT. HOWEVER, THE ADDITIONAL FUNDS WOULD ALLOW PROGRAMMING OF ADDITIONAL PVO ACTIVITIES AND CREDIT FOR THE PRIVATE SECTOR AND FOR THE CONTINUATION OF MANUFACTURING SUPPORT AND PRODUCTIVE INFRASTRUCTURE PROJECTS. AN ILLUSTRATIVE ALLOCATION WOULD BE:

1. TRUST FUND	30	MILLION
2. USAID PROJECTS COUNTERPART	10	MILLION
3. INSTITUTIONAL SUPPORT	10	MILLION
4. CREDIT	60	MILLION
5. MANUFACTURING SUPPORT	4	MILLION
6. PRODUCTIVE INFRASTRUCTURE	40	MILLION
TOTAL	154	MILLION

C. GODR CAPITAL BUDGET SUPPORT

REGARDING LOCAL CURRENCY WHICH MAY BE DEPOSITED IN 1985 IN THE SPECIAL ACCOUNT IN THE CENTRAL BANK, THE MISSION CONSIDERED ITS USE AS SUPPORT TO THE CENTRAL GOVERNMENT CAPITAL BUDGET. ALTHOUGH IT HAS SOME APPEAL, IT WAS FELT INAPPROPRIATE HERE FOR THREE REASONS. FIRST THE 1985 GODR BUDGET PRESENTED RECENTLY TO CONGRESS IS BALANCED WITH RESPECT TO REVENUES AND EXPENDITURES. THIS IS AN OBJECTIVE OF THE IMF AND REFLECTS A DESIRE TO SEE THE GODR OPERATE WITHIN ITS MEANS. OUR INFUSION OF ADDITIONAL PESOS INTO THE CAPITAL BUDGET IS UNNECESSARY BECAUSE THE BUDGET PROVIDES REVENUES FOR CAPITAL INVESTMENTS AND MAY CAUSE IT TO BECOME UNBALANCED, THEREBY UNDERMINING IMF EFFORTS AND THEIR ATTEMPT TO IMPOSE GREATER DISCIPLINE ON THE FISCAL SIDE. SECOND, REALIZING THAT ALL BUDGET RESOURCES ARE FUNGIBLE, THE GODR COULD SUBSTITUTE COUNTERPART RESOURCES INTO ACCEPTABLE BUDGETARY AREAS WHILE DIVERTING ITS REGULAR BUDGET RESOURCES INTO LOWER PRIORITY OR INAPPROPRIATE AREAS. THIRD, THE CURRENT SYSTEM OF PROGRAMMING LOCAL CURRENCY COUNTERPART PROVIDES THE USAID WITH A USEFUL OPPORTUNITY TO LOOK AT THE ENTIRE INVESTMENT BUDGET WITH THE GODR AND THEREBY HELP TO ESTABLISH INVESTMENT PRIORITIES.

D. US STAFF NEEDS

THREE USAID OFFICES ARE DIRECTLY INVOLVED IN VARIOUS ASPECTS OF THE ESF PROGRAM. AS STATED PREVIOUSLY THE CAPITAL RESOURCES DEVELOPMENT OFFICE IS RESPONSIBLE FOR COORDINATING OVERALL PROGRAMMING AND FOR MONITORING THE LOCAL CURRENCY

PROGRAM; THE PROGRAM ECONOMIST IS RESPONSIBLE FOR UNDERTAKING ECONOMIC ANALYSIS RELATED TO THE ECONOMIC ASSISTANCE PROGRAM IN THE DOMINICAN REPUBLIC; AND THE OFFICE OF TRADE AND DEVELOPMENT HAS OVERALL RESPONSIBILITY FOR MONITORING THE USAID PROGRAMS AND PROJECTS AFFECTING THE PRIVATE SECTOR. IN ORDER TO ALLOW THESE OFFICES TO ADEQUATELY CARRY OUT THE RESPONSIBILITIES RELATED TO THE RAPIDLY GROWING ESF PROGRAM, ADDITIONAL US DOLLAR FINANCED CONTRACT STAFF IS REQUIRED.

THE OFFICE OF TRADE AND DEVELOPMENT REQUIRES THE SERVICES OF A TRADE DEVELOPMENT ADVISOR UNDER A PERSONAL SERVICES CONTRACT FOR A MINIMUM OF A TWO YEAR PERIOD. THE ADVISOR WILL BE RESPONSIBLE FOR MONITORING TECHNICAL AND FINANCIAL MATTERS AS RELATED TO THE ONGOING USAID PRIVATE SECTOR PROJECTS AND THE FIDE CREDIT PROGRAMS FUNDED WITH LOCAL CURRENCIES DESCRIBED EARLIER. THE CONTRACTOR WILL BE EXPECTED TO WORK WITH USAID, GODR AND PRIVATE SECTOR PERSONNEL ON IDENTIFYING AND RECOMMENDING SOLUTIONS TO BOTTLENECKS IN THE CURRENT BANKING AND CREDIT SYSTEM AS WELL AS REVIEW PROPOSALS FROM LOCAL OR US GROUPS. TDD IS ACTIVELY SEARCHING FOR A CANDIDATE TO FILL THIS POSITION. APPROXIMATELY DOLLARS 162,000 OF SDA PROJECT DEVELOPMENT AND SUPPORT FUNDS IS REQUIRED TO FUND THE ADVISOR.

THE SERVICES OF AN ECONOMIC SPECIALIST TO ASSIST IN ECONOMIC ANALYSIS AND THE COORDINATION AND IMPLEMENTATION OF NUMEROUS PROPOSED POLICY STUDIES WILL BE REQUIRED. THE SPECIALIST WILL SERVE BASICALLY IN THE CAPACITY OF THE USAID STAFF PERSON TO A JOINT USAID/GODR COMMITTEE ON ECONOMIC POLICY ANALYSIS WHICH THE MISSION HOPES TO SEE ESTABLISHED IN THE NEAR FUTURE. AGAIN, A TWO YEAR PSC IS CONTEMPLATED AT A COST OF APPROXIMATELY 162,000 DOLLARS OF PD AND S FUNDS.

FINALLY, THE CAPITAL RESOURCES DEVELOPMENT OFFICE REQUIRES THE SERVICES OF A PROGRAM DEVELOPMENT ADVISOR, UNDER A PERSONAL SERVICES CONTRACT, FOR A MINIMUM TWO YEAR PERIOD. THIS ADVISOR WILL WORK WITH THE LARGE LOCAL CURRENCY PROGRAM RESULTING FROM THE PROPOSED PROGRAM ASSISTANCE AND PL-480 TITLE I PROGRAM. THE CONTRACTOR WILL PRIMARILY WORK WITH OTHER USAID TECHNICAL OFFICES AND ONAPLAN TO IDENTIFY, DESIGN, AND REVIEW PROJECTS FOR FINANCING WITH LOCAL CURRENCY AND TO DRAFT APPROVAL DOCUMENTATION. CRD IS CURRENTLY SEEKING CANDIDATES FOR THIS POSITION. APPROXIMATELY DOLLARS 162,000 OF SDA PD AND S FUNDING IS REQUIRED TO FUND THIS ADVISOR FOR TWO YEARS.

ON THE BASIS OF THESE NEEDS, THE USAID REQUESTS AID/W
APPROVAL OF THE ADDITION OF DOLLARS 500,000 OF SDA PD AND S
FUNDS TO SUPPORT THE USAID MONITORING AND COMPLIANCE
REQUIREMENTS OF THE ESF PROGRAM