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PRIVATE SECTOR STRATEGY ASSESSMENT: DOMINICAN REPUBLIC

Final Report

*Bureau for Private Enterprise
U.S. Agency for International Development*

Prepared for: USAID/Dominican Republic

Prepared by: J.E. Austin Associates

*Sponsored by: Private Enterprise Development Support Project II
Project Number 940-2028.03
Prime Contractor: Arthur Young*

October 1988



Arthur Young

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

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Special thanks is also expressed to Warren Weinstein at USAID-Washington for his concern for a more professional approach to private sector development which inspired the original Private Sector Development Framework and its later revision as the Manual for Action in the Private Sector (MAPS).

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INTRODUCTION

USAID - Santo Domingo requested J.E. Austin Associates to undertake a private sector strategy assessment utilizing the MAPS (Private Sector Development) Framework which had been earlier developed for USAID - Washington.

The assessment began with an articulation of current Mission strategy. The project team then developed a statistical and information base on the private sector. A survey of 300 private sector firms in AID's key action areas tested Mission assumptions. Informal dialogue sessions and structured focus groups with private sector leaders in agriculture, industry, micro-enterprise, and finance enabled USAID to confirm the findings of the survey while receiving qualitative feedback. New initiatives were identified or tested out during this process. This process resulted in strategy recommendations to USAID regarding future private sector activities.

Important changes were made to the Framework thanks to AID officers in Santo Domingo. Thanks is given to Mr. Thomas Stukol for modifying the Framework to serve as a consensus-building exercise within the Mission. Thanks is also expressed to Mr. Robert Asselin for modifying the MAPS framework so that dialogue sessions would commence from the outset. We are also grateful to Mr. Kenneth Lanza for improving the diagnosis phase of the MAPS framework by tailoring it to strategic Mission information needs. Ms. Anne Beasley has helped us as well in tailoring the survey to the needs of the micro-enterprise sector. As a result of these important contributions, the Framework has been revised as the "Manual for Action in the Private Sector" or MAPS and has been presented to USAID-Washington.

What follows is, in part, a "product." More importantly it is also a process. AID has broadened its network of contacts and expanded its contact with the private sector. The institutionalization of capability at the local level for private sector description will provide AID with continual updating. The survey work and dialogue process has been an important element in deepening AID's conversation with the private sector and in ensuring that projects and programs meet with broad support and that the assumptions upon which they are based are valid. While the following recommendations can assist USAID in the near term, the continued process of description, diagnosis and dialogue in which AID has invested over the past few months can continue to assist AID for years to come.

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PRIVATE SECTOR STRATEGY ASSESSMENT

The following are the major findings of the private sector strategy assessment based on the field implementation of the MAPS methodology by USAID-Dominican Republic. This summary is based on work found in the four appendices which accompany this report and correspond to the four initial phases of the assessment: 1) Articulation of Current AID Strategy; 2) Description of the Dominican Private Sector; 3) Diagnosis of the Dominican Private Sector (Private Sector Survey); 4) Summary of Dialogue Phase.

I. OBJECTIVES OF STUDY

The general purpose of the study was to review current AID private sector strategy and recommend specific actions for the future.

The specific objectives were as follows:

1. To generate a more comprehensive information base for use upcoming CDSS, PIDS, and Project Papers;
2. To AID assumptions behind initiatives currently being proposed;
3. To generate a wider menu of programmatic options through an expanded and structured dialogue with the local private sector;
4. To assess feasibility of initiatives with regard to local private sector support and leadership.

II. STUDY METHODOLOGY

The three phases of description, diagnosis (private sector survey) and dialogue served as a threefold confirmation of the reliability of the findings and recommendations of the study. This three-fold approach provided a high level of confidence in the results (Exhibit 2).

The study had five phases:

1. Articulation of Current Strategy--The project team articulated current Mission strategy as presented in Appendix 1. Important modifications were made after this phase and the MAPS was tailored to the needs of the local Mission.

2. Description of Local Private Sector--A data and information base was created and a capacity for updating this description now exists among agencies. This description addressed strategic questions raised by Mission personnel and focused on sectors of primary interest to the Mission. The results are found in Appendix 2.

3. Diagnosis of Private Sector Constraints and Opportunities--The Private Sector Survey analyzed results from a random sample of over 300 Dominican businesses and addressed the business climate, investment opportunities, policy constraints to private sector growth, resource constraints to growth, and potential implementing agents (i.e. business associations). The results of this effort are presented in Appendix 3.

4. Dialogue Sessions and Focus Groups--MAPS implementation for USAID-Santo Domingo included an expanded dialogue process. Informal dialogue sessions with private sector leaders began as early as the second week and continued throughout the 15 weeks of MAPS implementation. Larger and more structured focus groups were held during the latter weeks of MAPS implementation with representatives from the financial, agribusiness, micro-enterprise, and free trade zone sectors. A regional focus group was held in Santiago to ensure that results would not be skewed towards one geographic area. The dialogue sessions served to confirm the results of the description and survey phases. AID assumptions were tested. Qualitative insights were shared and new initiatives emerged. A summary of the results of this phase appears in Appendix 4.

5. Strategy Development-- At each stage of the MAPS process, the implications of the findings were distilled. Assumptions were tested and strategic issues were raised. These resulted in the raising of strategic issues regarding a menu of potential options (see Exhibit 3). The level of local support for these various options was assessed and is presented in Exhibit 4.

III. STUDY FINDINGS

The following is a summary of major findings.

A. General Findings

1. The Dominican private sector is surprisingly strong, diversified and adaptable. It represents approximately 80% of GDP and over 80% of employment. The economy has undergone a surprisingly successful diversification and

Dominican businessmen have proven adept at refocusing their investment and entrepreneurial efforts to new growth areas in finance, tourism, and free trade zones. Despite great policy uncertainty and difficult economic conditions, the private sector continues to thrive.

2. Despite the general economic situation, some sectors are dynamic, confirming the assumptions behind AID's basic strategy. AID's efforts have borne fruit. The most impressive example is that of the Agency's efforts to promote investment, employment and export diversification through free trade zones. In this sector, direct and indirect employment have risen from insignificant levels 10 years ago to over 170,000 and will account for over 10% of the economically active population within two years. The micro-enterprise and tourism sectors are also booming and agricultural diversification is also moving ahead. The private sector approach has demonstrated its viability in the Dominican Republic.

3. AID Program Concentration is Justified--The data and survey results have shown that AID's focus on agribusiness, free trade zones, micro-enterprise and the financial sector have been well placed. Survey results in general confirmed most of the assumptions underlying the current programmatic emphasis.

4. AID's Network of Contacts Has Been Broadened--The USAID Private Sector Office has expanded its ongoing dialogue during the last four months and has widened its contacts both sectorally and regionally. A process is now in place for continuing an ample dialogue.

5. New Implementing Agents Have Emerged--At least four new implementing agents have emerged during the past few months as a result of the dialogue process expanded by AID. These include the new Dominican Micro-Enterprise Association, the Association of Private Free Trade Zone Operators, the Association of Commercial Banks, and the promoters of the Agricultural Commercialization Project.

B. Sectoral Findings

1. The most severe constraint to private sector growth has been an uncertain and unstable policy environment. This has been documented extensively in all phases of the project: description, diagnosis and dialogue.

2. Key concerns are excessive government spending and monetary growth leading to inflation and uncertainty regarding the exchange rate level and regime. Other problems

included customs, rural land tenure uncertainty, and general inability to count on the government for stable "rules of the game."

3. Policy dialogue cannot be based on a U.S. model--Attempts to involve private sector associations in policy dialogue will have only limited effectiveness near term. The Dominican political system is characterized by a strong chief executive and a weak legislature. This means that associations do not have the kind of lobbying role that they do in countries such as the United States. Influence is personal based on individual access to the President. Individuals tend to be reluctant to risk this access by pushing an unpopular message. This has important implications for USAID's policy dialogue efforts.

4. USAID budget cuts mean reduced influence. Current AID funding levels must make AID more realistic regarding the influence it hopes to exercise in the policy reform arena.

5. State-owned enterprises (SOEs) represent a significant brake on economic growth. Current SOE losses represent 3.5% of GDP. Poor performance in areas under monopoly state control affect productivity in all sectors by reducing the availability of electricity (CDE), agricultural land (CEA) or capital. However, AID has helped the GODR make significant progress with the State Sugar Council (CEA) and prospects seem favorable for potential work with the electric company (CDE) and other enterprises (CORDE).

6. The formal financial sector is being decapitalized. High inflation combined with government monetary, reserve requirement and fixed interest rate policies is resulting in the decapitalization of the formal financial sector. The unregulated sector has boomed but some institutions are in precarious financial condition. Some 90% of surveyed companies reporting difficulties in obtaining long term capital and 70% reported difficulty obtaining short term capital. Commercial banking leaders were extremely pessimistic about the situation in the focus groups and as a result expressed little enthusiasm for major new initiatives.

7. AID's Free Trade Zone strategy has been successful. In a little over 10 years this sector has added over 170,000 new direct and indirect jobs and now provides a net foreign exchange of over US\$100 million per year. This success has led to new problems such as a human resource shortage. Assumptions regarding training needs and opportunities for backward linkages with local industry were confirmed by the assessment

8. AID's micro-enterprise efforts have paid off. The current loan portfolios and statistics on micro-enterprise

employment generation and loan repayment indicate that AID's efforts have borne fruit. The assessment also indicated great potential additional demand. However, this sector is suffering far more from energy shortages than other sectors.

The micro-enterprise dialogue and focus group sessions had a number of important results:

- (a) Cooperation and Consensus: The dialogue session and focus group with micro-enterprise leaders catalyzed cooperative efforts. Key organizations decided to unite their efforts and work together to resolve the critical shortage of capital. Consensus regarding the need for competitive interest rates and the need to mobilize domestic savings was also evident.
- (b) Ban-Micro Postponed: The desirability of working towards a fully chartered "Micro-Enterprise Bank ("Ban-Micro") was expressed. However, it was generally agreed that it would be premature to seek the necessary approvals from the Monetary Board at this time.
- (c) "Aso-Micro" Proposed: The creation of a national micro-enterprise association (Aso-Micro) was proposed and approved. One of the participants agreed to prepare a draft of the bylaws. Such an association could become a useful implementing agent in future AID projects.
- (d) Confirmation of Previous Mission Effort: The dynamism and organization of this sector has confirmed the assumptions implicit in AID's previous activities in this area and represent a mission intervention. The sector is now poised for further growth and institutional strengthening. The level of cooperation found among agencies which could view each other as competitors is surprising and this enhances the probability of success. To a large extent, these positive results have been due to AID's very active role in recent years.

9. Agribusiness export growth has been disappointing. In both traditional and non-traditional areas, agribusiness export growth has been disappointing. Joint ventures have not enjoyed notable success.

The major problems in the agribusiness sector were identified:

- 1) Scarcity of long-term and short-term credit;
- 2) Insecurity regarding land titles and increased

agrarian reform pressure;

- 3) Lack of capable and well-trained administrators, especially farm managers and agro-export managers;
- 4) An inefficient domestic commercialization system characterized by lack of grading standards, bonded warehouses, bank accredited guarantees and commodity market exchanges;
- 5) Problems with access to imported inputs due to delays and cumbersome procedures in Customs and to problems with the availability and cost of foreign exchange;
- 6) Price controls in selected sectors, the most pressing example being the dairy sector.

10. Nonetheless, Dominican businessmen expressed great interest in agribusiness investment. It was surprising to learn that despite poor recent performance, our survey showed Dominican businessmen to be most interested in agribusiness as an area of future investment. Qualified interest was expressed in participating in CEA diversification.

11. The reduced role of the price stabilization board (INESPRE) in direct buying and selling of agricultural commodities has created a window of opportunity. If the private sector can help develop an efficient agricultural commercialization system soon, this will limit the inevitable temptation to re-enter.

12. The survey re-confirmed a shortage of qualified administrative and managerial personnel for agribusiness. The shortage is less acute among technical personnel indicating that 20 years of AID support for agro-technical training has greatly improved the availability of such personnel.

13. Human resource availability is not keeping pace with a rapidly diversifying economy. The description documented the rapid economic diversification which has taken place in the Dominican private sector. The supply of trained human resources for leading sectors is lagging behind demand. This is especially in the free trade zones, tourism, the financial sector and non-traditional agro-export.

14. Lack of primary education is also appearing as a constraint. Businessmen report that the quality of nontrained personnel is affected by the lack of primary education. While business tasks may not require literacy for

untrained personnel, there is a high correlation between education level and employer satisfaction. Those without rudimentary primary education tend to require more training and instruction. Those who have not been socialized by formal schooling also tend to demonstrate fewer characteristics valued by business (punctuality, reliability, etc.).

IV. RECOMMENDATIONS FOR USAID STRATEGY

A. ACTION OPTIONS

Policy Dialogue

1. AID should support private sector efforts to inform and educate the general population about the value of market forces and the contribution of private enterprise. This must be done in a way which is sensitive to the local political environment. AID can find low-key ways to support the efforts of public interest groups which have recently emerged to educate the population at large through the media regarding economic realities and the contribution of the Dominican private sector.
2. AID's reduced funding leverage would suggest that AID may have to revise its expectations and concentrate on more limited or sectoral goals.
3. Reduced funding leverage also means that it is imperative to actively coordinate with other donors.
4. USAID should continue to strengthen private sector associations which are developing their role as representatives of the private sector before the government (IPC, JACC, Free Trade Zone Operators, CNHE, etc.).

State-Owned Enterprises

5. USAID should continue dialogue on privatization recognizing that its influence has been curtailed recently.
6. USAID should focus its efforts sectorally on more modest goals such as policy reform and private sector co-generation in the energy sector.
7. USAID's considerable progress with CEA should continue to move forward.
8. Opportunities for USAID initiative with the CORDE companies should continue to be pursued.

Financial Sector

9. The Debt-Equity conversion project should be actively pursued as this will reduce the debt burden, increase productive investment capital, and find strong local leadership.

10. Specific financial sector initiatives should be pursued (loan guarantees, deposit insurance) with financial sector innovators regardless of whether industry-wide consensus exists. An RFP approach could be used to select the most dynamic and committed institutions.

11. USAID should be responsive to GODR requests for strengthening the troubled financial sector through deposit insurance.

Free Trade Zones

12. A free trade on-site vocational training program should be developed which would be under private sector control and co-financed with them utilizing local vocational technical associations with proven records. Local private sector leadership exists for this initiative and this momentum should be maintained and developed.

13. Backward linkages with local industry should be promoted by starting an audit-survey of demand and local supply capability. This would lead to the establishment of a clearinghouse to link buyers and sellers and to a project of technical assistance for producers.

Mirco-Enterprise

14. Micro-enterprise credit provision should be continued or expanded even as local credit mobilization is strengthened.

15. The new National Mircoenterprise Association should be given the required financial and technical assistance to develop a centralized guarantee fund lending at market rates.

Agribusiness

16. Agricultural diversification should continue to receive AID support through targetted credit programs and assistance for CEA diversification efforts.

16. The private sector commercialization project identified during the assessment is a likely area for future USAID support. This would include a private commodity exchange

initially for rice, bonded warehouses, a grading and standards program, and letters of guarantee which can expand credit on the basis of proven stores of physical product. The existence of strong local leadership makes this an attractive area for potential USAID assistance.

17. USAID should continue to work in private sector agribusiness training especially in agro-export, agricultural diversification and agribusiness management.

Human Resources

18. Programs in this area should focus on basic primary education, vo-tech skills training at free trade zones, and technical and managerial training for micro-enterprise, agribusiness and services.

B. RECOMMENDATIONS TO AID ON PROCESS

1. The litmus test for new initiatives should be private sector interest and willingness to lead.

2. USAID should commit itself to an ongoing process of review/analysis/communication/dialogue, viewing the initial implementation of the MAPS both as the beginning of an ongoing process. Specifically, AID should continue to dialogue with important private sector groups such as:

- Asociacion de Banco Comerciales
- ADOMICRO
- Fundacion Economia y Desarrollo
- Small Enterprise Research Group
- Association of Free Trade Zone Operators
- Investment Promotion Council
- Agribusiness Council (JACC)
- Asociacion Para el Desarrollo

3. Although the focus group format is particularly suitable for MAPS implementation, USAID should employ a full range of formal and informal communication techniques to maintain and continuously expand the network of private sector contacts which has been established.

4. The MAPS process has highlighted some significant differences between working with the private vs. the public sector. Some guidelines could facilitate and enhance USAID's relations with the private sector including the following:

(a) Recognize and take constructive advantage of the nature of the private sector--it is competitive, individualistic,

anti-bureaucratic, self-interested and with a relatively short-term focus.

(b) Continue efforts to build the broadest possible cooperation and support from the private sector but don't make consensus a pre-requisite for USAID support. Be flexible and prepared to deal with individual enterprises as well as groups and organizations.

(c) Explore the use of small scale "pilot" projects with carefully selected private enterprises. These projects can then be extended/expanded to serve a broader spectrum of the private sector based on performance/results.

(d) Consider using the concept of "RFP's" to offer opportunities to private sector entities to compete for USAID support. Be selective--bet on winners!

(e) Make dialogue sessions and focus groups an ongoing informal mechanism that broadens AID's contacts and allows for a sounding board.

(f) Update the private sector description through local sub-contractors and fund efforts to generate and disseminate good economic analysis and private sector diagnostic work.

V. CONCLUDING REMARKS

While the purpose of the assessment was not to evaluate previous private sector activities, the study demonstrated that USAID strategy has enjoyed a high degree of success. A major State-Owned Enterprise (CEA) has begun a limited privatization. Free trade zones have expanded beyond previous expectations and will soon provide direct or indirect employment to nearly 10% of the economically active population. New investment continues to be attracted to the country. Micro-enterprises have expanded largely due to targeted credit programs. These successes have brought in their wake new issues to be addressed. AID's participation in this careful and thorough private sector assessment demonstrates the kind of commitment which will enable it to expand on these results in close cooperation with a dynamic local private sector which seems to know how to generate employment, economic growth and foreign exchange even in difficult economic circumstances.

STRATEGY ASSESSMENT: FINDINGS AND RECOMMENDATIONS

FINDINGS	RECOMMENDATIONS	
	ACTION OPTIONS	PROCESS TASKS
<p><u>GENERAL FINDINGS</u></p> <ul style="list-style-type: none"> * PRIVATE SECTOR SURPRISINGLY STRONG, DIVERSIFIED & ADAPTABLE * DESPITE GENERAL ECONOMIC SITUATION SOME SECTORS ARE DYNAMIC, CONFIRMING PRIVATE SECTOR STRATEGY ASSUMPTIONS * CONFIRMED VALIDITY OF CURRENT MISSION STRATEGY: <ul style="list-style-type: none"> -PRIVATE SECTOR LED GROWTH IS WORKING -PROGRAM CONCENTRATION IS JUSTIFIED * AID NETWORK OF CONTACTS HAS BEEN BROADENED * NEW IMPLEMENTING AGENTS FOUND: <ul style="list-style-type: none"> -ADOMICRO -ASSOCIATION OF FREE TRADE ZONES -ASSOCIATION OF COMMERCIAL BANKS -PROMOTERS OF AGRICULTURAL COMMERCIALIZATION PROJECTS 	<ul style="list-style-type: none"> * AID SHOULD SUPPORT PRIVATE SECTOR EFFORTS TO INFORM & EDUCATE GENERAL POPULATION ABOUT PRIVATE SECTOR * AID MAY NEED TO FOCUS PROGRAM MORE BECAUSE OF REDUCED RESOURCES * UPDATE PRIVATE SECTOR DESCRIPTION EVERY 1-2 YEARS THROUGH LOCAL SUBCONTRACTORS 	<ul style="list-style-type: none"> * PRIVATE SECTOR'S INTEREST & WILLINGNESS TO LEAD SHOULD BE THE LITMUS TEST FOR NEW INITIATIVES * CONTINUE DIALOGUE WITH IMPORTANT PRIVATE SECTOR GROUPS: <ul style="list-style-type: none"> -ASOCIACION DE BANCOS COMERCIALES -ADOMICRO -FDD -ASESORES MACRO-ECONOMICOS -SMALL ENTERPRISE RESEARCH GROUP -ASSOCIATION OF FREE TRADE OPERATORS -JACC -IPC -ASOCIACION PARA EL DESARROLLO * DON'T MAKE CONSENSUS A PREREQUISITE; BE PREPARED TO DEAL WITH INNOVATORS

STRATEGY ASSESSMENT: FINDINGS AND RECOMMENDATIONS

FINDINGS	RECOMMENDATIONS	
	ACTION OPTIONS	PROCESS TASKS
<p><u>POLICY DIALOGUE</u></p> <ul style="list-style-type: none"> * POLICY = #1 CONSTRAINT TO GROWTH ACCORDING TO SURVEY RESULTS * KEY CONCERNS ARE EXCESSIVE GOVERNMENT SPENDING, MONETARY GROWTH & INFLATION, FOR. EXCH. RATE & REGIME, CUSTOMS, AGRARIAN REFORM * INSTABILITY IN THE "RULES OF THE GAME" LIMITS INVESTMENT GROWTH * STRONG EXECUTIVE, WEAK CONGRESS, MEANS ASSOCIATIONS HAVE LITTLE LOBBYING ROLE; INFLUENCE IS PERSONAL BASED ON INDIVIDUAL ACCESS TO PRESIDENT * INDIVIDUALS RELUCTANT TO RISK ACCESS TO PUSH UNPOPULAR MESSAGE * BUDGET CUTS REDUCE AID INFLUENCE * EXTREME PESSIMISM AMONG COMMERCIAL BANKS 	<ul style="list-style-type: none"> * CONTINUE OVERALL POLICY DIALOGUE * FOCUS ON MORE MODEST SECTORAL OBJECTIVES (E.G., ENERGY SECTOR) * CONTINUE TO STRENGTHEN PRIVATE SECTOR ASSOCIATIONS 	<ul style="list-style-type: none"> * CONTINUE & AUGMENT COORDINATION WITH OTHER DONORS TO MAXIMIZE POLICY DIALOGUE RESULTS
<p><u>SOES</u></p> <ul style="list-style-type: none"> * SOE LOSSES = 3.5% OF GDP * POOR PERFORMANCE AFFECTS PROVISION OF KEY INPUTS, E.G., ELECTRICITY * USAID EFFORTS HAVE RESULTED IN PROGRESS WITH CEA (SUGAR) 	<ul style="list-style-type: none"> * FOCUS ON ENERGY SECTOR, PRIVATE SECTOR CO-GENERATION * CONTINUE CEA PROGRAMS 	<ul style="list-style-type: none"> * ASSESS AID ROLE IN RESOLVING ELECTRICITY PROBLEM * TAKE ADVANTAGE OF ANY PRIVATIZATION OPPORTUNITIES WITH CORDE COMPANIES

STRATEGY ASSESSMENT: FINDINGS AND RECOMMENDATIONS

FINDINGS	RECOMMENDATIONS	
	ACTION OPTIONS	PROCESS TASKS
<p><u>FINANCIAL SECTOR</u></p> <ul style="list-style-type: none"> * REGULATED FINANCIAL SECTOR BEING DECAPITALIZED: <ul style="list-style-type: none"> -HIGH INFLATION -RESERVE REQUIREMENTS -MONETARY POLICY -FIXED INTEREST REGIME * UNREGULATED SECTOR HAS BOOMED BUT SOME INSTITUTIONS IN PRECARIOUS FINANCIAL CONDITION * LACK OF LONG-TERM & SHORT TERM CAPITAL SEVERELY CONSTRAINS GROWTH * 90% OF FIRMS SURVEYED REPORT DIFFICULTY IN SECURING LONG-TERM CAPITAL (70% FOR SHORT-TERM CAPITAL) * COMMERCIAL BANKS PESSIMISTIC & RELUCTANT TO PURSUE MAJOR POLICY DIALOGUE INITIATIVES & "GROUP" PROJECTS * SOME INDIVIDUAL INTEREST EXPRESSED IN PROMOTING NEW PROGRAMS * INTEREST EXPRESSED IN TRAINING PROGRAMS 	<ul style="list-style-type: none"> * CONTINUE DIALOGUE WITH BANKING SECTOR * PURSUE DEBT-EQUITY SWAPS: <ul style="list-style-type: none"> -LOCAL BANKS INTERESTED -INCREASES CAPITAL AVAILABLE FOR INVESTMENTS -REDUCES DEBT BURDEN * PURSUE INITIATIVES IN SPECIFIC INSTRUMENTS WITH INNOVATIVE BANKS: <ul style="list-style-type: none"> -LOAN GUARANTEES -DEPOSIT INSURANCE * BE RESPONSIVE TO GODR REQUESTS FOR STRENGTHENING FINANCIAL SECTOR <ul style="list-style-type: none"> -DEPOSIT INSURANCE 	<ul style="list-style-type: none"> * CONTINUE TO DIALOGUE WITH ASSOCIATIONS ON TRAINING PROGRAMS & OTHER INITIATIVES * DON'T WAIT FOR INDUSTRY-WIDE CONSENSUS; PROCEED WITH INDIVIDUAL INNOVATORS ON SPECIFIC PROJECTS * USE RFP APPROACH TO SELECT MOST DYNAMIC INSTITUTIONS TO WORK WITH PILOT PROJECTS

STRATEGY ASSESSMENT: FINDINGS AND RECOMMENDATIONS

FINDINGS	RECOMMENDATIONS	
	ACTION OPTIONS	PROCESS TASKS
<p><u>FTZ</u></p> <ul style="list-style-type: none"> * FTZ STRATEGY SUCCESSFUL TO DATE * DIRECT & INDIRECT EMPLOYMENT APPROACHING 10% OF ECONOMICALLY ACTIVE WORK FORCE * DEVELOPERS CITE LACK OF CAPITAL FOR EXPANSION * FIRMS CITE CRITICAL HUMAN RESOURCES BOTTLENECK * OPPORTUNITIES FOR BACKWARD LINKAGES EXIST 	<ul style="list-style-type: none"> * TRAINING: SET UP MAJOR VO-TECH TRAINING PROGRAM WITH "ON-SITE" TRAINING UNITS AT FTZS * BACKWARD LINKAGES: <ul style="list-style-type: none"> -START AUDIT/SURVEY OF DEMAND & LOCAL PRODUCTION CAPABILITY -ESTABLISH CLEARINGHOUSE TO LINK BUYERS & SELLERS -PROVIDE TECHNICAL ASSISTANCE FOR PRODUCERS 	<ul style="list-style-type: none"> * WORK THROUGH NEW ASSOCIATION OF FTZ OPERATORS * CONTINUE TO WORK WITH IPC
<p><u>MICRO-ENTERPRISES</u></p> <ul style="list-style-type: none"> * AID BASIC APPROACH & PREVIOUS STRATEGY SUCCESSFUL TO DATE * DISPROPORTIONATELY HIT BY UNRELIABLE ELECTRIC POWER * GREAT DEMAND EXISTS FOR EXPANSION OF LENDING 	<ul style="list-style-type: none"> * PROMOTE GREATER MOBILIZATION OF DOMESTIC CAPITAL * ASSIST COOPERATIVE EFFORT ("ADOMICRO") WITH CENTRALIZED GUARANTEE FUND LENDING AT MARKET RATES * CONTINUE CREDIT PROGRAMS 	<ul style="list-style-type: none"> * SUPPORT & CONTINUE DIALOGUE WITH NEW NATIONAL ASSOCIATION * CONTINUE DIALOGUE WITH ADO-MICRO

STRATEGY ASSESSMENT: FINDINGS AND RECOMMENDATIONS

FINDINGS	RECOMMENDATIONS	
	ACTION OPTIONS	PROCESS TASKS
<p><u>AGRIBUSINESS</u></p> <ul style="list-style-type: none"> * HIGH LEVEL OF INTEREST EXISTS IN PRIVATE SECTOR FOR EXPANDING INVESTMENT IN AGRICULTURE * INVESTORS CONCERNED ABOUT GOVERNMENT POLICIES ON CUSTOMS, FOREIGN EXCHANGE, AGRARIAN REFORM & PRICE CONTROLS * REDUCED ROLE OF INSPRE MEANS OPPORTUNITY TO STRENGTHEN PRIVATE SECTOR AGRI-COMMERCIALIZATION * STAGNANT/DECLINING ROLE OF TRADITIONAL EXPORTS * DISAPPOINTING PERFORMANCE OF NON-TRADITIONAL EXPORTS * SHORTAGE OF QUALIFIED MANAGERS DETECTED 	<ul style="list-style-type: none"> * CONTINUE TARGETTED CREDIT * PURSUE PRIVATE SECTOR COMMERCIALIZATION PROJECT: <ul style="list-style-type: none"> -COMMODITY EXCHANGE -BONDED WAREHOUSES -GRADINGS & STANDARDS -LETTERS OF GUARANTEE * CONTINUE POLICY DIALOGUE * CONTINUE SUPPORT FOR OTHER PRIVATE SECTOR AGRICULTURAL ASSOCIATIONS <ul style="list-style-type: none"> -JACC -AGRI. DEV. FOUNDATION * CONTINUE PRIVATE SECTOR AGRICULTURAL TRAINING * CONTINUE TO WORK IN SUGAR DIVERSIFICATION 	<ul style="list-style-type: none"> * INITIATE DIALOGUE WITH PRIVATE SECTOR BANKS & ENTRPRENEURS PROMOTING COMMERCIALIZATION PROJECT (SUPPORT INITIAL FEASIBILITY STUDY) * CONTINUE DIALOGUE WITH DIFFERENT REPRESENTATIVE GROUPS IN AGRICULTURE
<p><u>HUMAN RESOURCES</u></p> <ul style="list-style-type: none"> * HUMAN RESOURCE AVAILABILITY LAGS BEHIND RAPIDLY DIVERSIFYING ECONOMY (FTZS & FINANCE SECTOR) * EXODUS OF TRAINED PERSONNEL FROM FINANCE SECTOR TO UNREGULATED SECTOR * KEY SHORTAGES IN FTZ TECHNICAL AREAS, MANAGERIAL & TECHNICAL PERSONNEL FOR AGRICULTURAL DIVERSIFICATION PROJECTS, & BASIC PRIMARY EDUCATION 	<ul style="list-style-type: none"> * SET UP ON-SITE VO-TECH TRAINING PROGRAMS AT FTZ * SUPPORT FINANCE SECTOR TRAINING PROGRAMS * SUPPORT TECHNICAL & MANAGERIAL AGRIBUSINESS TRAINING * CONTINUE TECHNICAL ASSISTANCE TO MICRO-SECTOR 	<ul style="list-style-type: none"> * WORK THROUGH PRIVATE SECTOR GROUPS: <ul style="list-style-type: none"> -FTZ ASSOCIATION -JACC -MICRO ASSOCIATIONS -CNHE * LEVERAGE EXISTING RESOURCES <ul style="list-style-type: none"> -VO-TECH SCHOOLS -ISA-CADER -PUCMM -OTHERS

PRIVATE SECTOR DEVELOPMENT FRAMEWORK

USAID - SANTO DOMINGO

APPENDIX 1 - ARTICULATION OF CURRENT AID STRATEGY

II. MISSION STATEMENT

Tom Peters, in his important book In Search of Excellence has emphasized that those corporations and organization which have been able to articulate a clear and concise sense of purpose seem to experience higher morale, greater unity, and better organizational results. Such a sense of purpose can often be summed up in one sentence. Discussions among AID officials in Santo Domingo resulted in the following articulation of their overall mission:

GENERAL STATEMENT OF PURPOSE

TO IMPROVE THE OVERALL WELL BEING OF PEOPLE
BY PROMOTING ECONOMIC STABILIZATION AND GROWTH,
IN A PRIVATE ENTERPRISE AND DEMOCRATIC ENVIRONMENT

The above statement was formulated after reviewing the current Mission Action Plan and CDSS and after wide consultation. Still, it represents just one attempt by an outside observer to put into words the central thrust of the current AID program. One should not hesitate to substitute this if another statement is found to more precisely reflect AID's overall mission.

III. MISSION GOALS

The Agency for International Development has articulated a number of central goals in its program. These are interpreted by the various regional AID Bureaus and are taken as the starting point for AID Missions in the respective regions. As such, these goals have already been clearly articulated. These include:

1. Structural Reforms Leading to Short Term Economic Stabilization;
2. Rapid and Sustained (Private Sector Led) Economic Growth;

3. Wider Sharing of the Benefits of Growth through improvement in incomes and employment and (in the short to medium term) improvement in social services.

Several useful clarifications were made in the proces of goal definition.

First, the importance of keeping the social well-being of people in mind as the ultimate goal was stressed by AID officers, many of whom pointed to increased incomes and employment as the critical ultimate objectives. As a result of these discussions, these were given greater importance and stated explicitly in the statement of purpose and goals.

Second, the goal of promoting democratic processes has not been included as an explicit goal. Democratic stability and peaceful transfer of power between parties for over a generation has led the Mission to assume this as a given and to focus on other goals.

A third result of orientation discussions was the articulation of the logical progression among goals. Economic stabilization is seen as a pre-requisite for growth which in turn is a pre-requisite for sharing the benefits of that growth.

The critical importance of the first goal has been emphasized by the Mission Economist. Unless sound policies regarding fiscal policy, monetary policy, foreign exchange rates, price controls, import and export taxes and controls are pursued, it is difficult to promote increased investment. Yet despite the fundamental importance of policy and structural reform, AID's leverage has been significantly diminished due to funding cutbacks. The critical importance of the second goal, promoting long term and sustainable private sector led growth was stressed by the private sector officers. Those in other areas including health and education tended to focus on the wider sharing of the benefits of growth through improved incomes, employment opportunities and standards of living. To some extent, these differences are natural.

IV. AID OBJECTIVES AND STRATEGIES

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AID-Santo Domingo has articulated a number of objectives in its Action Plan as shown in Exhibit 1. These are supported by various current and pending projects which have been briefly highlighted below and catalogued in Exhibit 2. These project activities and strategies can also be usefully analyzed by looking at the current budget allocation. This has been done and is presented in Exhibit 2.

GOAL: STRUCTURAL REFORMS LEADING TO ECONOMIC STABILIZATION

Objective #1: Stabilize financial structures

This refers to the general set of policies and institutions which shape the macro-economic, sectoral and micro-economic performance of the Dominican economy and not just the financial sector institutions. It refers to the set of policies related to "getting prices right." The promotion of market foreign exchange and market interest rates and the elimination of distortions caused by price controls are among the most important of these. Laws and tax policies which provide disincentives to investment or which distort markets are other examples of important priorities for AID's agenda for reform.

Normally, this objective is met primarily through policy dialogue related to yearly ESF programs. The severe cutbacks resulting in a virtual elimination of ESF curtails AID's influence in bringing about these needed reforms. One AID officer went as far as saying that the objective of structural reforms leading to economic stabilization is no longer an objective but rather an assumption. According to this view, there is little that AID can now do to influence the achievement of this objective. Other officers were less pessimistic but still agreed that ESF cutbacks would greatly diminish any AID impact on policy reform.

GOAL: BASIC STRUCTURAL REFORMS LEADING TO RAPID AND SUSTAINED ECONOMIC GROWTH

The following objectives are related primarily, but not exclusively to the above goal.

OBJECTIVE #2: EXPAND AND IMPROVE INFRASTRUCTURE

The current deficiency in electric power is an example of the constraints of infrastructure. Availability of irrigation, power, transportation and communication impose constraints on

new private sector investment and reduce the efficiency, productivity and cost-effectiveness of current private sector activities. As a result, this is an important objective.

Improved economic infrastructure has focused on transportation and energy sectors through technical assistance, institutional support, and construction financing under Rural Roads Maintenance, Dominican Electric Company Revenue Collections, and Local Currency Road Construction and Port Improvement.

OBJECTIVE #3: MANAGE AND PRESERVE NATURAL RESOURCES

Natural Resources programs have focused on the provision of credits, grants, technical assistance and other activities under Natural Resources Management, Energy Conservation and Resource Development, and Local Currency Energy Farms.

OBJECTIVE #4: DIVERSIFY AND INCREASE AGRICULTURAL PRODUCTION

This objective is critical because it deals with about 15% of the GDP and about 40% of the population. It has also been an historically important source of export revenues for the country and of livelihood for many of the poorest of the poor. The importance of sugar diversification to the Dominican Republic makes this objective an extremely important one.

Current activities focus on technical assistance, training, credit, promotional activities, and institutional support under On-Farm Water Management, Commercial Farming Systems, Sugar Diversification, Agribusiness Training, Ag Data Systems, JACC, FIDE Agribusiness Fund, Development Training, Section 416 Agribusiness Credit, Section 108 Credit, and local currency irrigation activities.

OBJECTIVE #5: INCREASE INDUSTRIAL PRODUCTION

Although not stated explicitly in AID documentation, a clear objective is that of promoting non-agricultural or industrial production. This is being done through training, promotional activities and credit. Activities include the Investment Promotion Council (IPC), FIDE and Free Trade Zone Credit, Graduate Management Training, Vocational Education, Development Training, Section 416 Free Trade Zone Financing, and International Executive Service Corps Programs.

OBJECTIVE #6: PROMOTE FREE MARKET APPROACHES AND PRIVATIZE WHEN POSSIBLE

This objective is a critical component of overall AID strategy in that the private sector is seen as the engine of economic development. Therefore, projects directly aimed at strengthening the private sector or which have this as the additional result of another project fall under this objective.

This is being done through technical assistance under the Agricultural Policy Project, Sugar Diversification and Center for Privatization activities.

OBJECTIVE #7: EXPAND/SUPPORT SMALL BUSINESS AND MICRO-ENTERPRISE

Small and micro-enterprises are being strengthened through credit and institution building under Small Industry Development, ADEMI, Section 416 micro enterprise credit, and a new Micro-Enterprise Project.

OBJECTIVE #8: STRENGTHEN PRIVATE SECTOR INSTITUTIONS

The strengthening of private sector institutions takes place through training, technical assistance, and operational support for the Agribusiness Council (JACC), the Investment Promotion Council (IPC), and the new private sector agricultural research institute and under the Rural Savings Mobilization, Development Training, and PVO Co-Financing projects.

OBJECTIVE #9: INCREASE INVESTMENT AND EXPORTS

In addition to policy dialogue which can create a business climate more favorable for investments and exports, AID is engaging in promotional activities, technical assistance and financing under the IPC, JACC, OPIC tourism, Debt-Equity Conversion and Industrial Linkages projects.

GOAL: WIDER SHARING OF THE BENEFITS OF GROWTH

The following objectives fall under the goal of wider sharing in the benefits of growth all though they may also contribute to the goal of promoting economic growth. For instance, the educational programs allow people to participate in the benefits of growth by increasing their productivity, incomes and employment opportunities. But they also contribute importantly to resolving human resource bottlenecks to private sector growth in important areas such as free zones, agricultural diversification, management and tourism.

OBJECTIVE #10: IMPROVE EDUCATIONAL OPPORTUNITIES

The strategy for objective 10 is that of providing scholarship, educational credit and institution building under Graduate Management Training, Rural Development Management, Human Resources Development, Radio Education, Rural Youth Leadership and Private Primary Education projects.

OBJECTIVE #11: INCREASE PARTICIPANT TRAINING

This objective serves both to widen opportunities for people to participate in the benefits of growth while assisting the private sector to resolve important human resource bottlenecks. A recent survey indicated that skilled personnel was one of two most urgent priorities on the minds of free zone company executives.

This is done by increasing numbers and improving effectiveness of participant training under the Development Training, Employment-based training, Agricultural Sector Training, PTIIC, and Graduate Management Training.

OBJECTIVE #12: INCREASE ACCESS TO VOLUNTARY FAMILY PLANNING

Family planning contributes to growth in per-capita income by lowering the "capita" side of the per-capita income equation under the Family Planning Services Expansion.

OBJECTIVE #13: IMPROVE HEALTH AND HEALTH SERVICES

This objective may partly contribute to a more productive working population but the primary focus is on providing a "safety net" for the poorest population groups until such time as health objectives can be met through higher employment and incomes. This is done through institutional strengthening and direct financial assistance for targeted health programs under Health System Management, Private Sector Health Care, CARE Rural Water, local currency water and vector control activities, and Accelerated Immunization.

OBJECTIVE #14 REDUCE INFANT AND CHILD MORTALITY

Similarly, this objective is viewed as a necessary interim intervention until such time as a private sector led growth strategy can resolve the underlying problem of poverty. This takes place under Applied Nutrition Education, Child Survival, Title II activities and CARE enhancement.

The foregoing has been a discussion of AID Mission goals and objectives. A summary of these is presented in Exhibit 1.

GENERAL COMMENTS

A review of mission documents reveals that certain types of "generic" constraints appear frequently and that a set of strategies have been formulated to deal with these, whether they be in agriculture, education, or other areas. These are summarized below.

These generic strategies find their specific form in a variety of sectoral strategies in agriculture, private enterprise, human resources, and health. The project team met with senior AID officers to identify these sectoral strategies and these were taken into account in developing this document. It is useful to visualize strategies sector by sector but the following set of generic problems and strategies tends to reappear in most of AID's sectors.

GENERIC CONSTRAINTS	STRATEGIES
1. POLICY ENVIRONMENT	1. POLICY REFORM
2. INSTITUTIONAL WEAKNESS	2. INSTITUTIONAL DVLP.
3. FINANCIAL RESOURCES	3. CREDIT/GRANT PROGRAMS INVESTMENT PROMOTION
4. INFRASTRUCTURE	4. INFRASTRUCTURE DVLP.
5. HUMAN RESOURCES/SKILLS	5. TECHNICAL ASSISTANCE TRAINING, & EDUCATION

A review of the current portfolio of AID Mission projects vs. generic strategies appears in Exhibit 2. The relative budgetary weights are also presented in this Exhibit giving an idea of the relative fiscal importance.

IV. CHANGES TO BE MADE AS A RESULT OF THIS PHASE

The addition of this phase of strategy articulation, which was added during this field implementation, has had a number of important results.

Consensus Building--In the course of the first phase of PSDF implementation, the contractor, after reviewing AID documentation and conducting interviews with AID officers, presented the articulation of AID strategy to a meeting of about 10 senior AID officers. This meeting was seen as a useful consensus building exercise and the contractor was asked to conduct another similar follow-on session.

Expanding and Focusing the Scope of Work--In addition to the usefulness this exercise may have had as a consensus building exercise, it also had an important impact in orienting, guiding and focusing the work of the PSDF team. It has helped the contractor to modify, and expand the scope of work to be done in the coming weeks. The following are some of these important modifications which will be introduced in the PSDF implementation as a result of the first phase.

Changes in the Description Phase--In addition to presenting information on who the private sector is, how significant it is, where in the economy it is located and what the trends have been, it will now also do the following:

1. Address changes in economic policy during the last 18 months including the implicit GODR economic strategy;
2. Focus on the micro-enterprise sector, the free trade zones, and the agro-export sectors
3. Present data on the financial sector;
4. Devote special effort to identifying the 10 largest Dominican business groups, and their areas of activity.

Modifications of Diagnosis Phase--The purpose of the diagnosis phase is to conduct an inventory of the private sectors' own priorities, their view of the business climate, investment opportunities, resource constraints, and problems with government policies that restrain their potential growth. This stage will now be expanded as follows:

1. Special sub-sections will be added to deal specifically with problems affecting several priority sectors: agro-

export, small enterprise, free zones, light industry and the banking sector.

2. Additional questions have been added to test AID hypotheses which underlie current strategy:

--How severely is business being affected by current power shortages?

--Is local industry interested in supplying free zone or in developing its own export capability?

--How important a constraint is lack of skilled labor or trained technical or professional people?

--Are agribusiness executives interested in getting involved in the diversification effort on CEA lands?

--Which private sector associations are viewed by Dominican executives as being the most effective? How can they be made more effective?

Changes in Dialogue Phase--The dialogue phase is meant to widen AID's network of contacts, to more systematically verify the private sector's most urgent priorities and to facilitate the kind of brainstorming necessary to generate the most effective set of options for dealing with those urgent constraints. This is normally done through a series of focus groups or leadership groups after completion of the diagnosis.

As a result of the orientation phase, dialogue will begin almost immediately through informal discussions with private sector leaders knowledgeable in five major areas: the overall economy and private sector, agro-exports, free zone or related industry, the financial sector, and micro-enterprise.

Later, focus groups will be organized as planned, but these early discussions are seen as an added help to AID and as a means for improving the quality of the surveys to be conducted in the diagnosis phase.

FINAL REMARKS

The articulation of strategy or orientation phase was very successful in guiding the overall effort of PSDF implementation and in modifying the methodology in a way that will make it potentially much more practical and helpful to the Mission.

More importantly, it has informed the wider Mission of the team's activities which can help broaden the utility of the exercise.

Finally, it also seems to have stimulated a healthy dialogue within the AID Mission for the purposes of clarifying strategy and building consensus. As a result, it is the feeling of the project team that such an orientation phase should be incorporated into future PSDF implementations.

PRIVATE SECTOR DEVELOPMENT FRAMEWORK

USAID - SANTO DOMINGO

APPENDIX 2 - PRIVATE SECTOR DESCRIPTION

I. PURPOSE AND OBJECTIVES OF DESCRIPTION PHASE

The purpose of this section is to describe the Dominican Private Sector. The specific objectives include the following:

- A. To quantify the private sector's importance in the Dominican economy
- B. To provide a "map" of where the private sector is located in the economy (vs. state-owned enterprises)
- C. To assess the impact of the state-owned enterprises on the economy
- D. To describe the impact of government policies
- E. To identify dynamic areas in private sector
- F. To generate benchmark data to measure change over time
- G. To provide information which could be useful to AID officers in future project and program design

II. QUESTIONS AND ORGANIZATION OF DESCRIPTION PHASE

The description phase is organized around a series of key questions which are addressed:

- A. How important is the private sector in the economy?
- B. Where in the economy is the private sector located?
- C. What is the impact on the economy of the state-owned enterprises?
- D. What have been the impacts of government policy on economic growth?
- E. What have been the trends in the private sector (dynamic vs. lagging sectors)?
- F. Who is the private sector?

This section attempts to shed light on the above questions.

III. FINDINGS OF THE DESCRIPTIVE PHASE

A. HOW IMPORTANT IS THE PRIVATE SECTOR IN THE ECONOMY?

The following are the findings of descriptive phase grouped around the strategic questions mentioned above:

1. Private Sector Accounts for About 80% of Economic Activity

The private sector contributes 81% GDP supply while the government contributes about 13% and state enterprises contribute another 6%. However, the private sector contribution to GDP includes its provision of goods and services to the government. If one looks at the demand side, government spending represents 16% of GDP. Government spending and SOEs taken together represent a total of 22% of the economy with the private sector accounting for the balance of 78% (Exhibits 1A and 1B).

In comparative terms, the private sector contributes a relatively high percent of GDP. In the United States, government spending has represented a higher percentage of GDP than that of the Dominican Republic. In many other Latin American countries, the private sector has been squeezed to a much greater extent and SOEs represent a higher percentage of GDP.

2. Government Spending Declined Significantly Until 1985...

One of the most interesting observations resulting from this study is that public sector participation in the economy has actually declined substantially during the past generation. Public sector contribution declined from approximately 20% of GDP in the early 1960s to a low of 9% in 1984 before rising significantly to 13% in 1987 (Exhibits 2A-2B).

3. ...Thanks To a Lower Tax Burden

One important reason for this was the declining tax burden during this period (Exhibit 3). This declining tax burden was partly intentional as evidenced by tax breaks for certain kinds of investments such as in tourism and agribusiness. It was also partly due to import taxes based on an official exchange rate. As the peso deteriorated on the parallel market, one peso of tax per one dollar of imports represented less and less tax revenue.

4. Both Government Spending and Tax Revenue Have Risen Sharply Since 1985

Since 1985, government spending has risen from 11.7% of GDP to over 15% of GDP. Tax revenues have increased from a low of 8.54% in 1982 to an estimated 14.01% of GDP in 1987. The increased capability of the government to generate tax revenues is related to the unification of the exchange rate which increased the real ad-valorem tax in imports. It is also due to the introduction of the ITBI (Value Added Taxes) on merchandise and imports which have risen from zero to over RD\$300 million in four years (see Exhibit 4).

5. The Private Sector Employs 84% of the Workforce

The private sector accounts for 84% of the economically active population of approximately 2 million people. State-owned enterprise employs about 6% of the total while the government employs approximately 10% (Exhibit 5). When one considers that the typical government employee leaves work at 2 p.m. and receives significant income from other activities, one can conclude that the private sector is very important to Dominican employment.

Conclusion--The Dominican Republic private sector is a very significant part of the economy. It accounts for 78-81% of the GDP and employs 84% of the labor force. SOE control over the means of production is limited to about 6% of total GDP. Total government spending is a relatively low 16% although it has risen sharply in 1986 and 1987.

B. WHERE IN THE ECONOMY IS THE PRIVATE SECTOR LOCATED?

Since the private sector is so pervasive in the Dominican economy, it is easier to ask where in the economy is the public sector located.

6. Agriculture: State Control is Limited to Sugar
Although State Influence is Widespread in Basic Food
Crops

The state is a significant direct owner of assets in the sugar industry where it accounts for over half the annual cane production (Exhibits 6A-6B). Cane production is the third largest agricultural crop. Government influence is strongly felt in other crop areas such as rice, the number two crop, where the government owns much of the agrarian reform land, provides inputs to farmers through the agrarian reform institute or the Agricultural Bank, makes use of price controls and exercises influence through other mechanisms. The state accounts for about 6% of agricultural production directly and about 15% of agricultural production if one includes production assisted by the agrarian reform.

7. Mining: The State Has a Majority Presence

The state exercises a preponderant role in the mining industry with El Rosario being the monopoly producer of Dore (gold-silver alloy). The government is estimated to have a participation of about 10% in Falconbridge Dominicana, the major nickel producing mining subsidiary of a Canadian company (Exhibits 7A-7B).

8. Manufacturing: The State is Present in a Variety of
Industries

In manufacturing, the state owns a number of enterprises and competes in various industries including flour milling, petroleum refining, chemicals, tobacco, mineral products, textiles, leather products, paper products, publishing, and glass (Exhibits 8A-8B). Most of these are holdovers from companies owned by the former Dominican dictator Trujillo and these companies have since been viewed as the heritage and endowment of all Dominicans. Most of the manufacturing SOEs are grouped under the CORDE state holding company.

9. Services: Government Role in Electricity Has Produced a Crisis

In the service sector, the SOE presence is most notable in electricity as the Corporacion Dominicana de Electricidad is the monopoly distributor (though not producer) of electricity. Lack of investment planning has led to a severe capacity shortage. Although the installed capacity of individual emergency generators owned by the private sector is said to exceed the installed capacity of CDE, this "individualization" of energy provision cannot be confused with privatization. Several large industrial concerns such as Falconbridge (private mining company) and La Romana (private sugar company) generate their own electric power and often provide energy to CDE; the latter is the distributor. The lack of power was likely to affect the productivity of most private sector businesses.

The government also plays an important role in air transport (Dominican de Aviacion), in finance (Banco de Reservas), and in housing (see Exhibit 9).

Conclusion: The private sector role in the economy is evident in all four major economic sectors. State ownership of the means of production is most notable in the areas of sugar production (including direct control of significant tracts of land), electric power, mining and flour milling. Most of the other manufacturing enterprises do not significantly threaten private businesses and there has been little activity since the nationalizations of the post-Trujillo period in the 1960s to suggest that the state role in productive enterprise has increased.

C. WHAT IS THE IMPACT ON THE ECONOMY OF STATE-OWNED ENTERPRISES? ROLE OF THE SOES ?

10. SOE Losses Have Grown Enormously...

As mentioned earlier, the SOES accounted for approximately 6% of GDP employment in 1987. Exhibit 10 presents the consolidated losses of the SOEs. These losses have grown to account for approximately RD\$ 700 million per year over the period 1985, 1986 and 1987.

11. ...Mostly from CDE and CEA (Electric and Sugar Companies)

A breakdown of these losses reveals that most of these losses came from two enterprises: the Dominican Electric Company and the State Sugar Council. CDE losses have exceeded RD\$400 million in both 1985 and 1987 while CEA losses have exceeded RD\$200 million in 1985, 1986 and 1987 (Exhibits 11A-11B). The more limited role given to the Price Stabilization Institute (INESPRE) has trimmed losses there from RD\$209 million in 1986 to less than RD\$47 million in 1987. However CORDE losses have grown from about RD\$ 5 million in 1986 to nearly RD\$40 million in 1987 (see Exhibits 11A-11B).

12. Deficits Put a Drain on Government Finance

The sharp rise in deficits of CDE put a large burden on government finances (Exhibits 12A-12B) as do those of CEA (Exhibit 12C), INESPRE (Exhibit 12D) and CORDE Enterprises (Exhibit 12E).

13. A Job At CORDE Costs the Government RD\$5,000

The significance of these losses can be illustrated by looking at CORDE. Losses have mounted (Exhibit 13A), and net worth has turned negative, although to be fair CORDE assets are undervalued (Exhibit 13B). Meanwhile, no significant new employment has been generated and CORDE only contributes about 7,000 jobs (Exhibit 13C-13D). Total CORDE losses divided by employment yield a loss per employee of about RD\$5,000 which is roughly equivalent to the average annual salary (Exhibit 13E).

14. SOE Losses Account for 3.6% of GDP

SOE Losses account for RD\$700 million in an economy of RD\$19,298 million. This is equivalent to 3.6% of GDP (Exhibit 14). This is a significant brake on economic growth and rising standards of living. It impedes the government from investing in its own priority projects. The additional impact of poorly managed service in some critical industries such as electric power has an even wider affect on business growth than the numbers would suggest. Inefficient utilization of the country's agricultural resources under state control also limits growth in the agribusiness sector.

Conclusion: State-owned enterprises do not pose direct competitive threats to the Dominican private sector but their combined losses of 3.6% of GDP act as a significant retardant to economic growth magnified by inefficient control of key resources such as agricultural land and electric power.

D. WHAT HAVE BEEN THE IMPACTS OF GOVERNMENT POLICY ?

15. Fiscal Spending Has Increased...

Total expenditures of the Central Government increased substantially between 1986 and 1987 to nearly RD 3.5 Billion (Exhibit 15).

16. ...Exacerbating Inflationary Pressures

Fiscal spending has contributed to inflationary pressures. After bringing inflation under control in 1985 and 1986, inflation climbed to about 35% in 1987 and will reach between 40-60% in 1988 according to the best current projections (Exhibits 16A and 16B).

17. Money Supply Growth Has Been Erratic

Growth in money supply became erratic between 1983 and 1987. Exhibits 17A and 17B indicate that money supply growth reached 66% in 1986 contributing to the uncertainties of the economic environment.

18. The Peso Has Lost Value

The foreign exchange rate managed to maintain a level of approximate parity to the dollar for many years in the 1960s and 1970s. By 1982, the peso was still worth 1.28 to the dollar. From there it rose to 3.11 in 1985 and then actually appreciated to 2.91 in 1986 after the IMF adjustments were implemented. In 1987 the peso began to lose value again hitting an average of 3.84 in that year. In early 1988 the peso shot up to nearly 8 to 1 on the free market before government controls brought it back to 6.33 (Exhibit 18A-18B).

19. The Country Suffers Under An Onerous Debt Burden

Official debt rose during the Guzman period of 1978-82 which coincided with liberal international private credit. Debt has risen to US\$3.5 billion or about 66% of GDP. Debt service in 1987 was US\$491 million which represented about 31% of the value of Dominican exports of goods and services (Exhibit 19A-B).

Conclusion: The Dominican policy environment is characterized by great uncertainty and continual changes in the rules of the game. These affect inflation, foreign exchange, availability of credit and other critical factors for business decision making. In general, the policy environment has moved away from a protectionistic model to a more liberal and open economy although recent foreign exchange controls may indicate a return to a more regulated policy environment.

E. WHAT HAVE BEEN THE TRENDS IN THE PRIVATE SECTOR (DYNAMIC VS. LAGGING SECTORS)?

20. Growth Has Slowed In the 1980s

A review of GDP growth from 1960 to 1987 reveals several distinct periods roughly coinciding with economic strategies pursued by successive Dominican administrations. (Please refer to Exhibits 20A-20B).

a) Causes of Negative Growth--The three years of negative growth shown in Exhibit 20A coincided with the bringing to justice of former dictator Trujillo (1961), the dislocations caused by the Dominican Civil War (1965), and the IMF adjustments of 1985.

b) Balaguer I: Public Investment And Import Substitution Strategy--From 1969 through 1973 one notes the Balaguer Boom Years during which the economy recorded five successive years of 10% growth. This impressive performance was due to strong commodity prices, the influx of foreign aid, strong government demand and the investment and dynamism promoted in the early years of the import substitution strategy.

From 1974-1977 growth was cut in half by increased petroleum prices (the country is dependent on imported oil), shifts in commodity prices and the diminishing returns of the import substitution strategy. However, this period saw an average growth of 5% which was still above the population growth rate. By 1978 growth declined still further and a new administration took power.

c) Guzman: Public Sector Demand-Led Growth Strategy-- During the Guzman administration, a conscious decision was made to stimulate demand through the private sector. This led to increased employment and salary levels in the public sector. At the same time, the government borrowed internationally during the petro-dollar private credit boom of the late 1970s and early 1980s. The failure of this strategy was soon apparent as growth tapered off and Dominican debt grew. Growth failed to keep up in per-capita terms and Guzman lost the subsequent election to a member of his own party.

d) Blanco: Structural Adjustment--Although Jorge Blanco took power in 1982 with ambitious spending plans, economic realities soon forced decision makers to accept the IMF package of economic adjustments. This resulted in a recession in 1985 but also introduced market forces into the economy to a much greater extent. The exchange rate was unified, import substitution industries lost a large degree of protection, and the stage was set for subsequent expansion.

e) Balaguer II: Public Spending in Tougher Times-- President Balaguer, elected in 1986, resumed his policies of investment in public works and an immediate stimulus was felt as the economy grew by over 10% in 1987. However, subsequent inflation and a credit squeeze on the private sector were soon evident.

21. The Economy Has Undergone a Surprisingly Successful Diversification

Despite lower growth rates, the economy has undergone a surprisingly successful economic diversification. Exhibits 21A, 21B and 21C present the growth and composition of GDP from 1960 through 1987. What was once an agricultural economy has now become an economy which has an important mining sector (since 1973), an important light manufacturing sector (17% of GDP), and a surprisingly strong service sector which now represents about 45% of GDP. Manufacturing is being aided by booming free trade zones while the service sector is being stimulated by the booming tourist trade.

22. Sugar Production Has Declined...

Stung by lower U.S. sugar quotas and declining world prices, the Dominican sugar industry has reduced its output from 1.2 million metric tons to about 800,000 MTs in 1987 (Exhibits 22A-22B).

23. But The Country Has Diversified Its Sources of Foreign Exchange

Economic diversification is even more notable in the generation of foreign exchange (Exhibits 23A-23B). Tourism and remittances have become important sources of foreign exchange supplementing traditional and non-traditional exports.

24. Exports Have Become More Diversified

Although overall export revenues have remained almost constant during the 1980s, significant declines in traditional exports, especially sugar, were offset by growth in free trade zones and tourism (Exhibits 24A-24B).

25. Non-Traditional Agro-Exports Have Been Disappointing

Meanwhile, attempts to stimulate non-traditional agribusiness exports have been disappointing. Agricultural exports account for about US\$30-40 million per year while agro-industrial exports account for about US\$50-60 million. However, these numbers may be undervalued as unofficial and official export values may differ. Both of these values registered declines in 1987 (Exhibits 25A and 25B).

26. Free Trade Zones Are a Dominican Success Story

Employment in free trade zones has grown from insignificant levels in 1972 to about 70,000 direct and 105,000 indirect jobs in 1987. Taken together, these jobs will soon represent employment for about 10% of the economically active population of 2 million. Total export values have reached \$500 million while net foreign exchange generation has topped \$US 100 million (Exhibits 26A, 26B, 26C and 26D).

27. Tourism is Also Booming

a) Room Availability--From 1985-87 there has been a surge in the growth of hotel rooms available in the Dominican Republic as tourism has boomed. Room availability rose from about 7,000 to 12,000 and by early 1989 an expected 18,000 beds will be available making the Dominican Republic the

country in the Caribbean with the largest supply of hotel rooms.

b) Tourist Arrivals--The surge in capacity has been accompanied by an equally impressive rise in the number of tourist arrivals which nearly doubled from 1984-87 and now average well over 600,000 per year (equivalent to about 10% of the total population).

c) Foreign Exchange Generation--Foreign exchange generation has also doubled in recent years and now accounts for about US\$600 million per year. It should be noted that much of the tourist consumption has an imported content (food, fuel, etc.). No good figures were available to assess the net foreign exchange impact. This sector is almost exclusively in the hands of the private sector with government owning less than 10% of all rooms and operating only 2.5% of all rooms. Data on this sector are presented in Exhibits 27A-27F.

28. Unilateral Transfers (Remittances) Have Grown Sevenfold and Now Provide US\$350 Million Annually

Since 1975, net unilateral transfers, of which most represent remittances sent back by Dominican residents of the United States, have grown from less than US\$50 million to over US\$350 million and represent a significant contribution to the country's economic health and standard of living (Exhibit 28).

29. Foreign Investment is Again Rising

One measure of the basic confidence of the private sector in the Dominican economy is new foreign investment. Foreign investment has increased steadily from 1985 to 1988 reaching about US\$100 million projected for 1988. The curious phenomenon of a foreign investment decline every third year (1976, 1979, and 1982) was less pronounced in 1985 and is not in evidence in 1988. Free zone, tourism and real estate investment probably account for a large share of this investment although both United Brands and Castle and Cooke have made sizeable investments in pineapple plantations in recent years.

Conclusion: Despite policy uncertainty, the Dominican private sector has demonstrated considerable dynamism and has diversified its economic activity. While overall growth has been disappointing in the 1980s, dynamic sectors have boomed.

F. WHO IS THE PRIVATE SECTOR ?

30. Small and Medium Size Business

The private sector consists of approximately 8,000 organized firms and thousands of other micro-enterprises in the unorganized sector. As would be expected, large firms account for a large percentage of investment. A 1982 study of over 800 businesses indicated that very large businesses accounted for 49% of investment (Exhibit 30).

31. Ten Leading Dominican Business Groups

The largest Dominican Business Groups are usually characterized by diversified holdings and interconnectedness between industries and financial institutions. These are generally private companies which are closely held and there is usually not good published data available on sales, assets or profits. Nonetheless, what are regarded as the 10 largest business groups in the Dominican Republic are presented in Exhibit 31.

32. Top 30 Dominican Corporations

At the next level, an additional 20 companies may be added to the list. While it is impossible to make a precise ordering or even an estimation of sales or earnings because of lack of available information, Exhibit 32 presents a rough ordering of the largest Dominican business groups.

33. Leading Business Associations

Important private sector actors include the business associations presented in Exhibit 33. The leading associations include the National Council of Businessmen (CNHE), the American Chamber of Commerce, the Dominican Chamber of Commerce, the Commercial Bank Association, and the Association of Industries.

34. Financial Sector Actors

In the financial sector, the leading commercial banks ranked by asset size appear in Exhibit 34A. The number of other financial institutions has risen in recent years and the assets of mortgage banks and savings and loans relative to commercial banks appear in Exhibit 34B.

35. Micro-Enterprise Associations

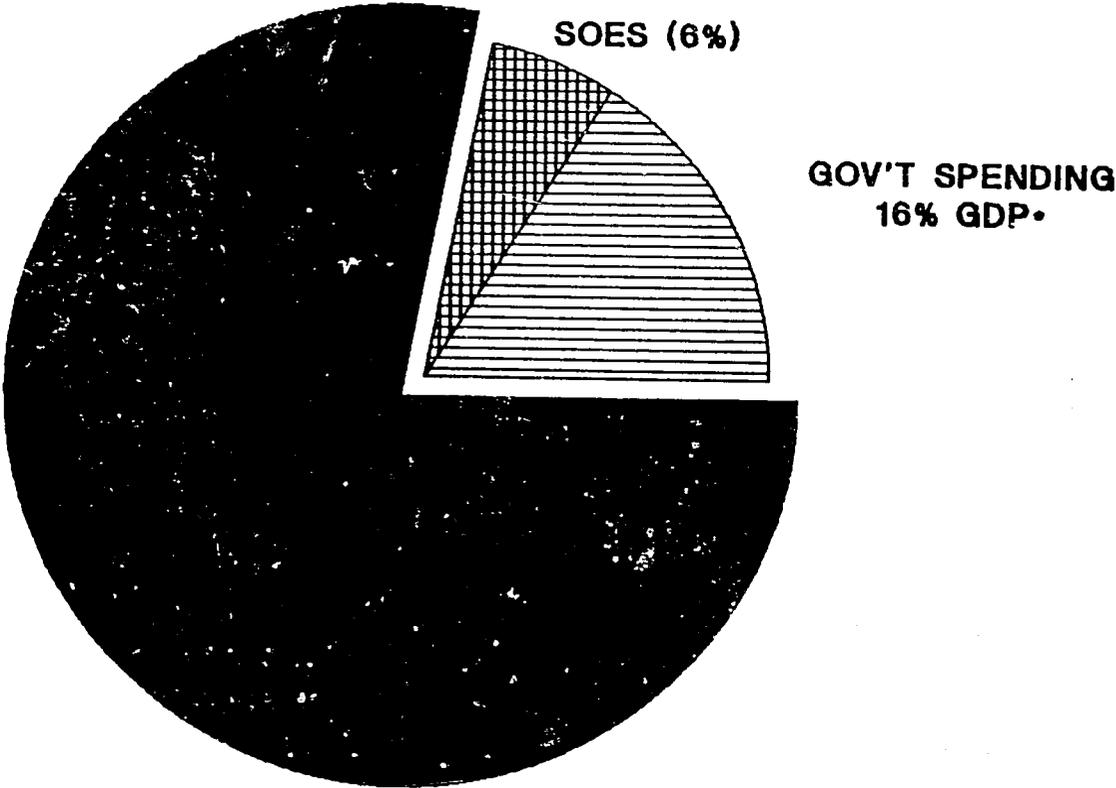
The major groups promoting micro-enterprise by channeling small loans and delivering technical assistance are well known to AID already. They include ADEMI, PROAPE, ADOPEM and FDD.

IV. CONCLUSIONS FROM DESCRIPTION PHASE

The following conclusions and implications can be drawn from the Private Sector Description Phase:

- The SOEs represent a significant retardant to economic growth with losses accounting for about 3.6% of GDP
- The policy environment has been characterized by great instability and indefiniteness in the rules of the game
- Despite the above, the private sector has demonstrated considerable dynamism and adaptability and has helped the country achieve a surprisingly successful diversification
- Lagging sectors in the economy include protected manufacturing, agro-export, and traditional agro-exports
- Dynamic sectors in the economy include free trade zones, tourism, and agribusiness sectors.

GOVERNMENT SPENDING AS A PERCENTAGE OF GDP 1987



•ALTHOUGH GOVERNMENT CONTRIBUTION TO GDP IS 13%,
TOTAL GOVERNMENT SPENDING ACCOUNTS FOR 16% OF GDP

EXHIBIT 1A

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EXHIBIT 1B

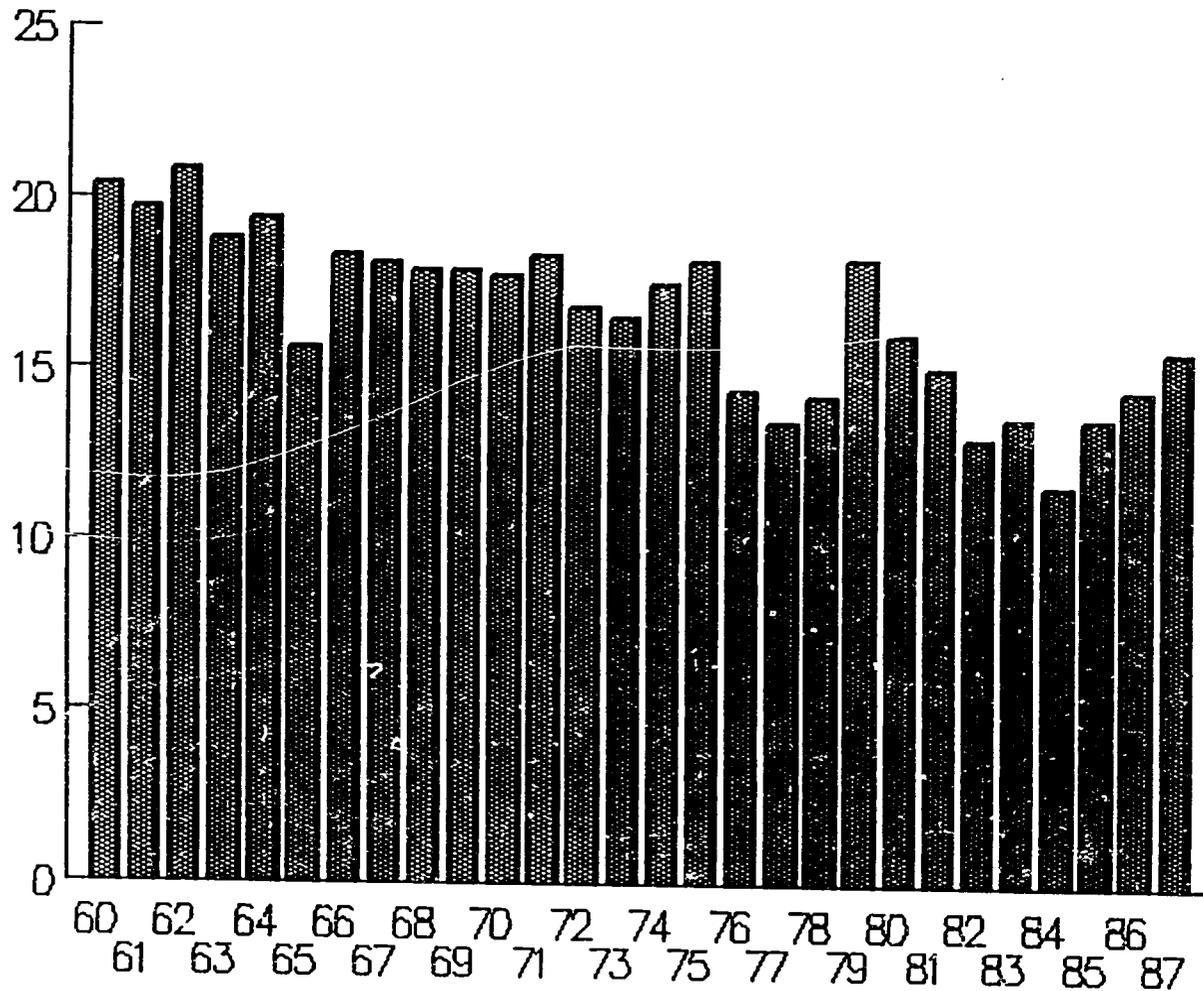
CENTRAL GOVERNMENT SPENDING
AND GDP

YEARS	TOTAL SPENDING	NOMINAL GDP	SPENDING/PIB(%)
1960	147.3	722.9	20.4
1961	139.0	704.1	19.7
1962	184.7	887.3	20.8
1963	190.2	1,012.8	18.8
1964	214.1	1,104.2	19.4
1965	149.2	956.9	15.6
1966	194.3	1,059.6	18.3
1967	201.5	1,114.7	18.1
1968	208.3	1,162.2	17.9
1969	236.7	1,325.4	17.9
1970	262.9	1,485.5	17.7
1971	304.9	1,663.3	18.3
1972	333.8	1,987.4	16.8
1973	386.9	2,344.8	16.5
1974	512.6	2,922.6	17.5
1975	653.3	3,599.9	18.1
1976	569.3	3,951.5	14.4
1977	618.7	4,587.1	13.5
1978	675.5	4,734.4	14.3
1979	1,004.5	5,498.8	18.3
1980	1,066.5	6,630.7	16.1
1981	1,085.6	7,210.2	15.1
1982	1,032.5	7,917.5	13.0
1983	1,198.7	8,772.6	13.7
1984	1,278.6	10,965.8	11.7
1985	1,886.8	13,845.0	13.6
1986	2,250.6	15,575.6	14.4
1987	3,009.3	19,298.2	15.6

SOURCE: BANCO CENTRAL
FUNDACION ECONOMIA Y DESARROLLO

GOVERNMENT SPENDING AS % OF GDP

1960 - 1987



SOURCE: BANCO CENTRAL.

PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

EXHIBIT 2B

CENTRAL GOVERNMENT SPENDING
AND GDP

YEARS	TOTAL SPENDING	NOMINAL GDP	SPENDING/PIB (%)
1960	147.3	722.3	20.4
1961	139.0	704.1	19.7
1962	164.7	867.3	19.8
1963	150.2	1,012.3	18.8
1964	214.1	1,104.2	19.4
1965	148.2	956.3	15.6
1966	194.3	1,059.3	18.3
1967	201.5	1,114.7	18.1
1968	205.3	1,162.2	17.7
1969	236.7	1,315.4	17.9
1970	302.3	1,465.5	17.7
1971	304.3	1,653.3	18.3
1972	333.3	1,987.4	16.8
1973	388.3	2,344.3	16.6
1974	512.3	2,922.3	17.5
1975	653.3	3,599.9	18.1
1976	569.3	3,951.5	14.4
1977	613.7	4,367.1	14.0
1978	675.3	4,734.4	14.3
1979	1,004.3	5,496.3	18.3
1980	1,066.3	6,630.7	16.1
1981	1,085.3	7,210.2	15.1
1982	1,032.3	7,317.3	14.1
1983	1,133.7	8,772.3	12.8
1984	1,273.3	10,365.3	12.3
1985	1,333.3	13,345.3	10.0
1986	2,150.3	13,575.3	15.8

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EXHIBIT 3

TAX REVENUE AS % OF GDP 1956-87

YEAR	TAX REVENUE (RD\$MM) *	GDP (RD\$MM) *	TAX AS % GDP
1956	112.8	633.1	17.82
1957	127.3	714.1	17.83
1958	130.8	714.4	18.31
1959	123.1	696.6	17.67
1960	120.9	722.9	16.72
1961	98.9	704.1	14.05
1962	129.3	887.3	14.57
1963	153.2	1012.8	15.13
1964	169.9	1104.2	15.39
1965	109.2	956.9	11.41
1966	153.1	1059.6	14.45
1967	160.6	1114.7	14.41
1968	173.7	1162.2	14.95
1969	198.2	1325.4	14.95
1970	223.9	1485.5	15.07
1971	254.5	1663.3	15.30
1972	285.5	1987.4	14.37
1973	327.5	2344.8	13.97
1974	434.7	2922.6	14.87
1975	591.9	3599.9	16.44
1976	538.1	3951.5	13.62
1977	589.3	4587.1	12.85
1978	552.1	4734.4	11.66
1979	622.7	5498.8	11.32
1980	713.7	6630.7	10.76
1981	749.2	7210.2	10.39
1982	676.3	7917.5	8.54
1983	798.1	8772.6	9.10
1984	1067.5	10965.8	9.73
1985 a	2095.8	13845.0	15.14
1986 b	2159.8	15576.6	13.87
1987 c	2703.8	19298.2	14.01

Source: Banco Central de la Republica Dominicana
Boletin Mensual
Departamento de Estudios Economicos

- * En Millones de RD\$
- a Incluye RD\$547.8 millones producidos por el recargo cambiario a las exportaciones
- b Incluye RD\$125.9 millones producidos por el recargo cambiario a las exportaciones
- c Incluye RD\$129.3 millones producidos por comisiones cambiarias a importaciones y RD\$21 millones producidos por comision cambiaria 2% exportaciones

EXHIBIT 4

SOURCES OF TAX REVENUES FROM IMPORTS, MERCHANDISES AND SERVICES

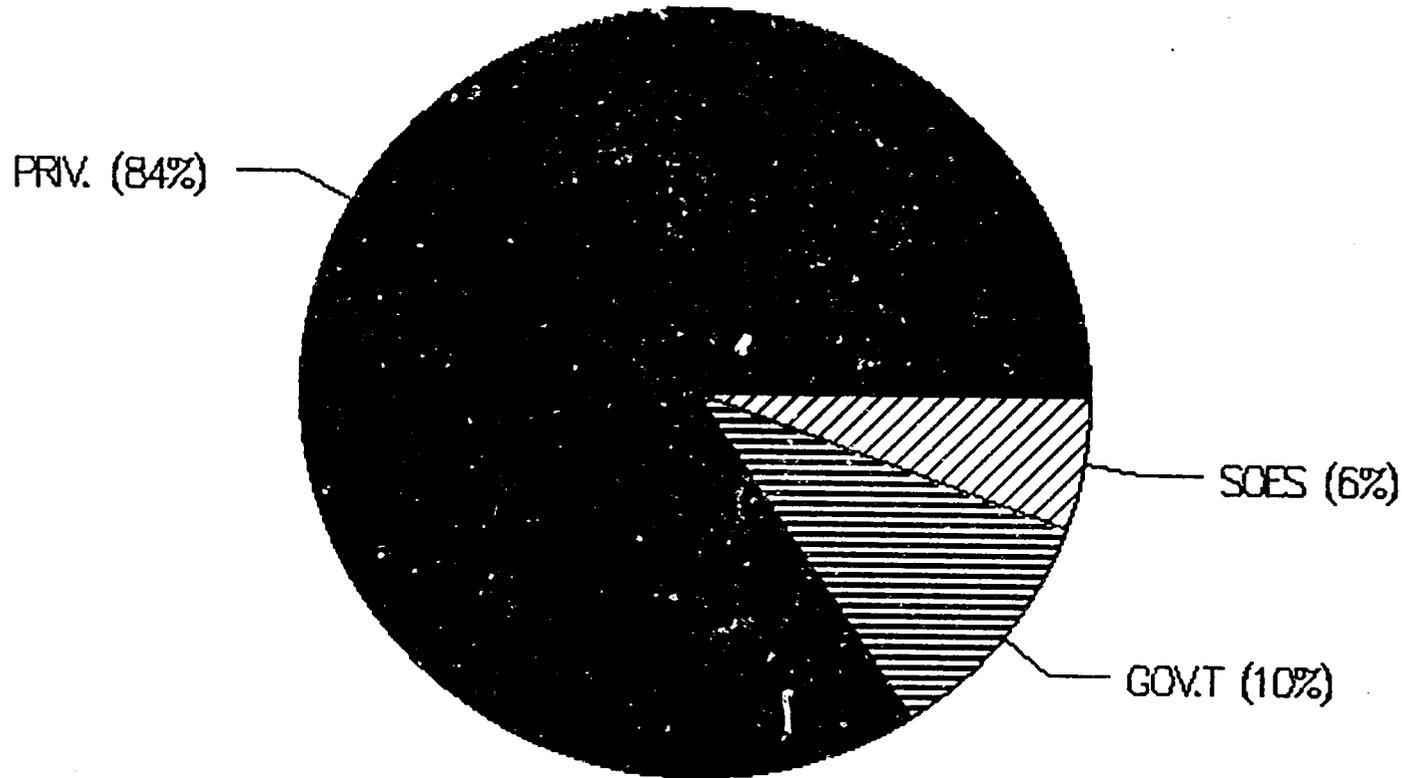
CONCEPT	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Import	203.4	209.6	218.7	223.5	180.5	170.9	232.6	319.7	237.1	687.5	1,065.5
M&S Tax	140.5	144.2	166.2	189.4	237.6	253.3	295.8	427.5	586.2	834.3	737.8
Main M&S Taxes											
ITBI Merchandise	0.0	0.0	0.0	0.0	0.0	0.0	0.0	47.5	40.3	99.5	148.8
ITBI Imports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	49.2	82.9	89.7	168.8
Total ITBI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	96.7	123.2	189.2	317.6
Imports minus ITBI	203.4	209.6	218.7	223.5	180.5	170.9	232.6	223.0	113.9	498.3	747.9
Beverage	54.9	56.0	63.0	76.1	80.1	86.5	93.8	108.1	116.4	143.9	172.4
Services	13.4	15.4	18.5	22.1	24.3	28.4	36.7	46.2	74.0	77.6	123.1
Petroleum	21.2	2.2	35.6	55.4	104.0	106.6	127.5	177.7	268.0	447.9	218.3
Others	51.0	70.6	49.1	35.8	29.2	31.8	37.8	48.0	87.5	65.4	75.2

NOTE : ITBI = Value Added Tax
M&S = Merchandise and Services

SOURCE: BOLETIN DE LA SECRETARIA DE FINANZAS

PRIVATE SECTOR CONTRIBUTION TO TOTAL EMPLOYMENT 1987

TOTAL EMPLOYMENT = 1,997,300

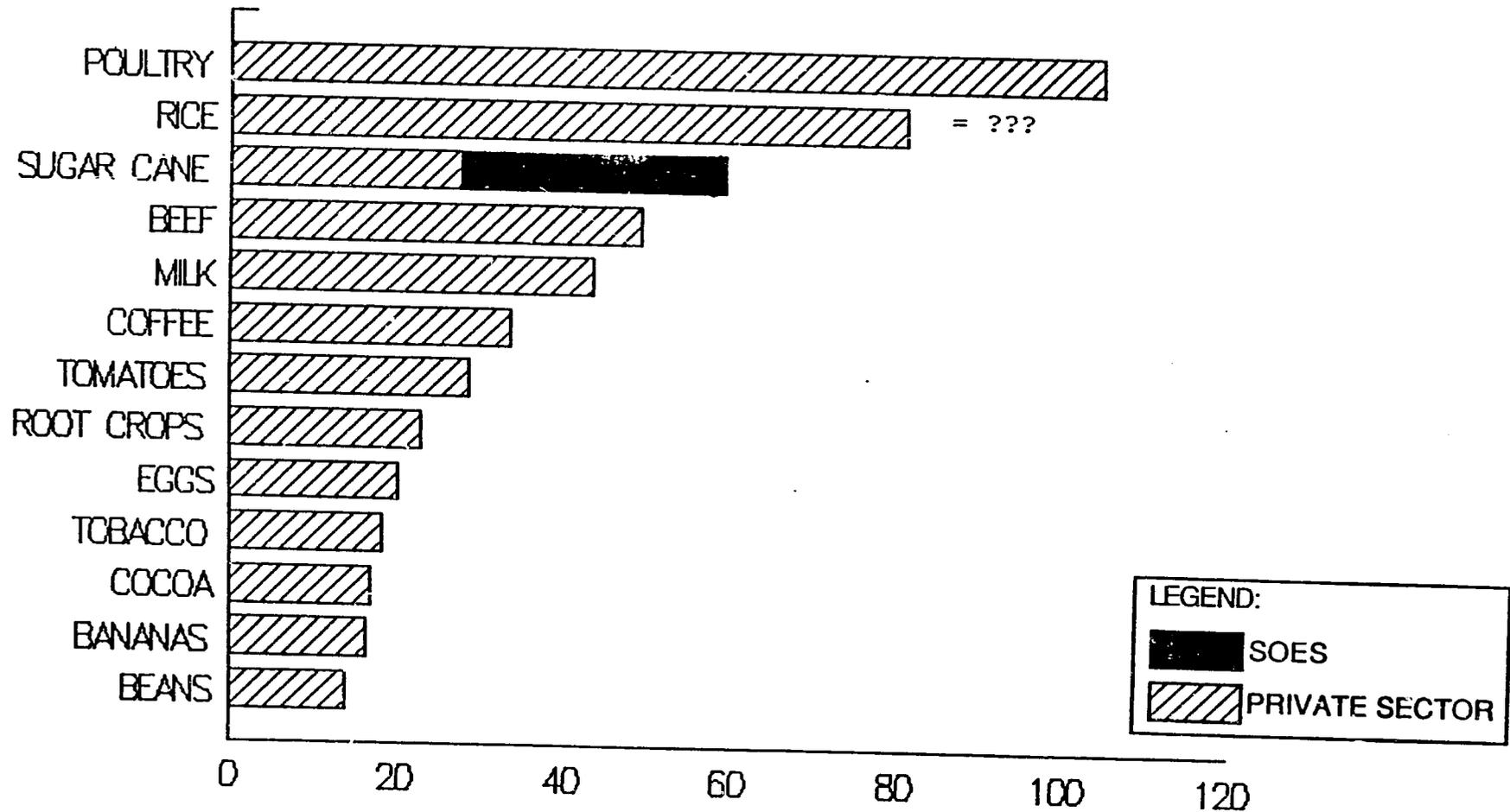


SOURCE: FUNDACION ECONOMIA Y DESARROLLO.
PREPARED BY P.U.C.M.M. AND F.E.D., FOR J.E. AUSTIN ASSOCIATES.

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AGRICULTURE PRODUCTION 1987

1970 PRICES



SOURCE: BANCO CENTRAL.

PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

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EXHIBIT 6B

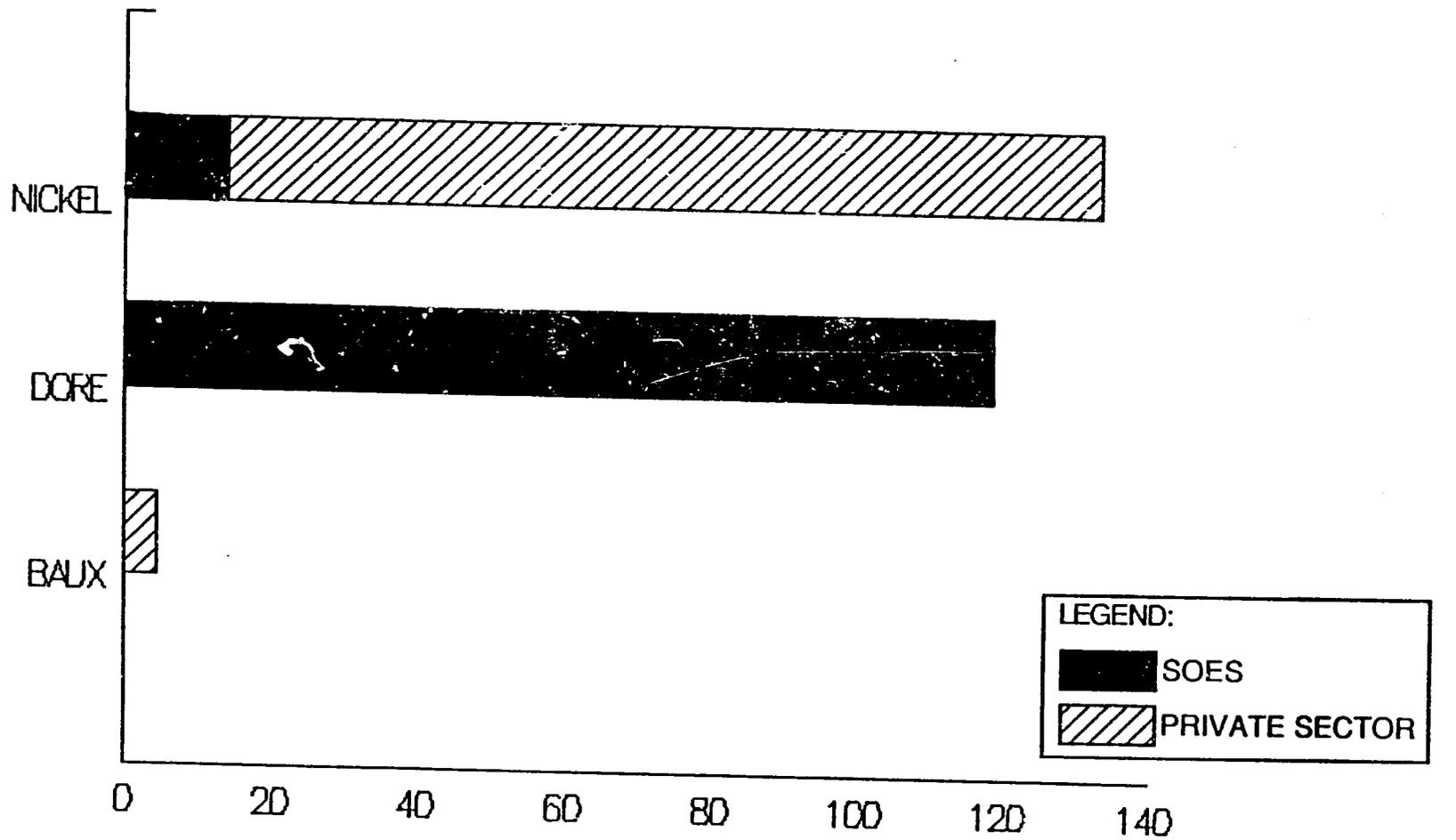
AGRICULTURE PRODUCTION
1980

CROP	1987
BEANS	14.1
BANANAS	16.3
COCOA	17.1
TOBACCO	18.4
EGGS	20.3
ROOT CROPS	22.9
TOMATOES	28.8
COFFE	33.7
MILK	43.5
BEEF	49.1
SUGAR CANE	59.4
RICE	81.3
POULTRY	104.9

SOURCE: SECRETARIA DE ESTADO DE
AGRICULTURA, MAY, 1988.

MINERAL PRODUCTION 1987

CURRENT PRICES



SOURCE: BANCO CENTRAL.

PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

EXHIBIT 7B

DOMINICAN MINERAL PRODUCTION, 1987
(RD\$ Millions)

YEAR	BAUXITE	NICKEL	DORE*
1977		91.1	55.3
1978	23.1	72.7	72.8
1979	20.9	123.4	127.8
1980	18.5	101.3	259.5
1981	15.7	110.5	207.8
1982	5.3	24.2	163.6
1983	0.0	83.5	164.5
1984	0.0	10.5	131.8
1985	0.0	120.7	113.6
1986	0.0	77.8	111.8
1987	4.4	133.3	118.7

* GOLD-SILVER ALLOY

SOURCE: BANCO CENTRAL

51

MANUFACTURING VALUE ADDED 1980

RD\$ MILLIONS

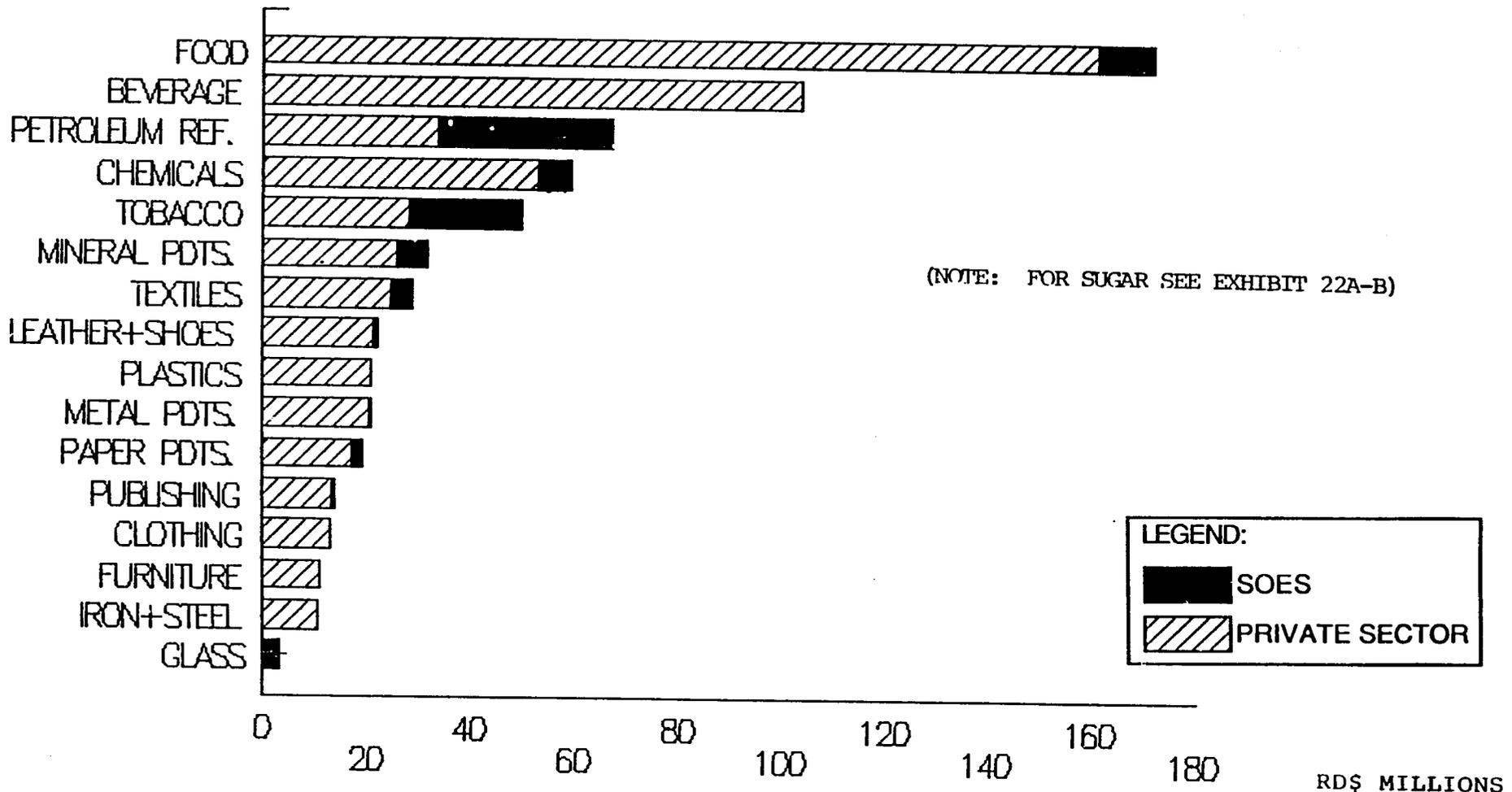


EXHIBIT 8A

SOURCE: DIVISION DE ECONOMIA AGRICOLA E INDUSTRIAL, BANCO CENTRAL
 PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

NOTE: SUGAR NOT INCLUDED DUE TO SCALE CONSIDERATIONS.

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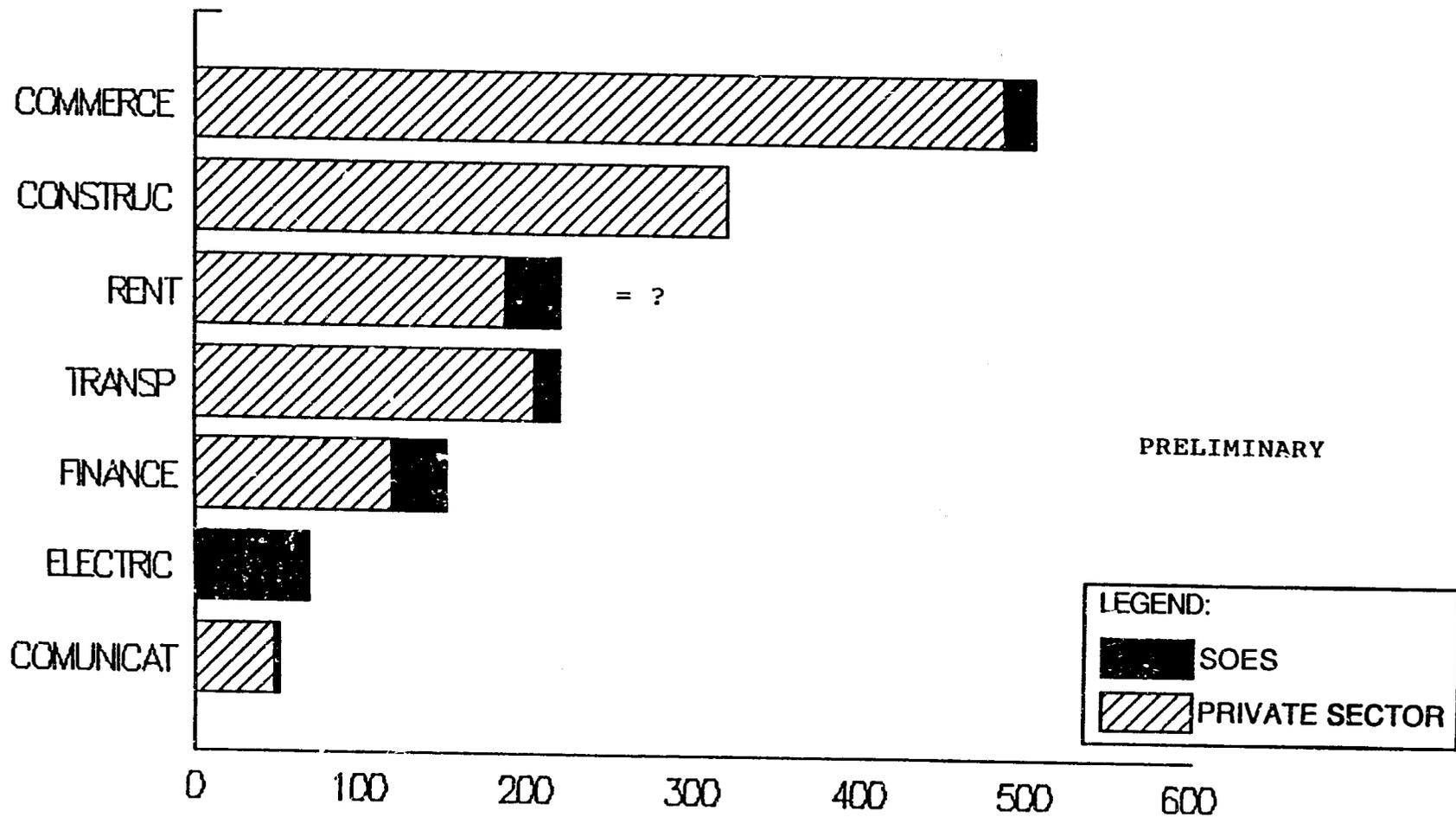
MANUFACTURE PRODUCTION
1987

CONCEPT	1987
GLASS	3,330.8
IRON+STEEL	10,538.7
FURNITURE	11,087.6
CLOTHING	12,991.9
PUBLISHING	13,817.9
PAPER PDTS.	19,418.7
METAL PDTS.	20,763.0
PLASTICS	21,148.9
LEATHER+SHOES	22,282.2
TEXTILES	28,740.1
MINERAL PDTS.	31,702.9
TOBACCO	49,829.7
CHEMICALS	58,977.5
PETROLEUM REF.	67,036.7
BEVERAGE	103,358.4
FOOD	171,593.5
SUGAR	338,748.7

SOURCE: Fundacion Economia y Desarrollo

SERVICES 1987

1970 PRICES



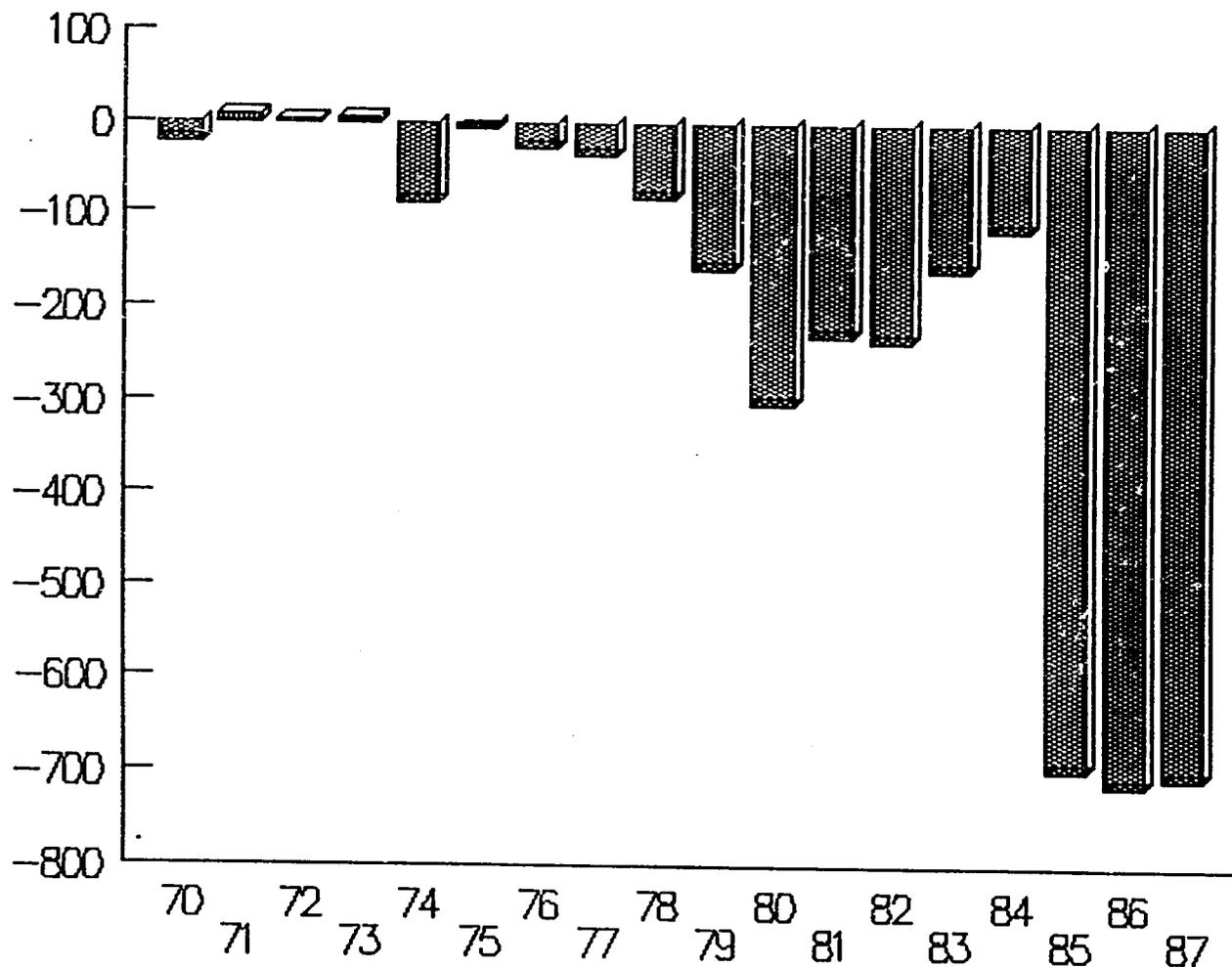
SOURCE: BANCO CENTRAL.

RD\$ MILLIONS

PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES

CONSOLIDATED FINANCIAL RESULTS

DOMINICAN STATE-OWNED ENTERPRISES

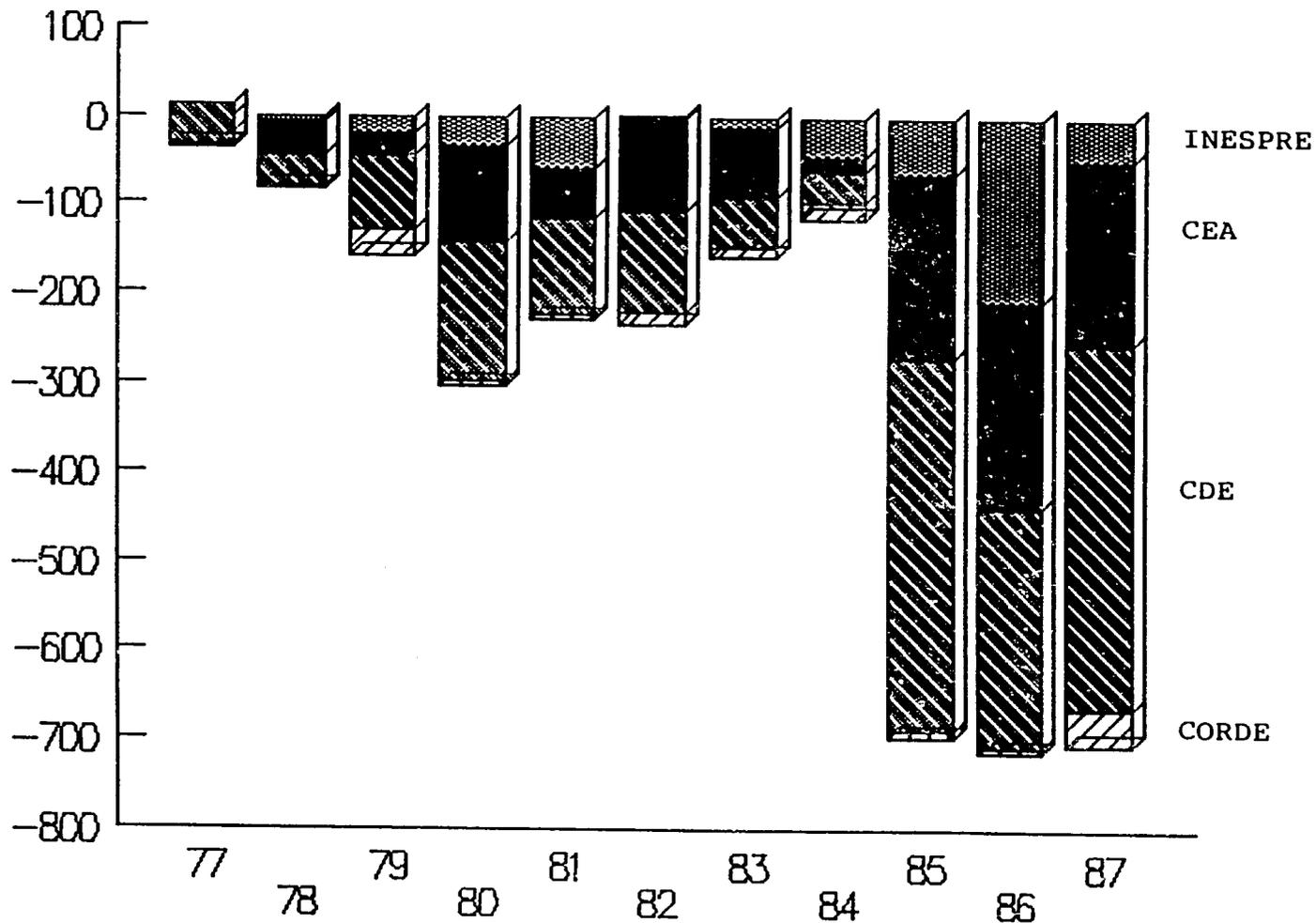


SOURCE: WORLD BANK
ECONOMIC OUTLOOK AND FINANCIAL PROGRAM FOR 1988.
PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN
ASSOCIATES

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FINANCIAL RESULTS STATE

OWNED ENTERPRISES 1977 - 1987



SOURCE: WORLD BANK, ECONOMIC OUTLOOK AND FINANCIAL PROGRAM FOR 1988.
 PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

EXHIBIT 11B

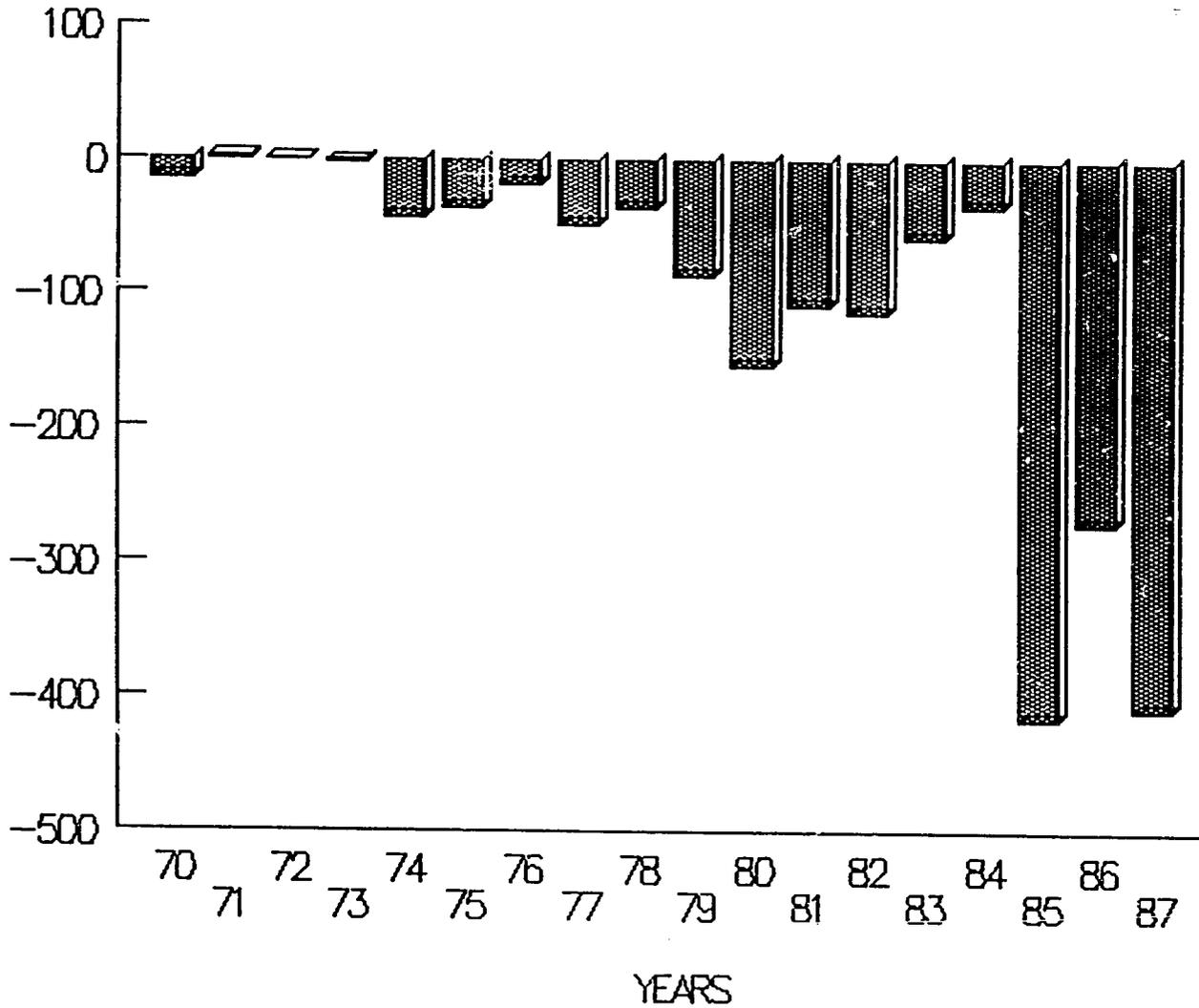
SURPLUS OR (DEFICIT) OF PUBLIC ENTERPRISES
(RD\$ Millions)

YEARS	CDE	CEA	INESPRE	CORDE	TOTAL
1970	(13.7)	(4.7)	0.0	(3.4)	(21.8)
1971	2.3	(1.7)	7.7	(1.3)	7.0
1972	0.4	(1.1)	4.1	(1.3)	2.1
1973	(1.2)	(1.0)	9.2	(1.8)	5.2
1974	(43.5)	10.2	(48.5)	(4.8)	(86.6)
1975	(37.0)	33.0	13.5	(15.6)	(6.1)
1976	(17.6)	(15.1)	6.3	(1.2)	(27.6)
1977	(48.5)	32.9	(18.5)	(2.1)	(36.2)
1978	(37.0)	(37.5)	(5.8)	(2.0)	(82.3)
1979	(86.5)	(24.4)	(19.2)	(28.1)	(158.2)
1980	(153.9)	(110.8)	(32.7)	(6.2)	(303.6)
1981	(109.3)	(55.5)	(58.6)	(7.6)	(231.0)
1982	(114.5)	(107.8)	1.2	(14.3)	(235.4)
1983	(57.2)	(79.2)	(10.6)	(12.6)	(159.6)
1984	(34.4)	(18.1)	(43.2)	(19.1)	(114.8)
1985	(417.5)	(207.3)	(63.9)	(8.3)	(697.0)
1986	(270.6)	(228.0)	(209.1)	(4.6)	(712.3)
1987	(409.0)	(209.0)	(46.9)	(39.2)	(704.0)

SOURCE: Fundación Economía y Desarrollo, INC.

CDE DEFICIT

1970 - 1987



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CDE FINANCIAL SOURCES

RD\$ THOUSANDS

-32-

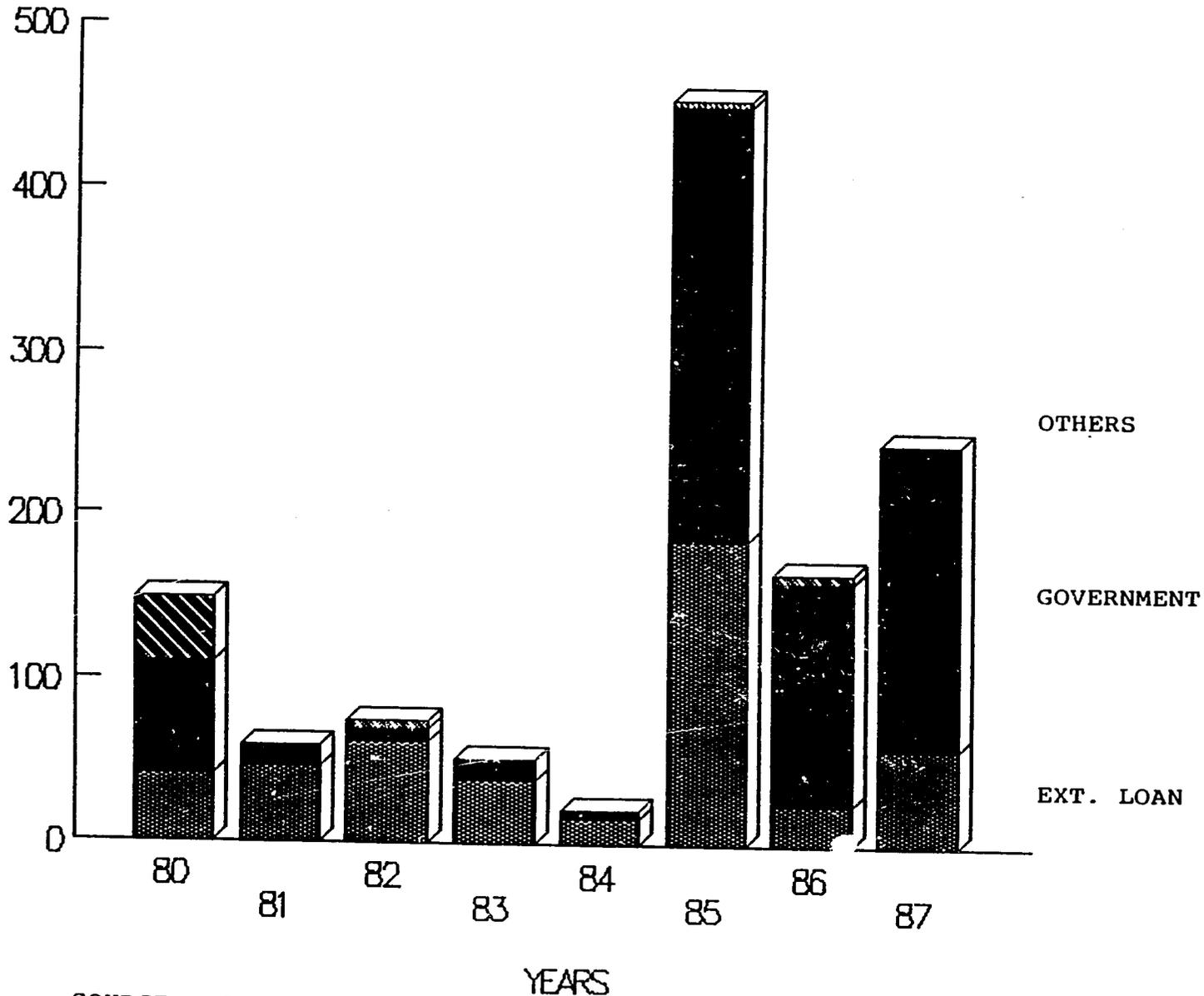


EXHIBIT 12B

SOURCE: CENTRO DE ORIENTACION ECONOMICA EN BASE A EJECUCIONES PRESUPUESTARIAS 1980-86. ONAPRES

59

CEA DEFICIT

1970 - 1987

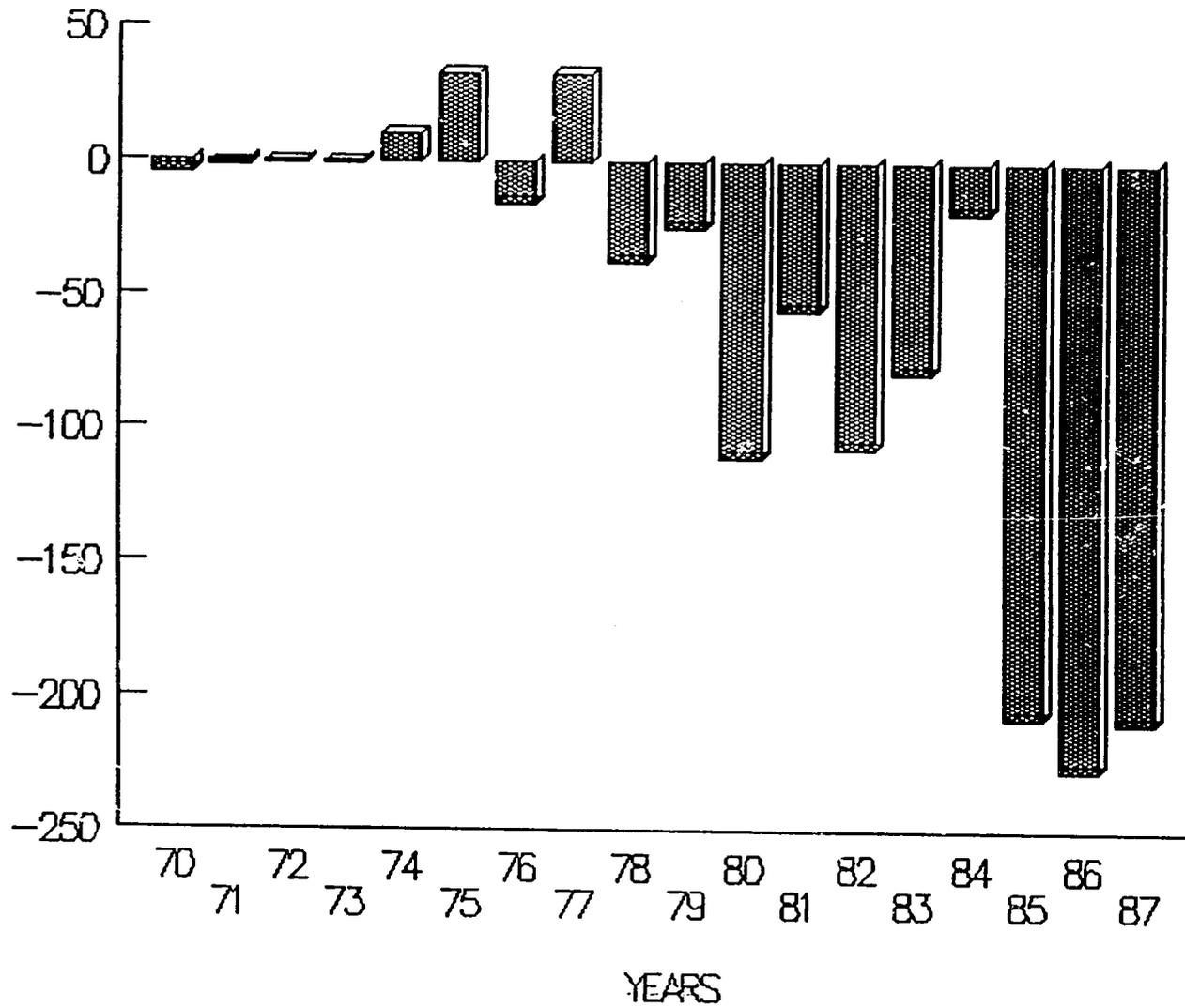
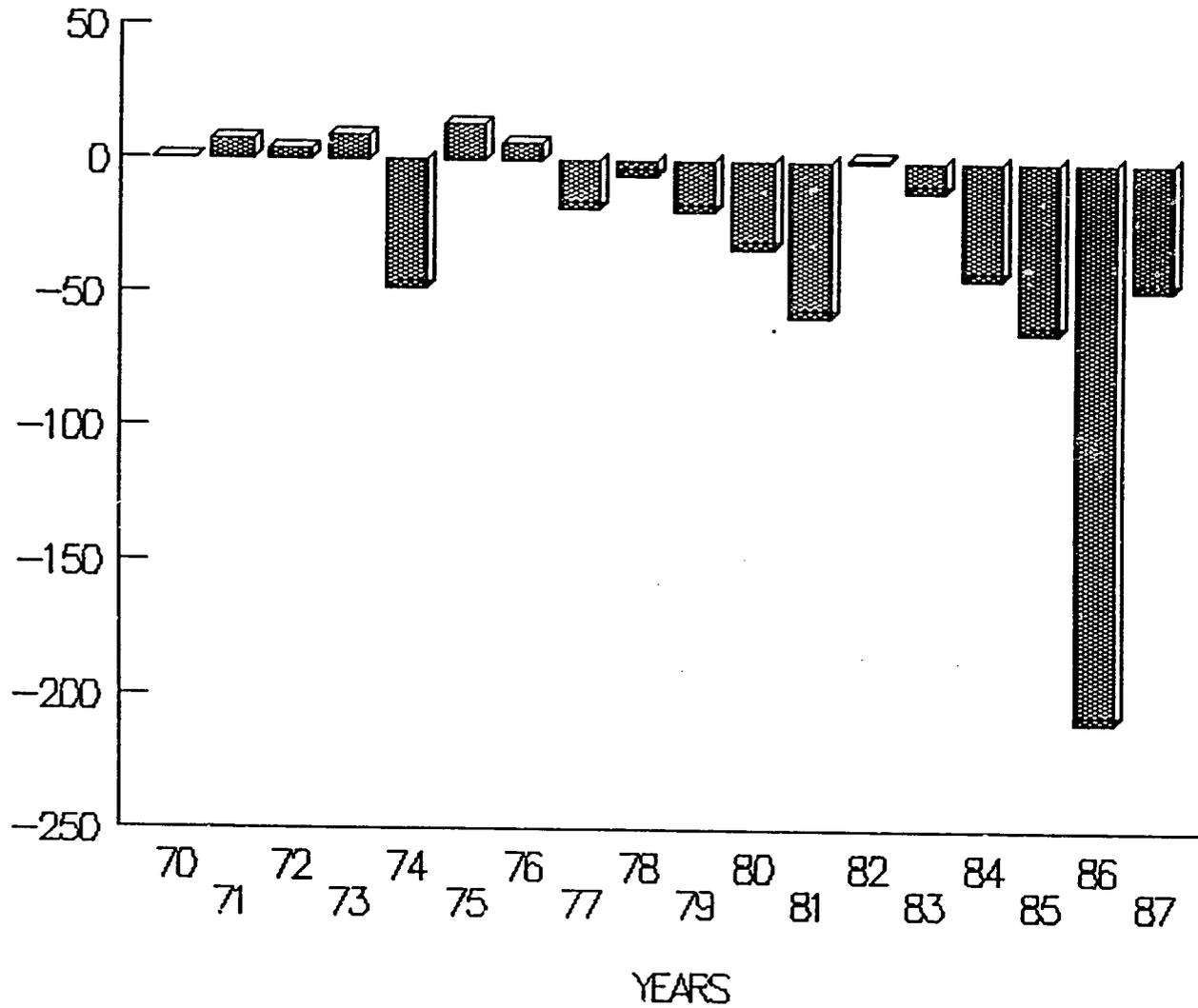


EXHIBIT 12C

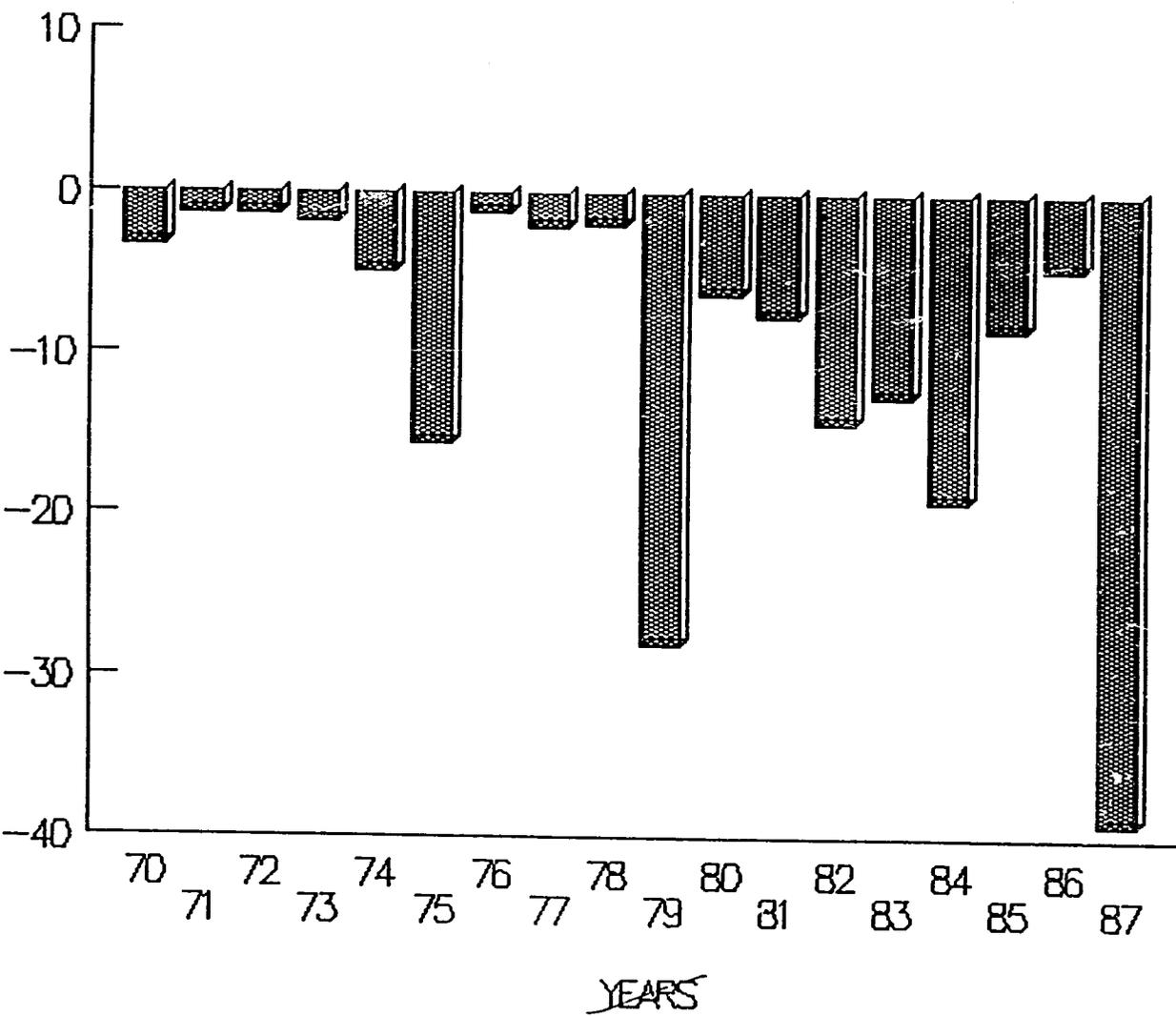
INESPRE DEFICIT

1970 - 1987



CORDE DEFICIT

1970 - 1987



-35-
RD\$ MILLIONS

EXHIBIT 12E

27

CORDE

REPORTED AFTER TAX PROFITS AND LOSSES

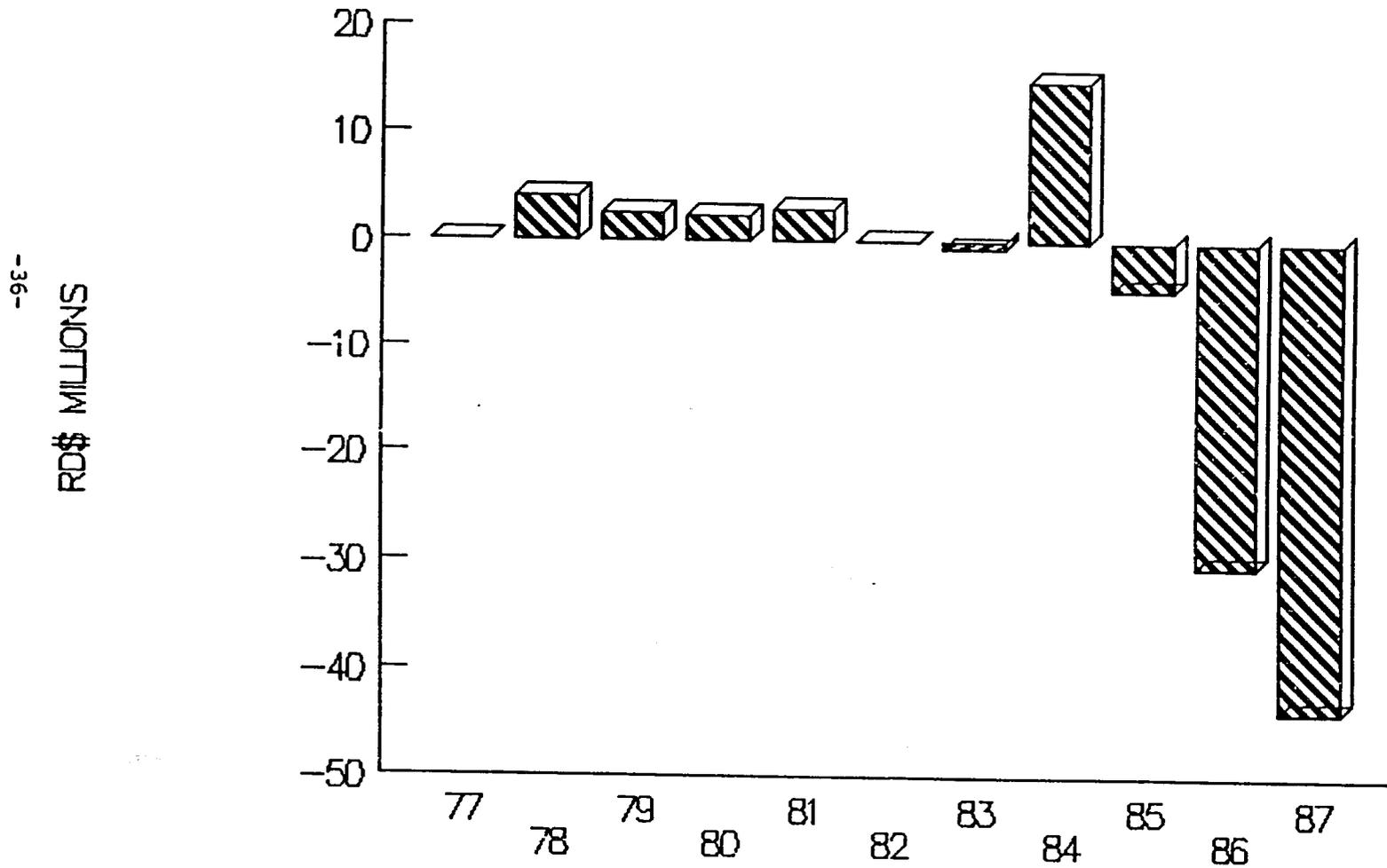
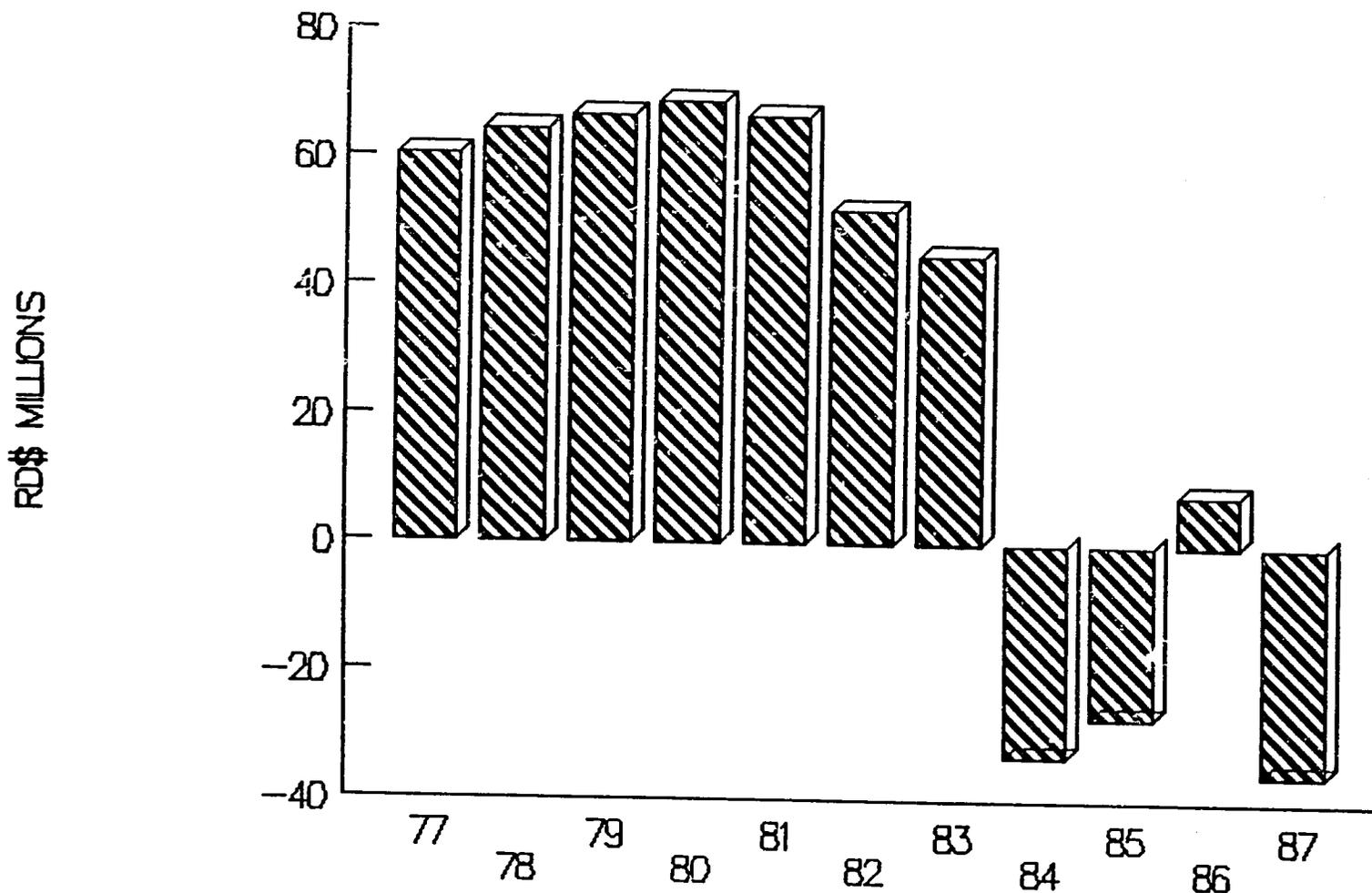


EXHIBIT 13A

SOURCE: MEMORIA ANUALES DE CORDE.

PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

CORDE NET ASSETS AT BOOK VALUE (TOTAL ASSETS MINUS TOTAL LIABILITIES)

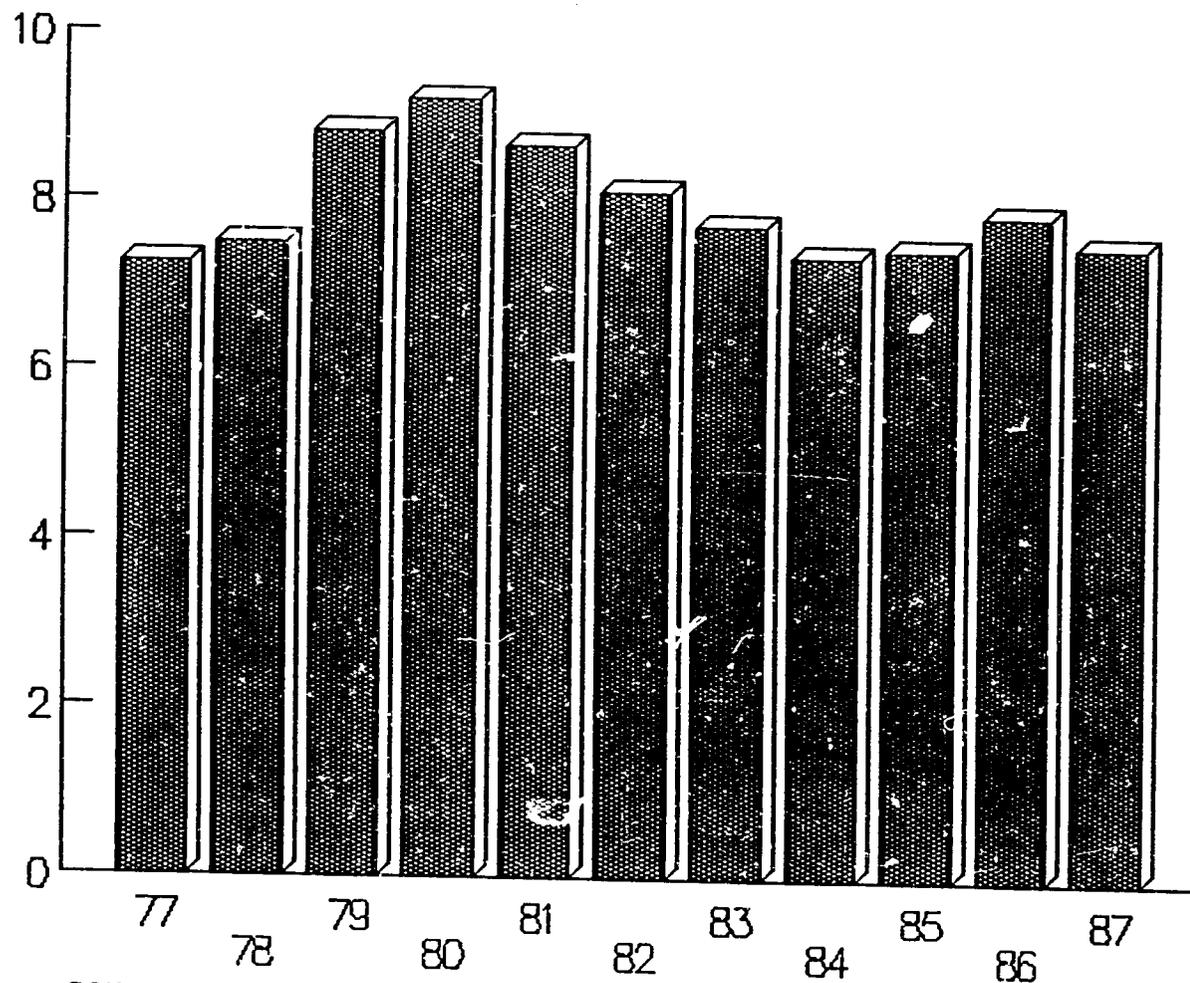


SOURCE: MEMORIA ANUALES DE CORDE.

PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

CORDE EMPLOYMENT 1977-1987

PERIODO 1977 - 1987



SOURCE: MEMORIA ANUALES DE CORDE.

PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

THOUSANDS OF PERSONS

EXHIBIT 13D

FINANCIAL DATA ON CORDE STATE- OWNED ENTERPRISES
1977 - 1987
(RD\$ Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
ASSETS	92.6	100.6	116.3	120.2	128.6	120.2	138.0	69.8	81.3	150.3	116.9
CONTABLE CAPITAL	60.3	64.3	66.5	68.8	66.5	52.1	45.1	(33.2)	(27.1)	8.1	(35.8)
PAYED INTEREST	0.3	0.2	0.5	679.0							
NET SALES		198.0	214.4	233.2	244.168	238.2	278.3	370.4	647.4	619.2	585.5
PRODUCTION COST			116.9				142.9	185.3	304.3	298.2	
WAGES AND SALARIES	20.9	21.4	28.0	31.3	31.9	31.9	31.6	31.2	41.8	52.5	
NET PROFITS BEFORE DEDUCTIONS		(0.2)	5.9	(20.0)				29.6	28.8	1.5	42.3
PAYED TAXES	32.2	31.1	30.4	24.3	20.5	18.4					
PROFITS		4.1	2.7	2.4	3.1		(0.6)	15.0	(4.3)	(30.5)	(43.9)
EMPLOYMENT	7,254.0	7,478.0	8,837.0	9,202.0	8,660.0	8,132.0	7,741.5	7,351.0	7,465.0	7,892.0	7,518.0

NOTE: Net sales/1979 (through July 31)
Data reported by CORDE may differ substantially
from their sources and should be regarded as indicative only.

SOURCE: MEMORIAS ANUALES DE CORDE

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THE COST OF A JOB AT CORDE, 1987

$$\frac{\text{CORDE LOSSES}}{\text{CORDE EMPLOYMENT}} = \frac{\text{RD\$40 MM}}{8,000} = \boxed{\text{RD\$5,000}}$$

$$\boxed{\text{US\$1,292}}$$

SOURCE: MEMORIAS ANUALES
DE CORDE

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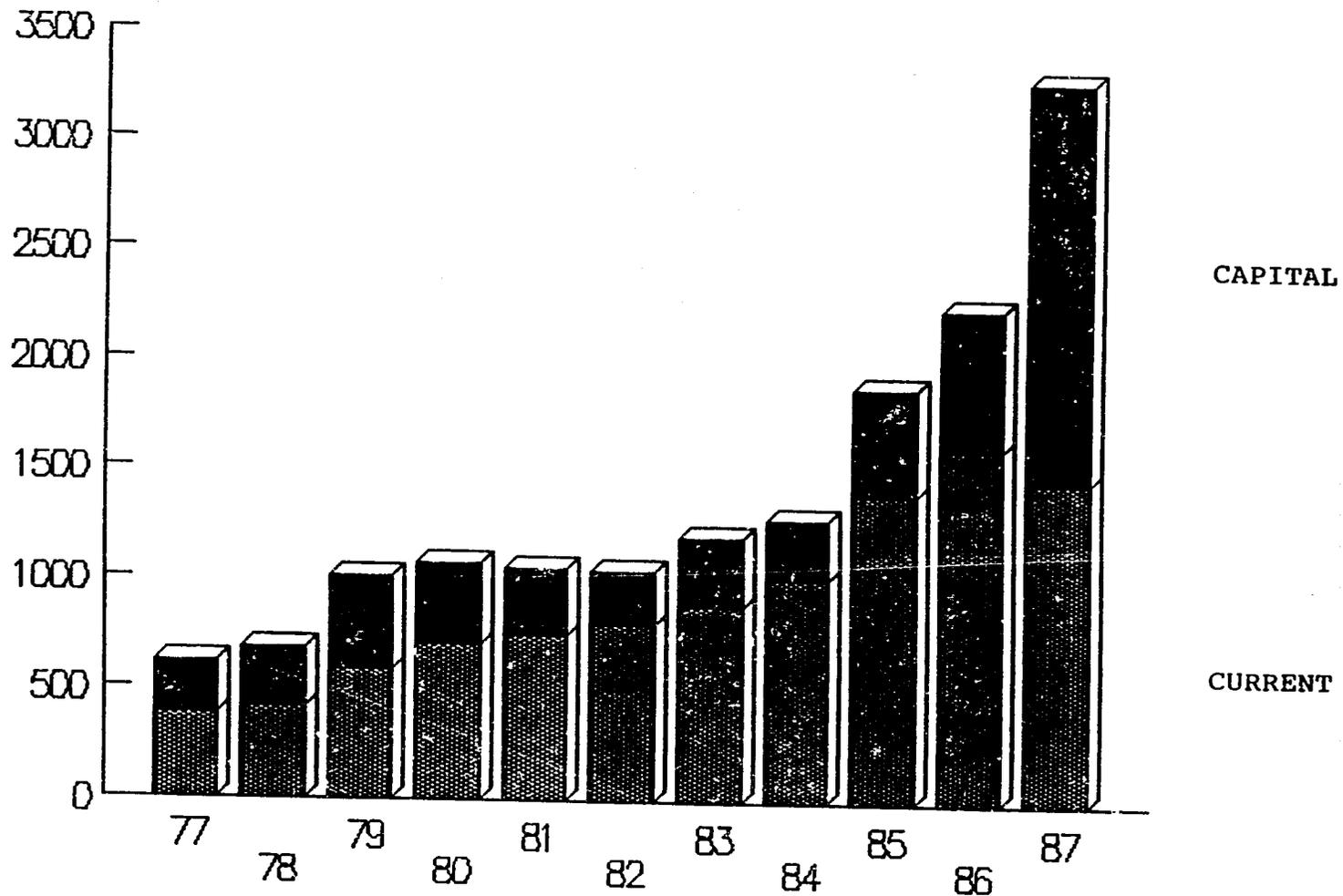
SOE LOSSES AS % OF GDP

$$\frac{\text{RD\$700 MM}}{\text{RD\$ 19,298}} = \boxed{3.6\% \text{ OF GDP}}$$

SOURCE: MEMORIAS ANUALES
DE CORDE

9

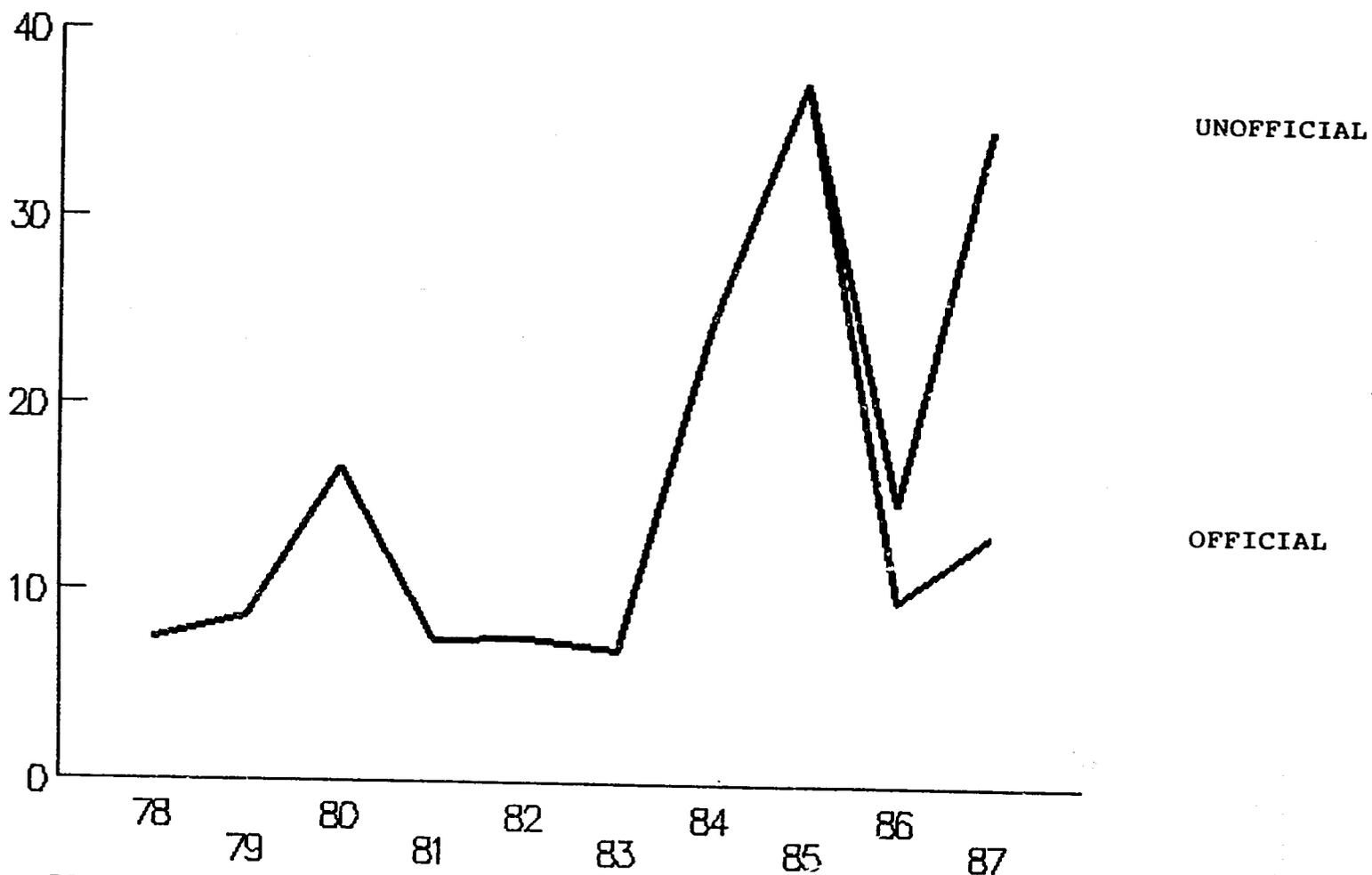
TOTAL EXPENDITURES CENTRAL GOVERNMENT



SOURCE: BOLETIN ESTADISTICO DE LA SECRETARIA DE FINANZAS.
PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN
ASSOCIATES.

INFLATION RATE 1978-1987

(PERCENT)



SOURCE: BOLETIN DEL BANCO CENTRAL - DEPARTAMENTO ECONOMICO.
PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

EXHIBIT 16A

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RATE

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EXHIBIT 16B

DOMINICAN INFLATION RATE
1977 = 100

YEARS	OFFICIAL INFLATION RATE	UNOFFICIAL INFLATION RATE
1978	7.5	7.5
1979	8.7	8.7
1980	16.8	16.8
1981	7.5	7.5
1982	7.6	7.6
1983	7.0	7.0
1984	24.4	24.4
1985	37.5	37.5
1986	9.7	15.0
1987*	13.3	35.0

* Through October 1987

SOURCE: Banco Central

GROWTH RATE IN MONEY SUPPLY

(M1, M2)

PERCENTAGE CHANGE

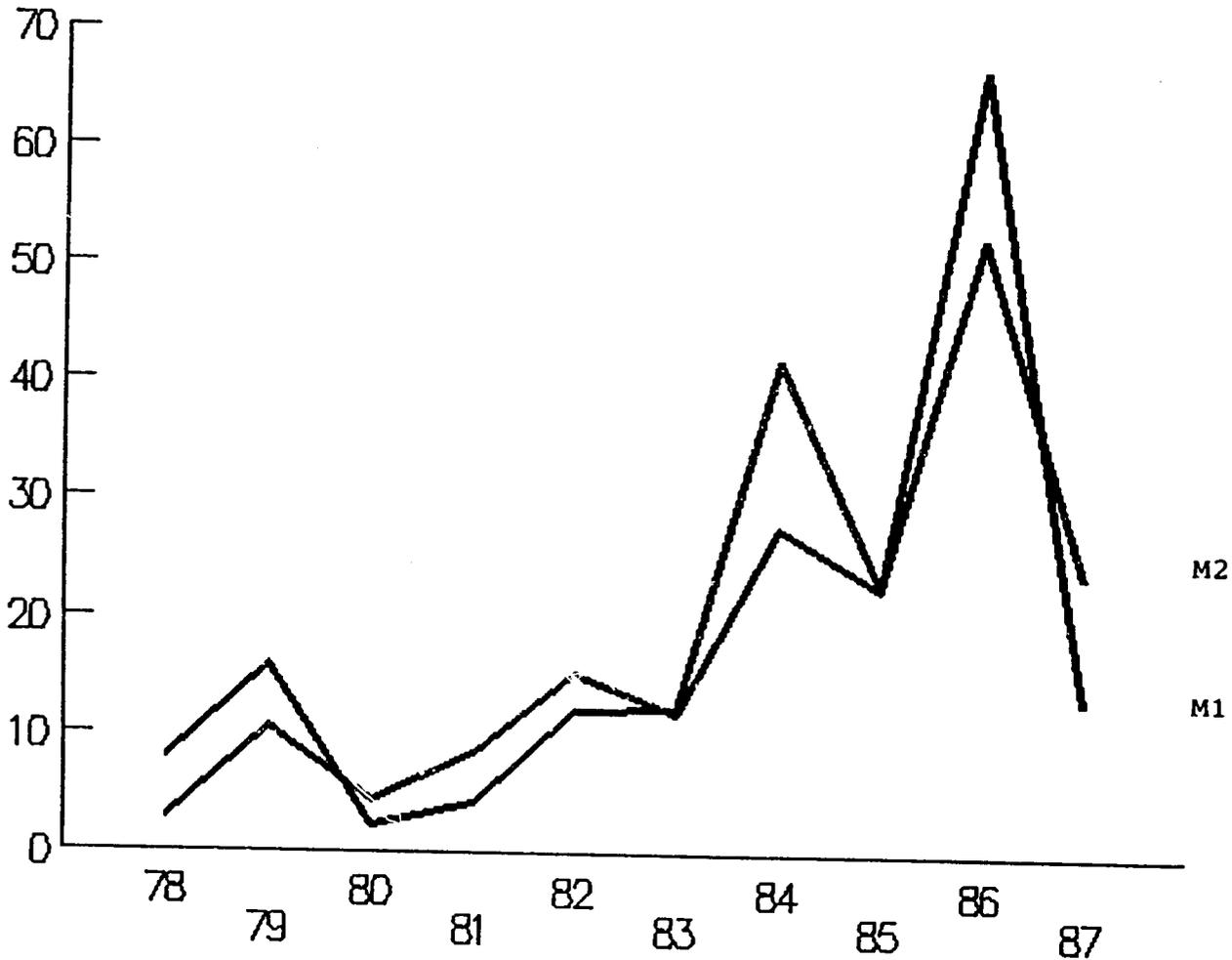


EXHIBIT 17A

SOURCE: BANCO CENTRAL.
PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

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EXHIBIT 17B

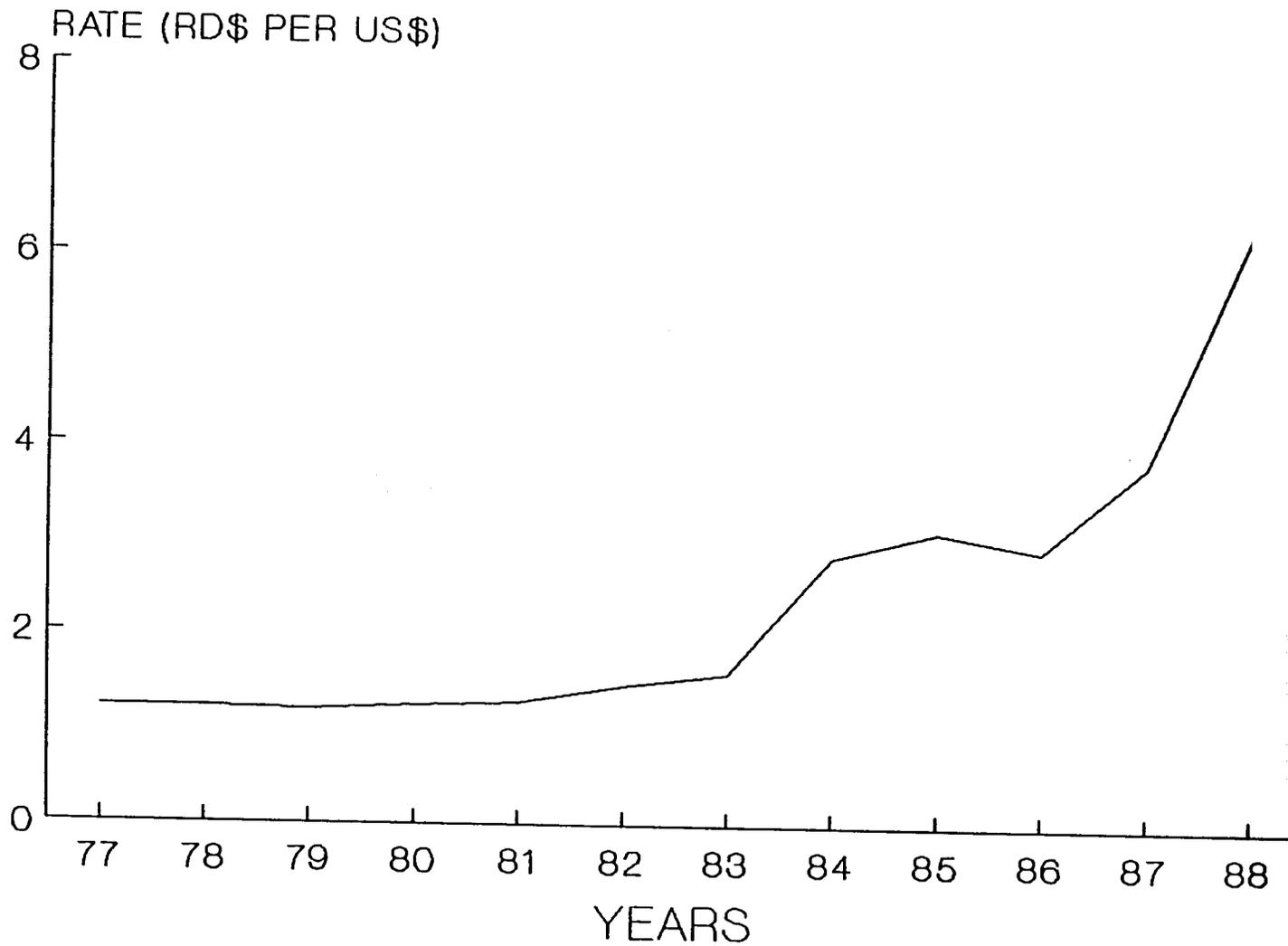
GROWTH RATE IN MONEY SUPPLY

YEARS	M1	M2
1978	7.97	2.92
1979	15.96	10.52
1980	2.25	4.33
1981	4.09	8.49
1982	12.04	15.23
1983	12.27	11.82
1984	42.04	27.80
1985	22.96	22.67
1986	52.72	66.99
1987	23.92	13.12

SOURCE: FUNDACION ECONOMIA Y
DESARROLLO

73'

EXCHANGE RATE 1977 - 1988



SOURCE: Banco Central

EXHIBIT 18B

EXCHANGE RATE
1977 - 1988

YEARS	EXCHANGE RATE
1977	1.22
1978	1.22
1979	1.20
1980	1.25
1981	1.28
1982	1.46
1983	1.60
1984	2.83
1985	3.11
1986	2.91
1987*	3.84
1988**	6.30

* Through October 1987

** Through May 1988

SOURCE: Banco Central

DEBT BURDEN OF THE DOMINICAN REPUBLIC

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RATIO

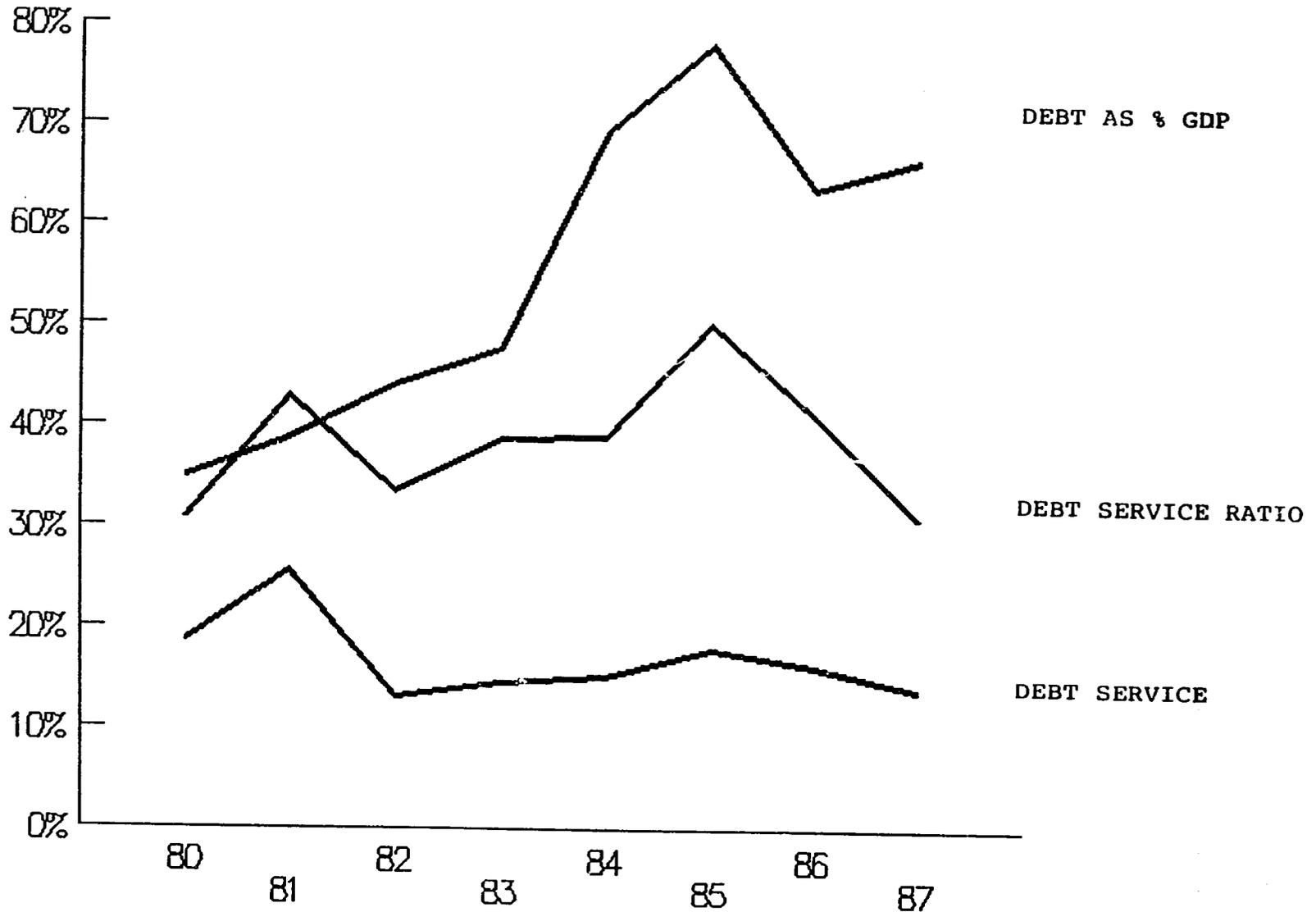


EXHIBIT 19A

SOURCE: DEPARTAMENTO DEUDA EXTERNA, BANCO CENTRAL.
PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

1986

EXHIBIT 193

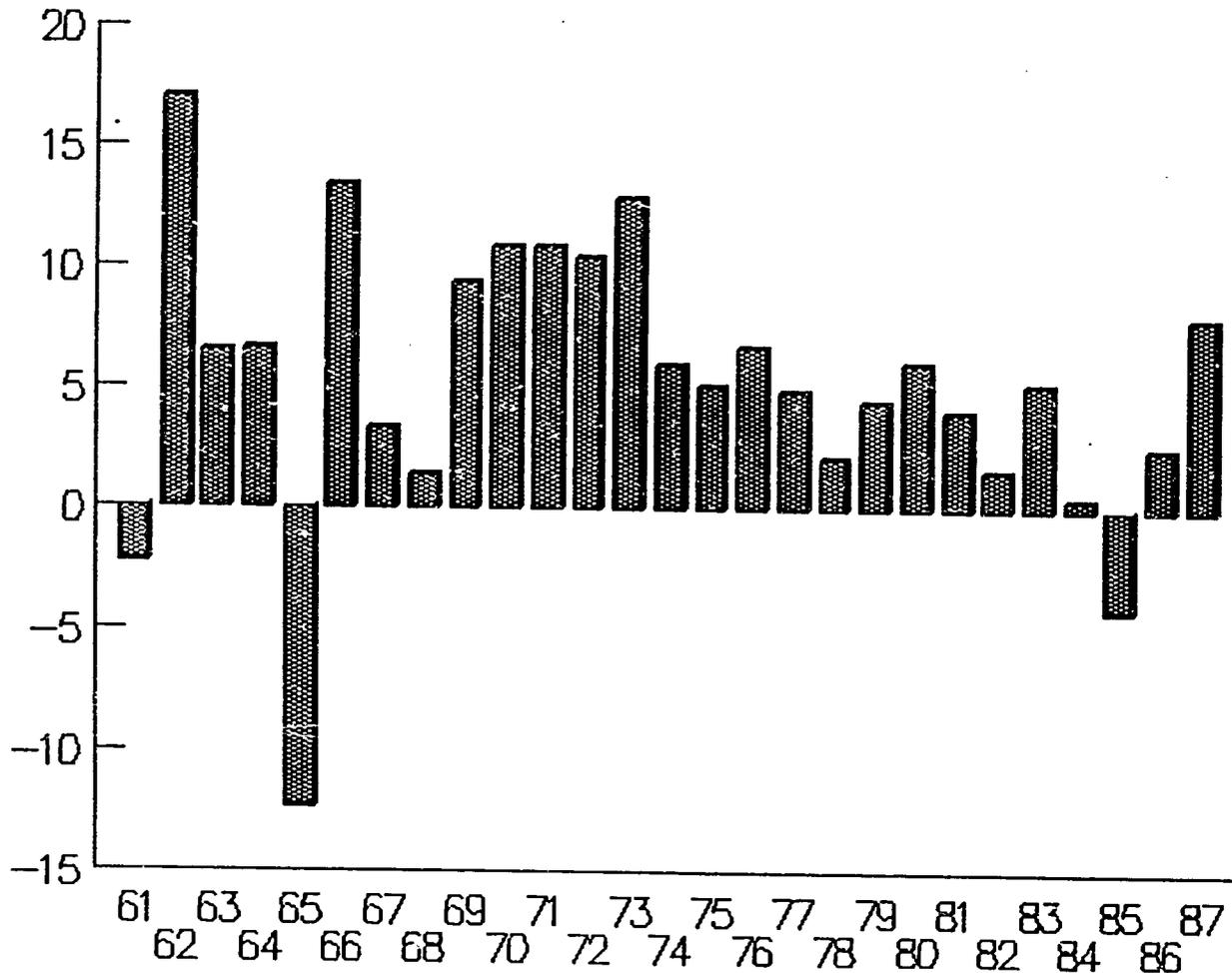
SOME IMPORTANT INDICATORS OF THE DOMINICAN EXTERNAL DEBT

YEARS	(1) DEBT SERVICE	(2) TOTAL EXTERNAL DEBT	(3) EXPORTS OF GOODS	(4) EXPORTS OF GOODS AND SERVICES	(5) PIB* US\$ MILLIONS	RATIO ANALISIS			
						(1)/(2)	(1)/(3)	(1)/(4)	(2)/(5)
1980	405.4	2,172.9	961.9	1,313.1	6,209.7	18.7	42.1	30.9	35.0
1981	654.0	2,549.1	1,188.0	1,524.4	6,584.7	25.7	55.1	42.9	38.7
1982	384.9	2,965.6	767.7	1,146.2	6,716.6	13.0	50.1	33.6	44.2
1983	478.4	3,313.3	785.2	1,236.7	6,968.5	14.4	60.9	38.7	47.5
1984	536.4	3,536.1	868.1	1,375.4	5,100.7	15.2	61.8	39.0	69.3
1985	667.7	3,719.5	738.5	1,328.5	4,759.2	18.0	90.4	50.3	78.2
1986	586.8	3,613.1	722.1	1,425.1	5,656.9	16.2	81.3	41.2	63.9
1987	491.6	3,540.7	723.4	1,580.2	5,315.1	13.9	68.0	31.1	66.6

SOURCE: BANCO CENTRAL

GROWTH RATE OF GDP 1961-1987

1970 PRICES



SOURCE: BOLETIN DEL BANCO CENTRAL Y CUENTAS NACIONALES.

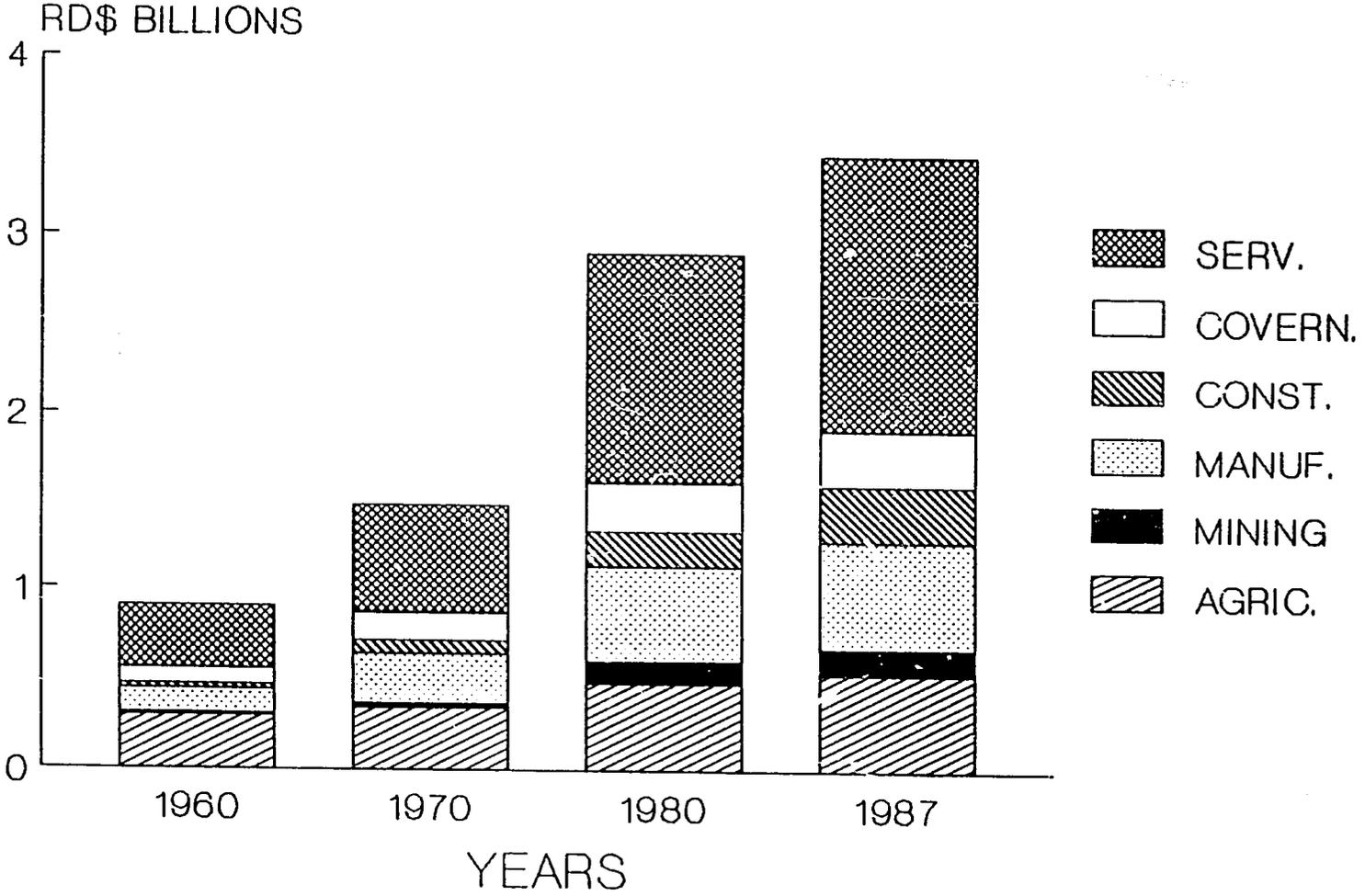
PREPARED BY FUNDACION ECONOMIA Y DESARROLLO AND P.U.C.M.M. FOR
J.F. AUSTIN ASSOCIATES

EXHIBIT 20B
OVERVIEW OF THE DOMINICAN ECONOMY: 1930-1988

PERIOD	TRUJILLO 1930-61 "CAPITALISM IN ONE FAMILY"	BALAGUER 1966-78 "PUBLIC INVESTMENT IN GOOD TIMES"	GUZMAN 1978-82 "PUBLIC SECTOR DEMAND-LED GROWTH"	BLANCO 1982-86 "STRUCTURAL ADJUSTMENT"	BALAGUER 1986-88 "PUBLIC INVESTMENT IN HARD TIMES"
INT'L. ENVIRON.	PRICE BOOMS OF WWII/ KOREAN WAR GROWTH IN WORLD TRADE	HIGH BUT VOLATILE COMMODITY PRICES GOLD STANDARD ABANDONED; INCREASE IN GOLD PRICE 1974 OIL PRICE INCREASE RECESSION IN OECD COUNTRIES	2ND OIL SHOCK RISING FOREIGN COMMERCIAL LENDING COMMODITY PRICES RECOVER SLIGHTLY	HIGHER INTEREST RATES 3RD WORLD DEBT CRISIS CUT IN US SUGAR IMPORT QUOTA CBI IMPLEMENTED	OECD RECOVERY & LOWER INTEREST RATES INCREASED U.S. PROTECTIONISM LOW SUGAR PRICES/ QUOTA CUT FURTHER
STRATEGY	TAX IMPORTS GENERATE SURPLUS VIA "CORRUPT" PRACTICES INVEST SURPLUS IN VARIOUS TRUJILLO- OWNED INDUSTRIES (SUGAR, PAPER, CHOCOLATE, SHOES, GLASS, ETC.)	TAX TRADE ON IMPORTS, PUBLIC WORKS INVESTMENT TRUJILLO FIRMS RUN AS SOES IMPORT SUBSTITUTION TO SPUR INDUSTRIAL GROWTH AGRARIAN REFORM FOR SOCIAL STABILITY	PUBLIC SECTOR DEMAND-LED GROWTH RISE IN PUBLIC SALARIES & EMPLOYMENT USE OF SHORT TERM DEBT INSTRUMENTS INCREASED	INITIAL AMBITIOUS INVESTMENT PROGRAM GIVES WAY TO AUSTERITY & STRUCTURAL ADJUSTMENT INCENTIVES FOR NON-TRADITIONAL EXPORTS	INCREASED PUBLIC WORKS INVESTMENT INCREASED RELIANCE ON CENTRAL BANK FINANCING INCREASED RELIANCE ON VAT
RESULTS	HIGH GROWTH NAT'L DEBT RETIRED FOREX. & BALANCE OF PAYMENTS STABILITY GROWTH BENEFITS TO TRUJILLO & ASSOCIATES POLITICAL DICTATORSHIP TRUJILLO FAMILY ACCOUNTS FOR 80% OF OUTPUT, 45% OF EMPLOYMENT 3.5 TAREAS OF LAND (1/3 SUGAR)	HIGH ECONOMIC GROWTH, ESPECIALLY IN MANUFACTURING LOW FOREIGN DEBT LOW BOP DEFICITS ECONOMY BEGINS TO FALTER AS IMPORT- LED GROWTH FALTERS	PESO-DOLLAR PARITY DETERIORATES INCREASED DEBT SERVICE BOP DEFICIT GROWS	LOW OVERALL ECONOMIC GROWTH HIGH-INFLATION CONTROLLED BY 1985-86 BOP DEFICIT ECONOMY BECOMES MORE DIVERSIFIED AS NEW GROWTH SECTORS EMERGE: TOURISM, FTZS, NON-TRAD'L AGRICULTURE, FINANCE	HIGH INFLATION PESO DETERIORATION BOP DEFICITS, PUBLIC BORROWING CROWDS OUT PRIVATE INVESTMENT

A

GDP BY SECTOR 1970 PRICES



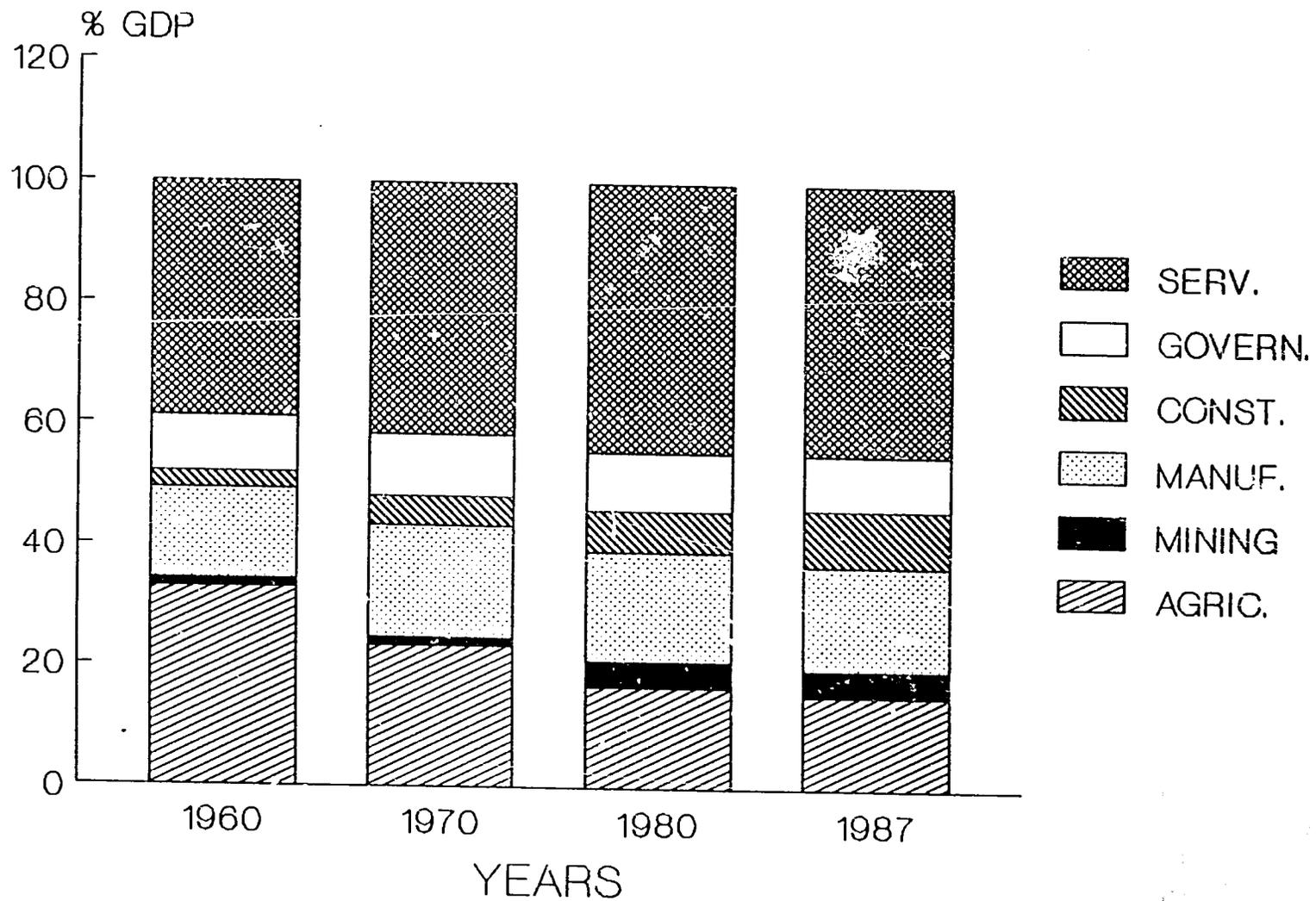
SOUERCE: Banco Central

EXHIBIT 21A

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SECTORS AS % OF TOTAL GDP



SOURCE: Banco Central

EXHIBIT 21C

GDP BY SECTOR
1970 PRICES
(RDS Millions)

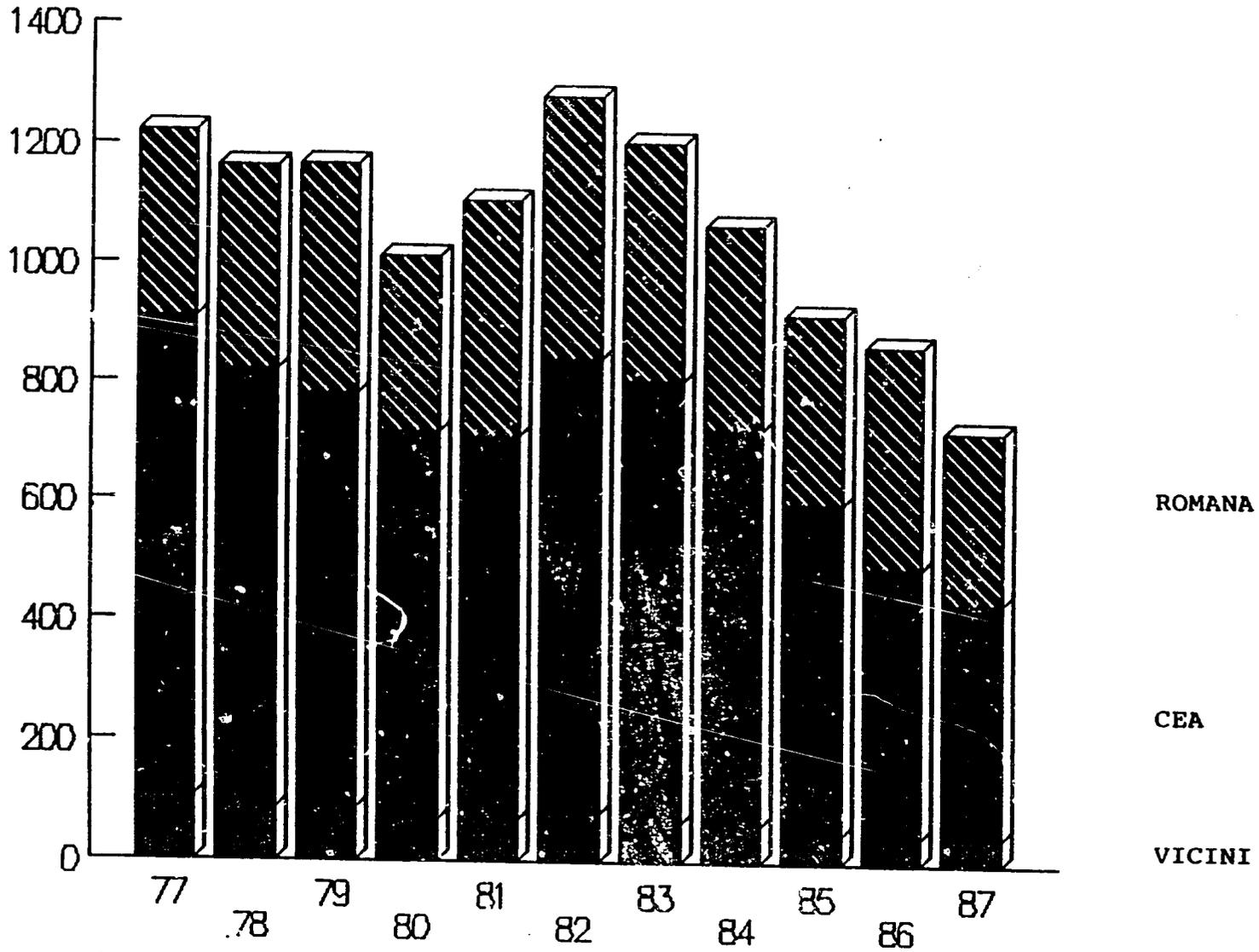
SECTORS	1960	1970	1977	1978	1979	1980	1981	1982	1983	1984*	1985*	1986*	1987**
Agriculture	297.1	345.1	436.8	456.7	461.7	484.2	510.8	534.3	550.8	550.9	523.2	518.8	534.0
Mining	14.1	22.7	143.0	114.3	146.5	124.6	135.6	93.8	124.8	135.1	135.0	119.8	148.7
Manufacture	134.6	275.4	483.4	482.6	504.8	530.2	544.5	564.1	568.1	554.4	515.0	550.5	600.1
Construction	25.0	72.7	168.7	174.5	183.4	197.6	196.5	188.8	226.7	226.8	192.0	221.8	318.7
Government	82.5	152.1	191.2	200.4	233.6	280.8	300.1	311.9	320.5	330.6	333.6	331.9	314.6
Services*	352.1	617.4	1,141.5	1,191.0	1,207.8	1,287.0	1,334.4	1,379.6	1,443.8	1,453.5	1,416.4	1,453.3	1,534.9
TOTAL	905.4	1,485.4	2,564.6	2,619.5	2,737.8	2,904.4	3,021.9	3,072.5	3,234.7	3,251.3	3,115.2	3,196.1	3,451.0

*Includes this sectors: commerce, transport, communications
electricity, finance, rent and others.

SOURCES: BANCO CENTRAL AND CUENTAS NACIONALES

SUGAR PRODUCTION 1977-1987

METRIC TONS
(Thousands)



SOURCE: BOLETIN ESTADISTICO INAZUCAR.

PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

EXHIBIT 22A

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EXHIBIT 22B

DOMINICAN SUGAR PRODUCTION, CONSUMPTION AND EXPORTS
(METRICS TONS - RAW VALUE)

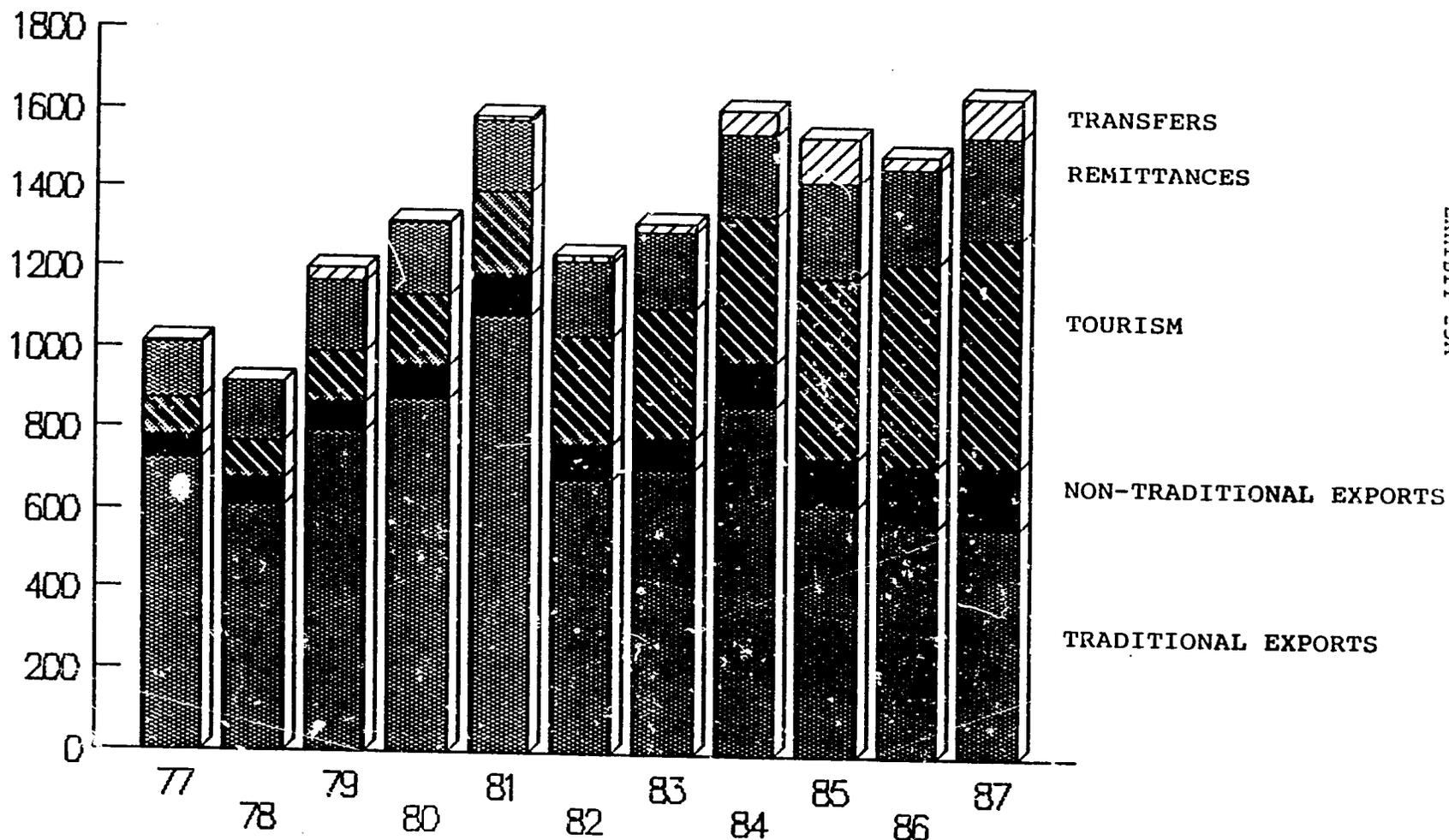
MILLS	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
PRODUCTION											
Vicini	103,935	86,471	87,934	67,238	69,875	78,739	66,275	61,554	45,814	40,522	42,298
CEA	804,091	733,652	691,231	651,685	641,835	764,549	741,275	665,328	554,268	454,463	393,079
Romana	313,681	343,912	237,300	293,081	395,899	441,373	401,794	341,905	320,617	371,487	291,342
Total	1,221,707	1,164,035	1,016,465	1,012,604	1,107,609	1,284,661	1,209,456	1,068,787	920,699	866,872	726,719
LOCAL CONSUMPTION											
Vicini	1,539	456	0	0	0	0	0	0	20,093	28,466	6,508
CEA	136,244	142,934	148,216	151,113	151,380	156,084	167,814	193,699	212,435	212,284	130,488
Romana	33,609	33,371	37,069	57,523	54,929	65,896	70,959	64,534	71,303	53,014	28,411
Total	171,392	176,763	185,285	208,536	206,309	221,980	238,773	258,233	303,831	293,764	165,407
EXPORTS											
Vicini	91,470	91,302	74,109	81,270	73,005	49,632	58,800	28,166	31,203	19,503	5,870
CEA	805,970	507,911	605,105	407,177	460,377	499,700	581,310	501,687	480,400	237,032	121,957
Romana	186,625	310,184	325,602	304,287	330,652	300,846	316,064	327,093	210,005	224,938	302,581
Total	1,084,065	909,397	1,004,816	792,734	864,034	850,178	956,174	856,946	721,608	481,473	430,408

NOTE: CEA is State-Owned Enterprise, Vicini and Romana are Private Companies

SOURCE: Boletín Estadístico INAZUCAR

SOURCES OF FOREIGN EXCHANGE

(US\$ millions)



-58- US\$ MILLIONS

EXHIBIT 23A

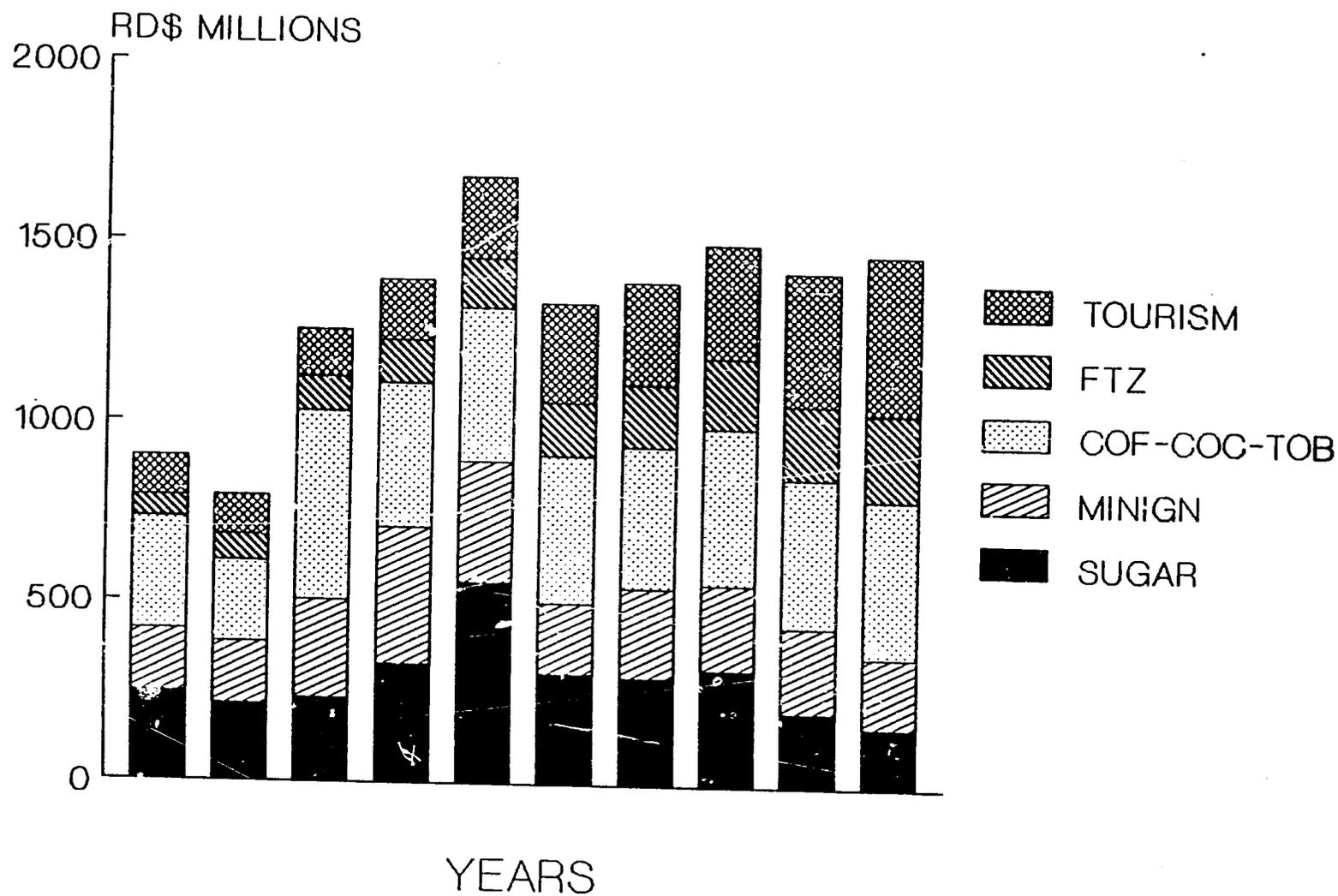
SOURCE: BOLETIN EXPORTACIONES, CEDOPEX; TURISMO EN CIFRAS Y BOLETIN DEL BANCO CENTRAL
 PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES

SOURCES OF FOREIGN EXCHANGE
(RD\$ Millions)

YEARS	EXPORTS			REMITTANCES	INTERNATIONAL TRANSFERS
	TRADITIONALS	NON TRADITIONALS	TOURISM		
1977	727.3	54.8	92.3	136.1	3.5
1978	610.8	64.7	92.3	146.3	3.5
1979	797.2	71.4	123.9	177.0	28.8
1980	876.8	85.1	172.6	183.1	4.7
1981	1,087.7	100.3	206.3	182.0	10.1
1982	680.3	87.4	266.1	190.0	15.0
1983	708.2	77.0	320.5	195.0	20.0
1984	868.1	105.6	370.6	205.0	60.0
1985	621.1	117.4	451.0	242.0	114.3
1986	570.4	151.7	506.4	242.0	29.0
1987	573.9	149.5	568.1	260.0	95.4

SURCE: FUNDACION ECONOMIA Y DESARROLLO

SOURCES OF EXPORT REVENUE



SOURCES: CEDOPEX and Turismo en Cifras

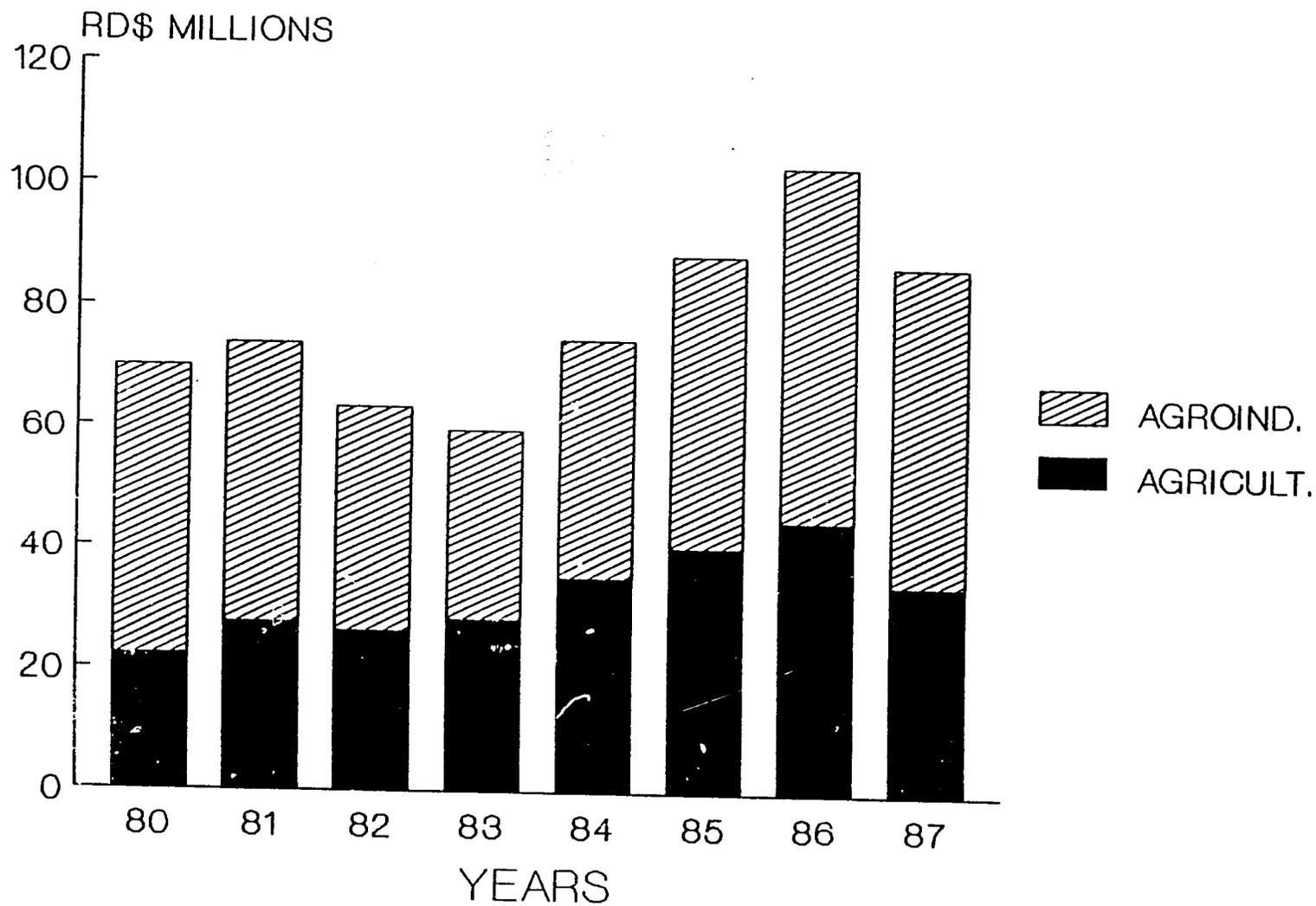
EXHIBIT 24B

EXPORTS
(RD\$ Millions)

YEARS	SUGAR AND DERIVATIVES	MINING	COFFEE, COCOA, TOBACO DERIVATIVES	FREE TRADE ZONE	TOURISM
1977	248.6	169.7	312.1	61.5	107.8
1978	212.7	170.7	229.5	72.9	108.7
1979	233.4	272.6	524.6	93.6	130.8
1980	329.6	381.0	400.0	117.1	167.9
1981	559.0	336.5	425.9	135.8	223.2
1982	307.2	195.3	411.5	147.8	272.7
1983	298.8	249.6	391.5	175.0	282.3
1984	321.9	238.3	434.7	193.7	315.0
1985	208.7	233.9	414.3	204.8	368.2
1986	169.7	192.2	438.8	238.4	440.0

SOURCES: BOLETIN EXPORTACIONES, CEDOPEX.
TURISMO EN CIFRAS.

NON TRADITIONAL AGRIBUSINESS EXPORTS



SOURCE: CEDOPEX, May 1988

EXHIBIT 25A

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EXHIBIT 25B

NON TRADITIONAL AGRIBUSINESS EXPORTS
US\$ Millions

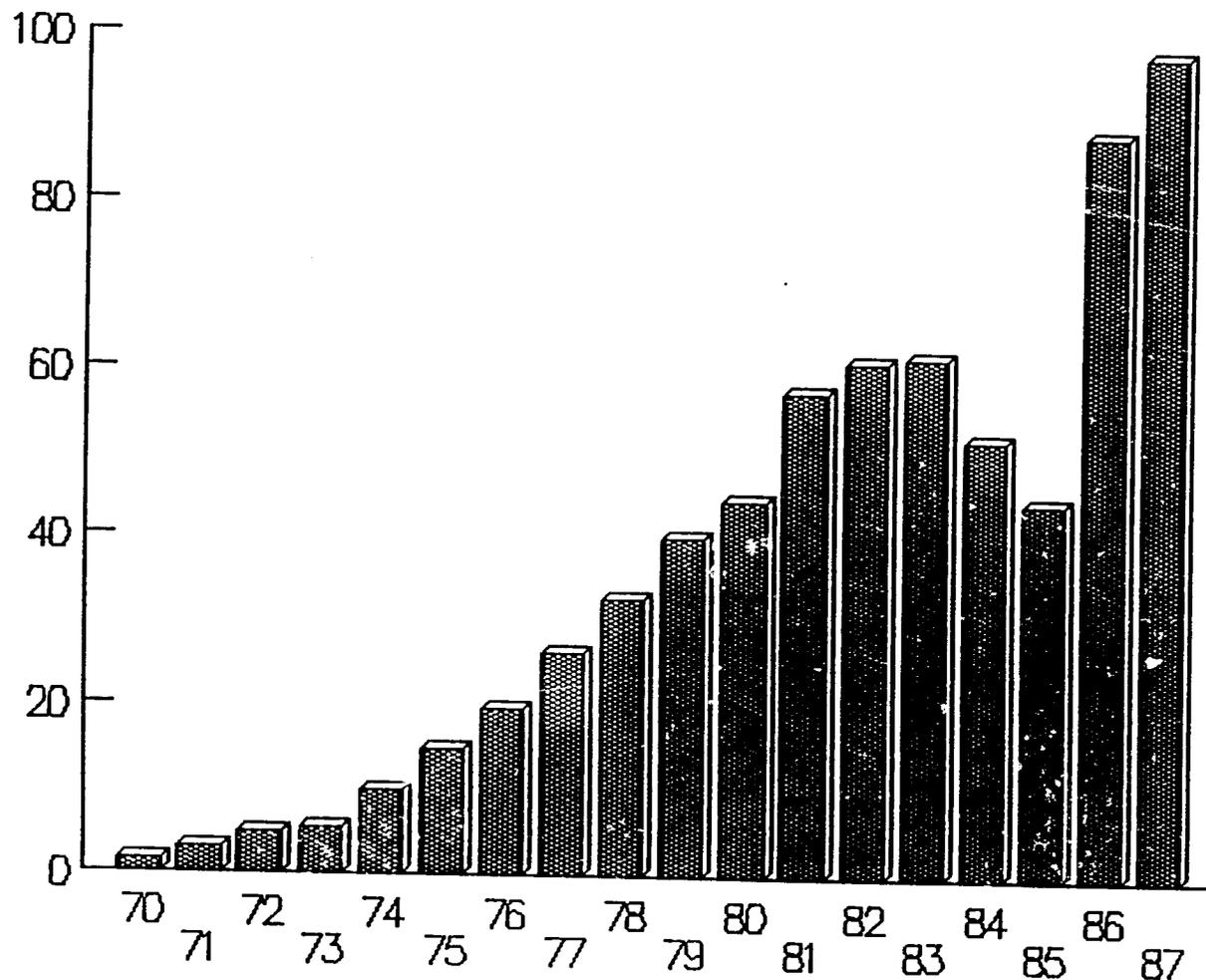
YEARS	AGRICULTURAL	AGROINDUSTRIAL
1980	22.4	47.5
1981	27.6	46.2
1982	26.4	37.0
1983	28.3	31.2
1984	35.5	39.2
1985	40.3	48.2
1986	44.9	58.3
1987	34.6	52.4

SOURCE: CEDOPEX, MAY 1988

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FOREIGN EXCHANGE GENERATED

BY DOMINICAN REPUBLIC FREE TRADE ZONES



SOURCE: CONSEJO NACIONAL DE ZONAS FRANCAS, BANCO CENTRAL, CENTRO PROMOTOR DE INVERSIONES EXTRANJERAS, CEDOPEX.
PREPARED BY FUNDACION ECONOMIA Y DESARROLLO AND P.U.C.M.M. FOR J.E. AUSTIN ASSOCIATES.

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US\$ MILLIONS

EXHIBIT 26A

DOMINICAN FREE ZONE EXPORTS AND FOREIGN EXCHANGE GENERATED

US\$ MILLIONS

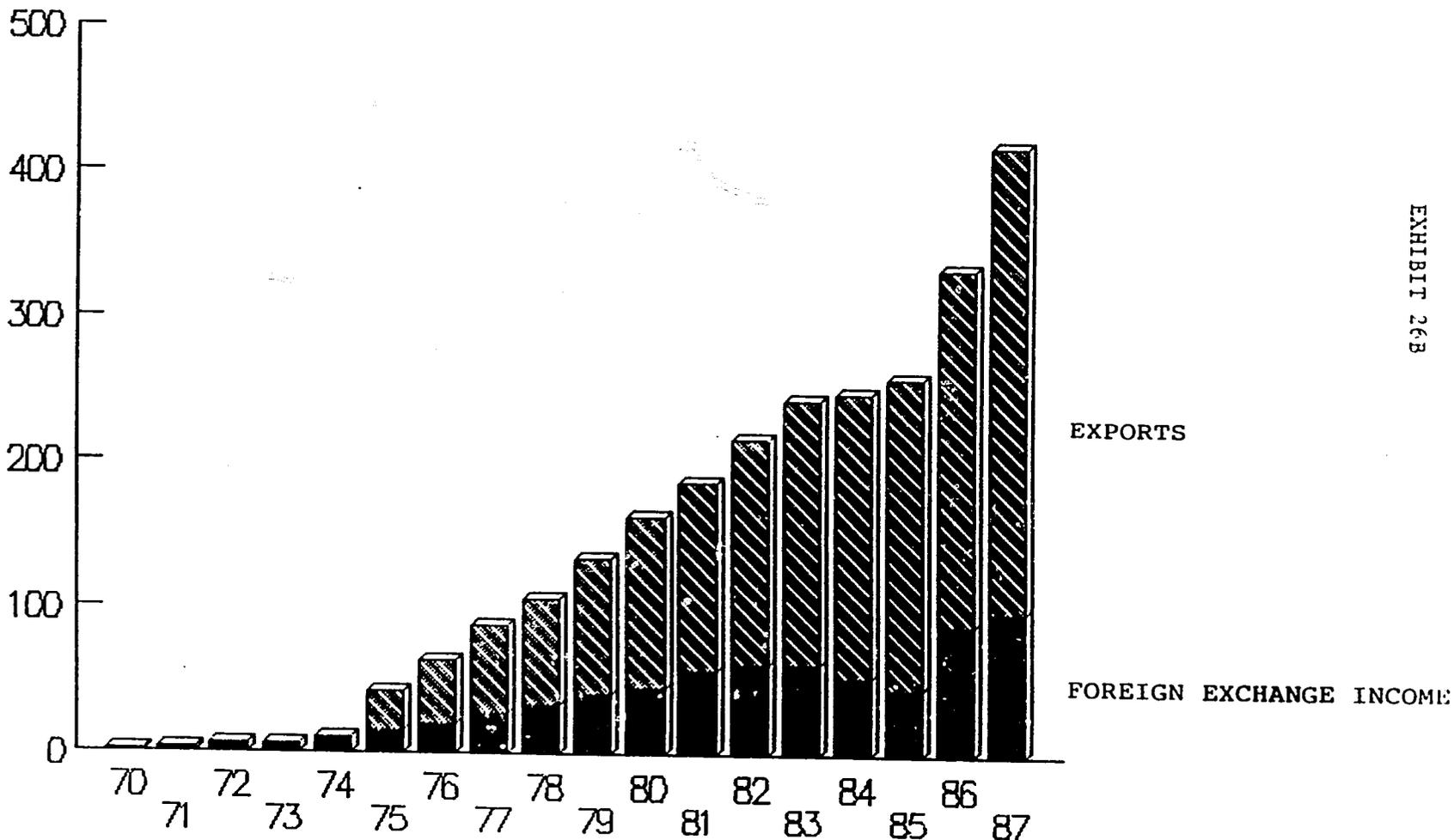


EXHIBIT 26B

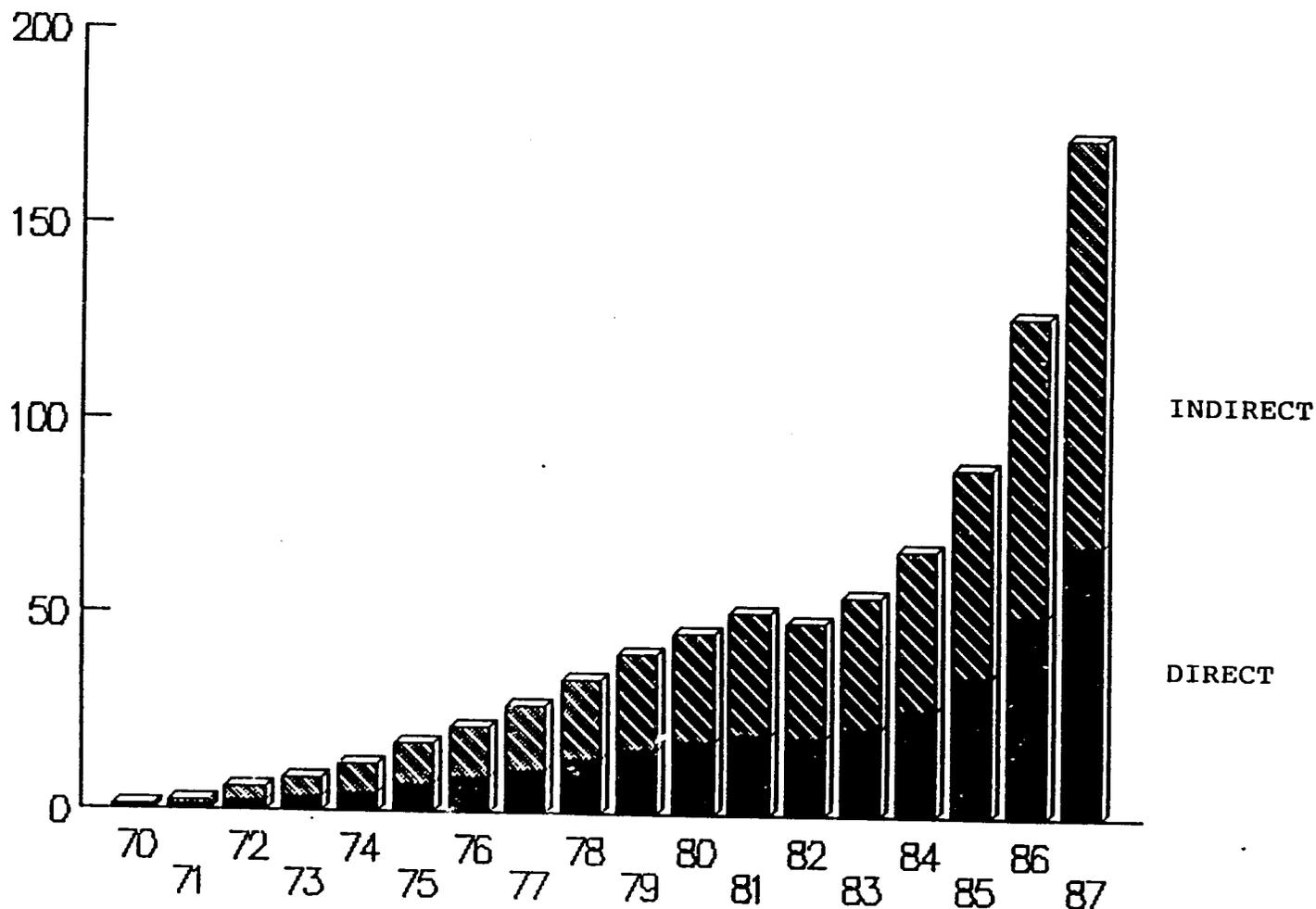
SOURCE: CONSEJO NACIONAL DE ZONAS FRANCAS, BANCO CENTRAL, CENTRO PROMOTOR DE INVERSIONES EXTRANJERAS, CEDOPEX
PREPARED BY FUNDACION ECONOMIA Y DESARROLLO AND P.U.C.M.M. FOR J.E. AUSTIN ASSOCIATES.

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EMPLOYMENT CREATED BY DOMINICAN

FREE ZONES 1970-1987

THOUSANDS EMPLOYED



SOURCE: CONSEJO NACIONAL DE ZONAS FRANCAS, BANCO CENTRAL, CENTRO PROMOTOR DE INVERSIONES EXTRANJERAS, CEDOPEX.
PREPARED BY FUNDACION ECONOMIA Y DESARROLLO AND P.U.C.M.M. FOR J.E. AUSTIN ASSOCIATES.

EXHIBIT 26C

EXHIBIT 26D

GROWTH IN DOMINICAN FREE TRADE ZONES
IMPORTANT INDICATORS

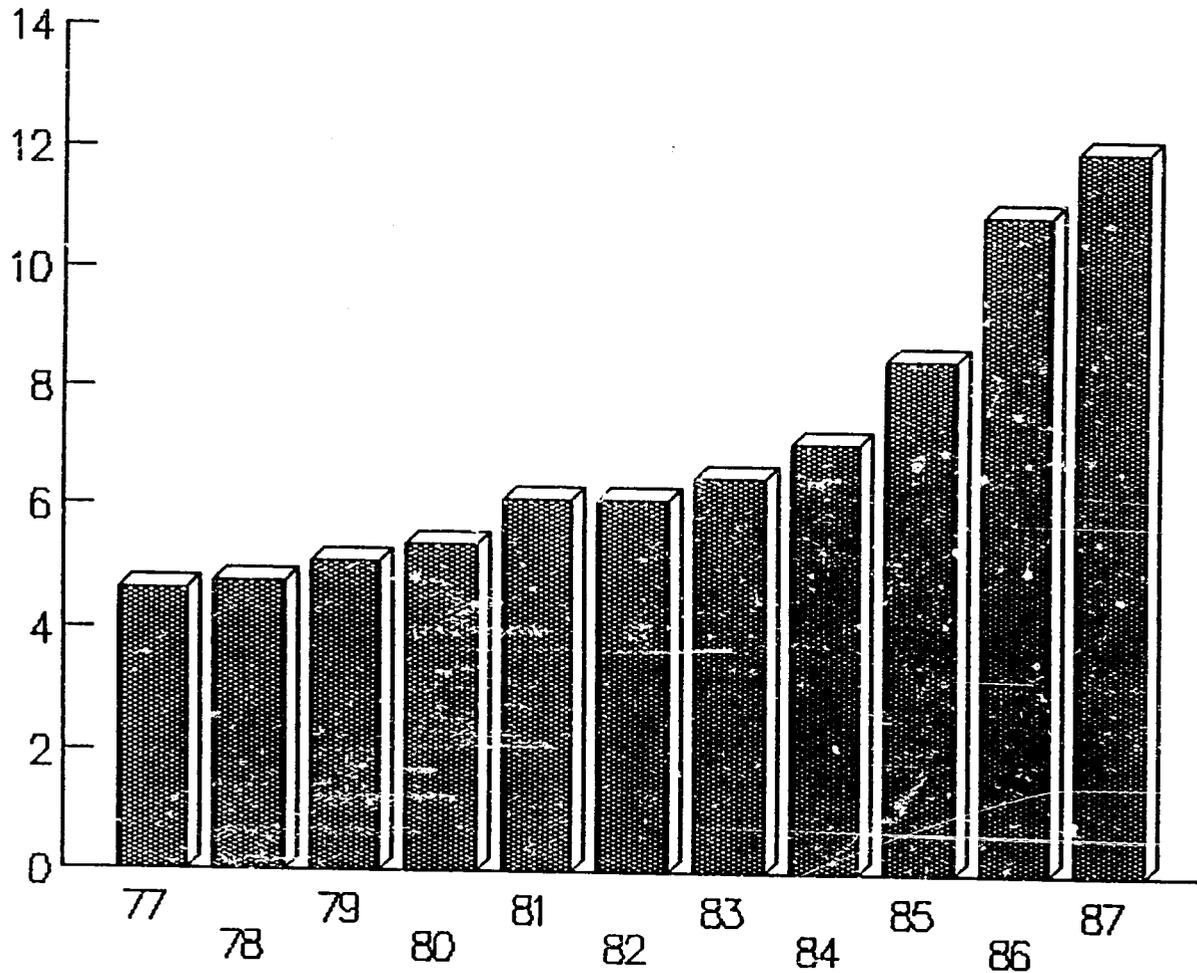
YEARS	DIRECT EMPLOYMENT	INDIRECT EMPLOYMENT	TOTAL EMPLOYMENT	NUMBER OF FIRMS	EXPORTS (US\$ MM)	FOREIGN EXCH. REVENUE (US\$ MM)
1970	504	756	1,260	2	--	1.4
1971	992	1,483	2,480	5	--	2.9
1972	2,289	3,434	5,723	10	--	4.8
1973	3,194	4,791	7,985	22	--	5.3
1974	4,801	7,202	12,003	29	--	9.8
1975	6,953	10,430	17,383	34	27.3	14.7
1976	8,608	12,912	21,520	38	44.2	19.5
1977	10,910	16,365	27,275	46	61.6	26.4
1978	13,480	20,220	33,700	61	72.9	32.7
1979	16,095	24,143	40,238	72	93.6	40.0
1980	18,339	27,509	45,848	76	117.1	44.5
1981	20,520	30,780	51,300	89	128.2	57.6
1982	19,629	29,444	49,073	98	155.1	61.1
1983	22,272	33,408	55,680	110	181.2	61.9
1984	27,126	40,689	67,815	120	195.7	52.1
1985	35,720	53,580	89,300	144	214.8	44.6
1986	51,231	76,847	128,078	168	246.2	88.5
1987	69,538	104,307	173,845	179	321.1	98.1

SOURCE: Consejo Nacional de Zonas Francas, Banco Central,
Centro Promotor de Inversiones Extranjeras, CEDOPEX.

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NUMBER OF HOTEL ROOMS AVAILABLE

1977 - 1987

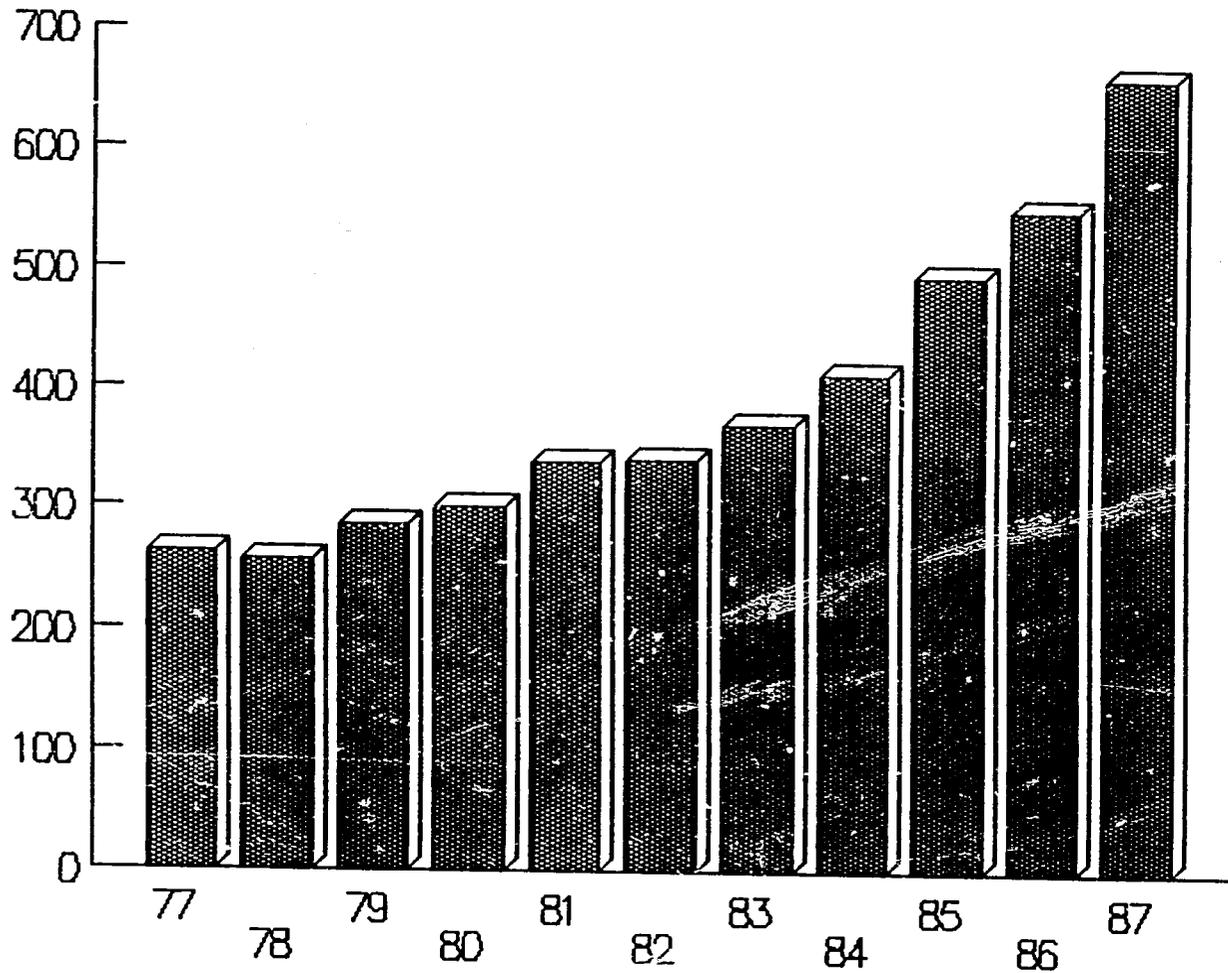


SOURCE: BANCO CENTRAL Y SECRETARIA DE TURISMO
PREPARED BY P.U.C.M.M. AND F.E.D. FOR
J.E. AUSTIN ASSOCIATES.

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TOURIST ARRIVALS

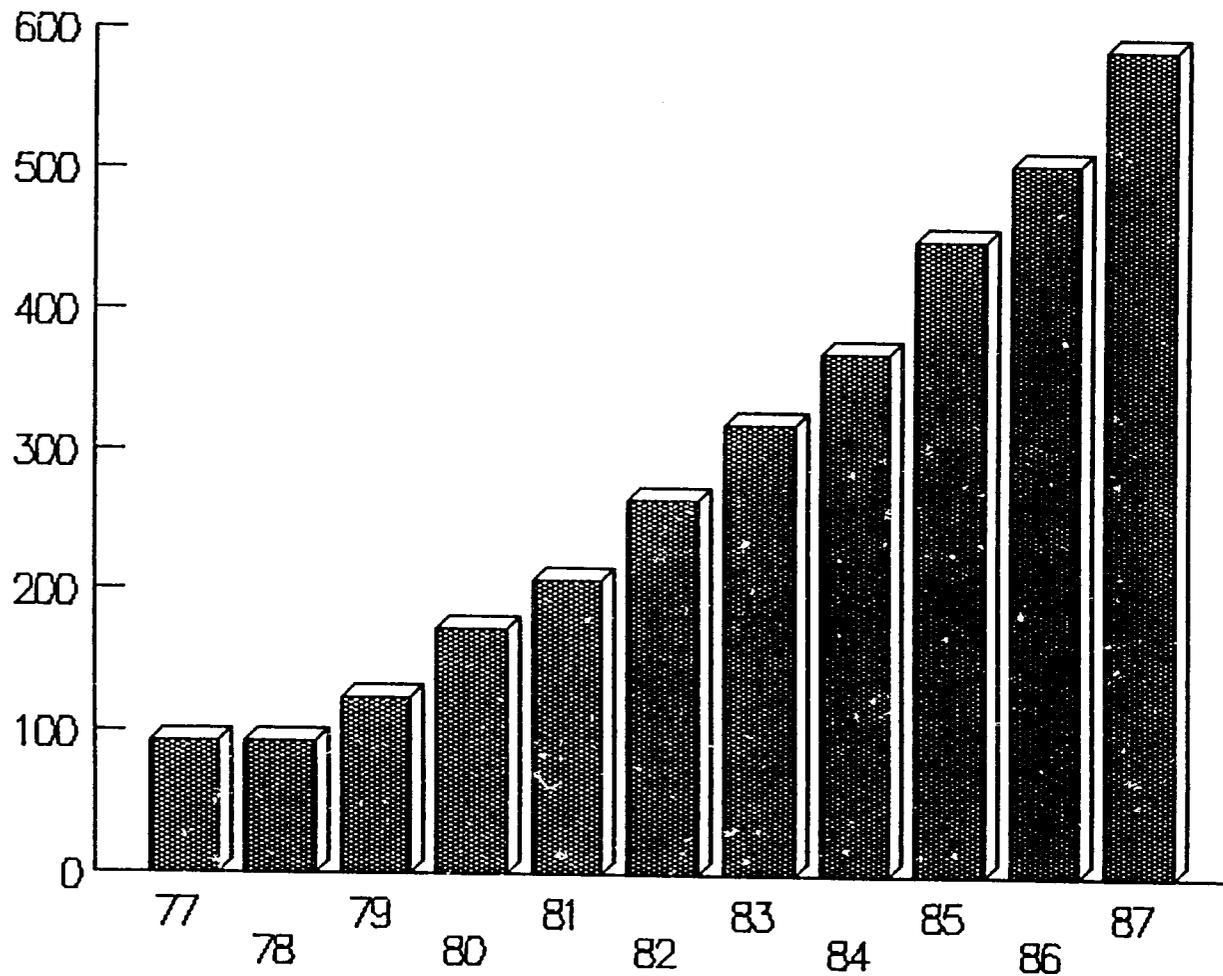
1977 - 1987



SOURCE: BANCO CENTRAL Y SECRETARIA DE TURISMO.
PREPARED BY P.U.C.M.M. AND F.E.D. FOR
J.E. AUSTIN ASSOCIATES.

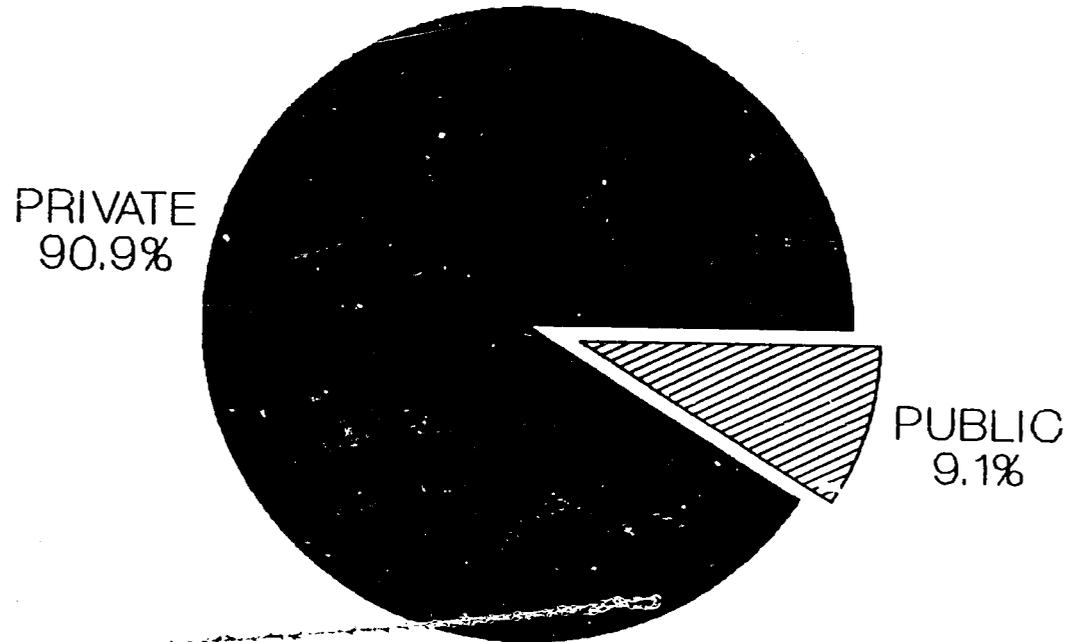
FOREIGN EXCHANGE REVENUES FROM TOURISM

1977 - 1987



SOURCE: BANCO CENTRAL Y SECRETARIA DE TURISMO.
PREPARED BY P.U.C.M.M. AND F.E.D. FOR
J.E. AUSTIN ASSOCIATES.

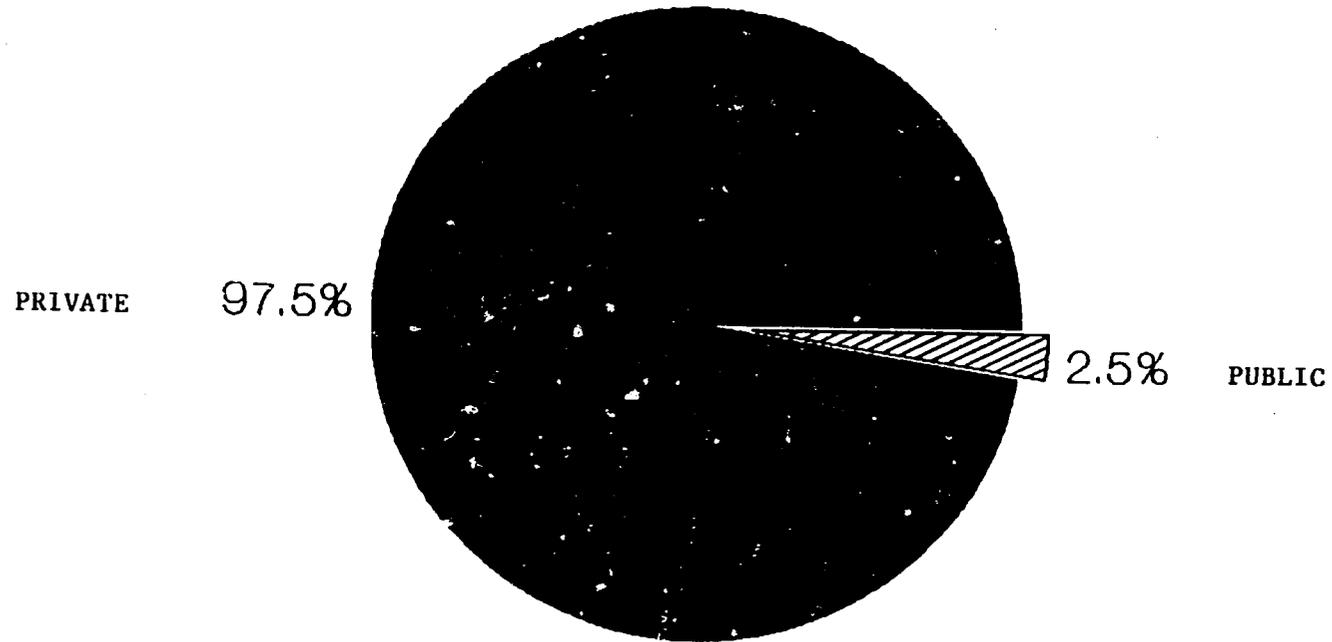
TOURISM SECTOR ROOM OWNERSHIP



SOURCE: Banco Central y Secretaria de Turismo

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TOURISM SECTOR ROOM OPERATION



SOURCE: Banco Central y Secretaria de Turismo

EXHIBIT 27E

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EXHIBIT 27F

TOURISM AS PERCENTAGE OF GDP(US\$)

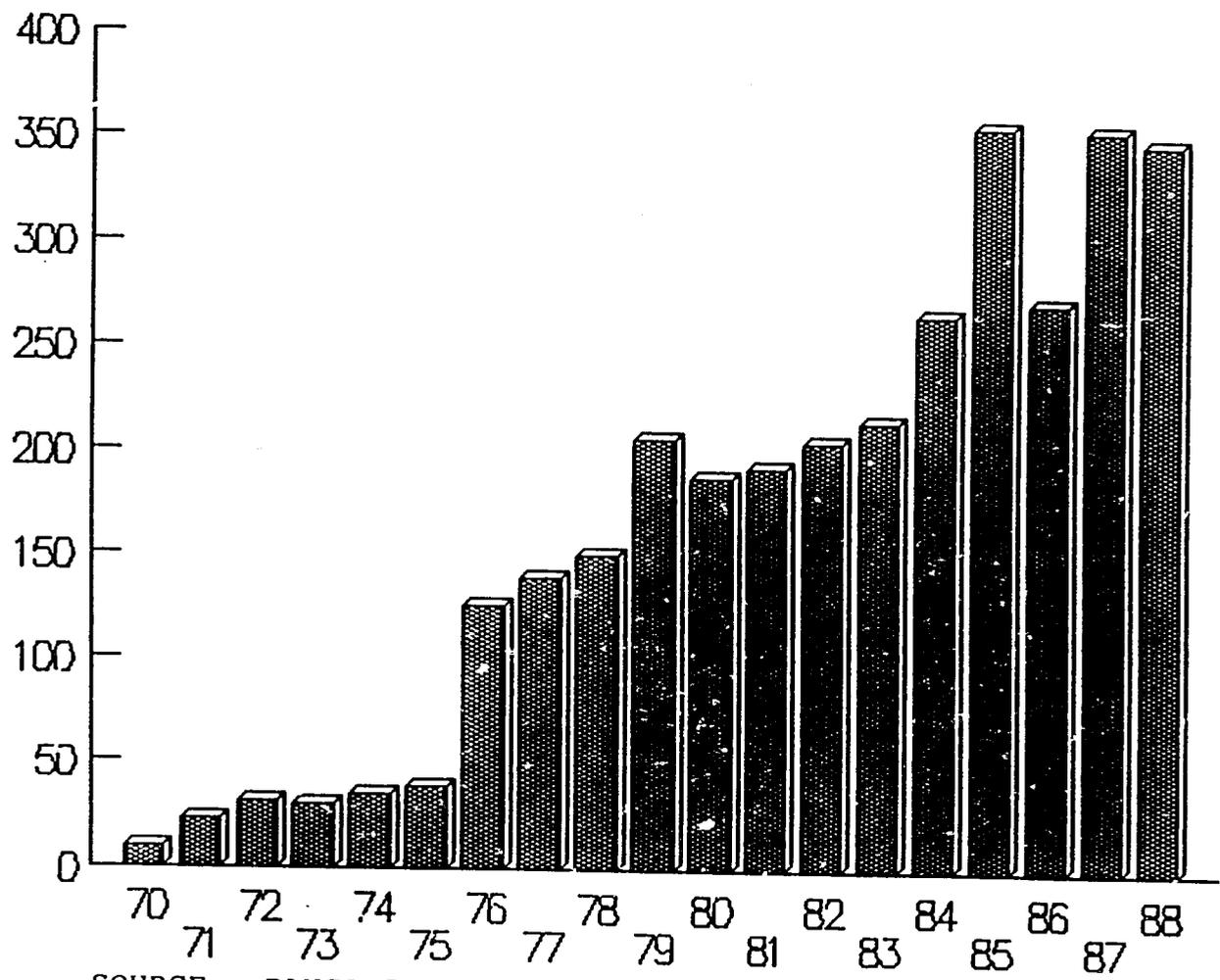
YEARS	INCOME (1) (US\$ in millions)	GDP US\$ (2)	(1)/(2) (%)
1980	172.6	6,196.9	2.8%
1981	206.3	6,614.9	3.1%
1982	266.1	6,884.8	3.9%
1983	320.5	6,907.6	4.6%
1984	370.6	5,030.2	7.4%
1985	451.0	5,166.0	8.7%
1986	506.0	5,542.9	9.1%
1987	587.0	5,025.6	11.7%

SOURCE: BANCO CENTRAL, SECRETARIA DE TURISMO AND
FMI

NET UNILATERAL TRANSFERS (REMITTANCES)

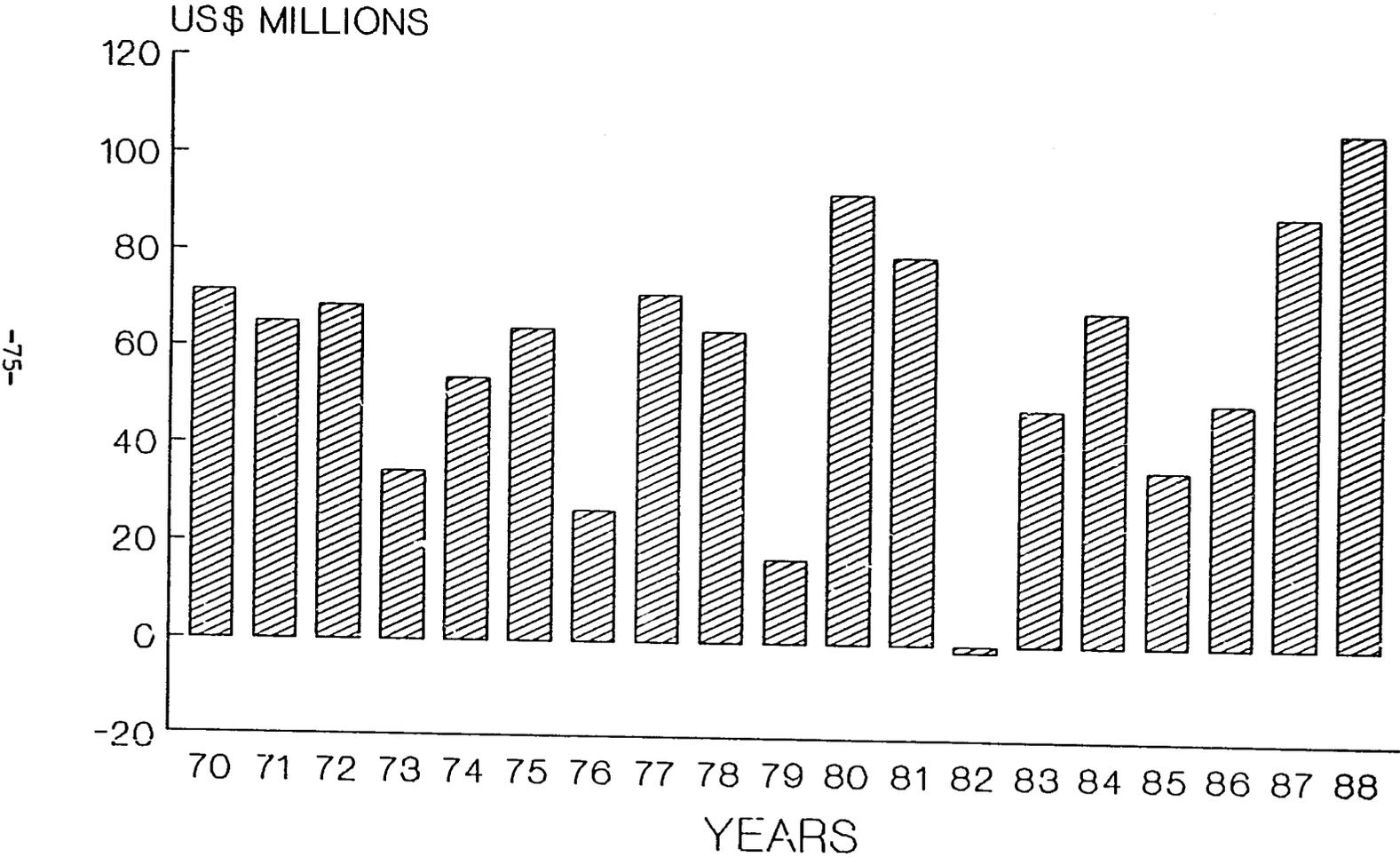
1970 - 1988

-74-
US\$ MILLIONS



SOURCE: BANCO CENTRAL.
PREPARED BY P.U.C.M.M. AND F.E.D. FOR J.E. AUSTIN ASSOCIATES.

FOREIGN INVESTMENT 1970 - 1988



SOURCE: Banco Central

EXHIBIT 29A

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EXHIBIT 29B

FOREIGN INVESTMENT
1970 - 1987
(US\$ Millions)

YEARS	FOREIGN INVESTMENT	NET UNILATERAL TRANSFERS
1970	71.6	9.3
1971	65.0	22.4
1972	68.6	30.6
1973	34.5	30.5
1974	53.6	35.0
1975	63.9	39.0
1976	26.7	125.8
1977	71.5	139.6
1978	63.6	149.8
1979	17.1	205.8
1980	92.7	187.8
1981	79.7	193.0
1982	(1.4)	205.0
1983	48.2	215.0
1984	68.5	265.0
1985	36.2	356.3
1986*	50.0	271.0
1987*	89.0	355.4
1988**	106.1	349.0

* ESTIMATED

** PROJECTED

SOURCE: BANCO CENTRAL AND FMI

NOTE: Foreign investment is defined as the general value of equipment and/or installations brought by foreign investors to be established or installed in the country, without property transfer to an economic resident. It also includes profits that are invested in the same or another enterprise.

SOME IMPORTANT INDICATORS
BY SIZE OF BUSINESSES IN INDUSTRIAL SECTOR
1982

CONCEPT	I	II	III	IV
INVESTMENT (RD\$Thousands)	20,400	152,900	372,700	524,800
No ESTABLISHMENTS	267	337	172	40
AVERAGE INVESTMENT (RD\$Thousands)	80	450	2,170	13,120

- I = SMALL BUSINESS : Investment until RD\$50,000
 II = MEDIUM BUSINESS: Investment between RD\$150,000 and RD\$1,000,000
 III = LARGE BUSINESS : Investment between RD\$1,000,000 and RD\$5,000,000
 IV = VERY LARGE : Investment bigger than RD\$5,000,000

SOURCE: SECRETARIA DE ESTADO DE INDUSTRIA Y COMERCIO

EXHIBIT 31

DOMINICAN REPUBLIC

TOP 10 BUSINESS GROUPS

- 1.- GRUPO VICINI
- 2.- GRUPO FINANCIERO POPULAR
- 3.- GRUPO BONETTI
- 4.- GRUPO FINANCIERO NACIONAL
- 5.- GRUPO BARLETTA
- 6.- GRUPO BANCOMERCIO
- 7.- GRUPO CORRIPIO
- 8.- GRUPO VITIENES
- 9.- GRUPO ARMENTEROS
- 10.- GRUPO BERMUDEZ

Note: Good data does not exist on total assets or sales.
This list is an approximate ranking

Source: Industry Interviews

EXHIBIT 31

30 LEADING BUSINESS GROUPS
AND BUSINESS LEADERS IN THE DOMINICAN REPUBLIC

<u>GRUPOS</u>	<u>CHIEF</u>
1. Barletta	Miguel Barletta
2. Vicini	Felipe Vicini
3. Bonetti	José Miguel y Roberto Bonetti
4. Corripio	José (Pepín) Corripio
5. Armenteros	Enrique Armenteros
6. Vitienes	José Vitienes
7. Grupo Financiero Popular, S. A.	Alejandro Grullón
8. Grupo Financiero Nacional, S. A.	Máximo Pellerano
9. Bermúdez	J. Armando Bermúdez
10. Viyella	Fernando Viyella
11. León	Eduardo León
12. Brugal	George Arzeno Brugal
13. García	Luis Garcia
14. González Cuesta	José Manuel González
15. Diez	Manuel Diez
16. Consorcio Bancomercio, S. A.	José Ureña
17. Peynado	Enrique Peynado
18. Najri	José Antonio Najri
19. Almonte	Leonel Almonte
20. Grupo Financiero BHD	Samuel S. Conde
21. Grupo Roig	Guillermo Roig
22. Lama	Eduardo Lama
23. Haché	Antonio Haché
24. Rivera	Pedro Rivera
25. Grupo Intercontinental, S. A.	Ramón Báez Romano
26. Ginebra	Rafael A. Ginebra
27. De Castro	Eduardo De Castro
28. Muné	
29. Grupo Interamérica, S. A.	Manuel García Arévalo
30. Selman	Abraham Selman
31. Grupo Hilari Mayol	Joan Mayol
32. Iglesias	Miguel Feris Iglesias
33. Busto	José Busto
34. Grupo Mora	Gregorio Mora
35. Grupo Rodriguez	Huáscar Rodriguez

* El orden en que aparecen listados no implica necesariamente un ordenamiento de mayor a menor del patrimonio neto.

Note: Good data does not exist on total assets or sales.
This list is an approximate ranking.

Source: Industry Interviews

EXHIBIT 33

33 LEADING DOMINICAN BUSINESS ASSOCIATIONS

1. CONSEJO NACIONAL DE HOMBRES DE EMPRESAS, INC.
2. Cámara Americana de Comercio de la R. D.
3. Cámara de Comercio, Agricultura e Industria de la R. D.
4. Asociación de Industrias de la R. D., Inc.
5. Asociación de Bancos Comerciales
6. Asociación Dominicana de Exportadores
7. Asociación Nacional de Importadores, Inc.
8. Federación Dominicana de Comerciantes
9. Asociación de Empresas Industriales de Herrera, Inc.
10. Asociación de Empresas de Inversión Extranjera
11. Asociación de Bancos Hipotecarios
12. Asociación de Bancos de Desarrollo
13. Asociación Financieras de la R. D. (ADEFI)
14. Asociación de Instituciones Financieras de la R. D. (AINFI)
15. Asociación Nacional de Bancos de Cambio
16. Asociación de Mayoristas de Provisiones de S.D.
17. Asociación de Detallistas de Provisiones
18. Asociación de Comerciantes de S.D.
19. Asociación de Distribuidores de Vehículos de Motor y Efectos para el Hogar
20. Asociación Dominicana de Almacenistas importadores
21. Asociación de Suplidores e Industriales de Materiales de Construcción
21. Asociación Dominicana de Hacendados y Agricultores
23. Asociación de Ferreteros
24. Asociación de Fabricantes de Ropa de la R.D.
25. Asociación de Representantes de Firmas Extranjeras
26. Asociación de Empresas Industriales de Haina
27. Asociación de Representantes y Agentes de Productos Farmacéuticos
28. Asociación para el Desarrollo de Microempresas
29. Asociación Dominicana de Empresas de Seguros
30. Asociación Dominicana de Productos de Leche
31. Asociación de Embotelladores de Bebidas Gaseosas
32. Asociación de Importadores de Productos Agroquímicos
33. Asociación de Distribuidores de Muebles y Electrodomésticos de S.D.

Source: Industry Publications

EXHIBIT 34 B

ASSETS OF FINANCIAL SECTOR
(RD\$ Millions)

YEARS	COMMERCIAL BANKS	MORTGAGE BANKS	DEVELOPMENT BANKS	SAVING & LOANS
1977	1,467.4	37.8		283.2
1978	1,555.4	72.3	117.2	344.3
1979	1,767.5	124.3	146.2	408.5
1980	2,006.4	175.5	178.1	495.8
1981	2,439.2	240.6	198.3	577.7
1982	2,712.2	321.8	228.9	695.7
1983	2,669.1	396.0	271.1	804.9
1984	3,035.7	496.4	323.6	918.8
1985	3,689.0	717.3	423.8	1,123.7
1986	5,649.2	1,015.5	584.6	1,589.8
1987*	5,770.0	1,304.9	722.4	1,889.8

* Through August 1987

SOURCE: SUPERINTENDENCIA DE BANCOS

PRIVATE SECTOR DEVELOPMENT FRAMEWORK

USAID - SANTO DOMINGO

**APPENDIX 3 - DIAGNOSIS OF THE PRIVATE SECTOR
(PRIVATE SECTOR SURVEY)**

PRIVATE SECTOR DEVELOPMENT FRAMEWORK: DOMINICAN REPUBLIC
PHASE III: DIAGNOSIS (PRIVATE SECTOR SURVEY)

- I. EXECUTIVE SUMMARY
 - OBJECTIVES
 - METHODOLOGY
 - RESULTS AND CONCLUSIONS
- II. OBJECTIVES OF THE STUDY
 - STUDY BACKGROUND
 - PURPOSE AND OBJECTIVES
 - ORGANIZATION OF THE REPORT
- III. STUDY METHODOLOGY
 - SELECTION OF THE SAMPLE
 - SURVEY ANALYSIS DESIGN
- IV. RESULTS OF THE SURVEY
 - A. DESCRIPTION OF THE SAMPLE
 - B. PERCEPTIONS REGARDING BUSINESS GROWTH AND INVESTMENT CLIMATE
 - C. FACTORS INFLUENCING CURRENT PRODUCTIVITY
- V. SUMMARY AND CONCLUSIONS
 - A. DOMINICAN FIRMS ARE OPTIMISTIC
 - B. THE INSTABILITY OF THE POLICY ENVIRONMENT HAS HURT PROSPECTS FOR GROWTH
 - C. LACK OF RELIABLE ELECTRIC ENERGY HAS HURT PROSPECTS FOR GROWTH
 - D. LONG-TERM FINANCING IS DIFFICULT TO FIND
 - E. THE COUNTRY'S SCHOOLS HAVE NOT KEPT WITH INCREASINGLY DIVERSIFIED SKILLED LABOR NEEDS
 - F. DOMINICAN FIRMS ARE "JOINERS" BUT NOT "ACTIVISTS"
 - G. AGROINDUSTRY IS BELIEVED TO OFFER THE BEST SHORT- AND LONG-TERM RETURN ON INVESTMENT

I. EXECUTIVE SUMMARY

OBJECTIVES OF THE STUDY

The objective of Phase II: Private Sector Survey of the Private Sector Development Framework as implemented in the Dominican Republic is to develop information on business community perceptions regarding:

- o past, current and future investment climate;
- o existing and potential growth and investment opportunities;
- o resource constraints to business development;
- o the effect of public policies on business growth; and
- o the role and effectiveness of business associations.

At AID's request a special effort was made to gather data from firms in the manufacturing, agribusiness, tourism, free trade zone (FTZ) and microenterprise sectors.

The results of the survey will help the mission, through consultations with representatives of these sectors, identify new program priorities and strengthen on-going program activities.

STUDY METHODOLOGY

A stratified random sample of 305 firms was drawn out of a total universe of about 8,000 firms found in an exhaustive review of Dominican business directories such as the 1985 Census of Industries, the Ministry of Tourism's directory of establishments, ADEMI membership files and so on. Table I-1 provides the breakdown of the sample by sector, and shows the degree to which the sample is representative of the distribution of firms in the sample universe. Table I-2 provides the breakdown of the sample by region and shows the degree to which the sample is representative of the distribution of firms in the country. Some sectors were oversampled (FTZ and Finance) in order to insure that at least 30 firms were interviewed in each sector. This would enable us to make statistical estimates with a 95 percent confidence level.

TABLE I-1

SECTOR	No. OF FIRMS		
	SAMPLED	% OF SAMPLE	% OF UNIVERSE
Free Trade Zone	30	10	2.5
Finance	30	10	1.8
Tourism	30	10	8.7
Industries (including agro)	180	60	87.0
Micro enterprises	30	10	N.A.

TABLE I-2

REGION	No. OF FIRMS		
	SAMPLED	% OF SAMPLE	% OF UNIVERSE
Southeast	37	12	8.7
Southwest	12	4	6.3
Cibao	81	26	29.3
National District	175	57	55.7

The survey instrument was carefully elaborated in terms of substance and language, working closely with the USAID Private Sector Office and Dominican survey design and implementation experts. Prior to actual implementation the instrument was pre-tested using 6 firms in the National District area. These firms were chosen at random from the sample list. They represented each of the sectors included in the study. On the basis of the pre-test and final consultation with the Private Sector Office, the survey instrument content, language and structure were finalized.

Dr. Jorge Max Fernandez, was responsible for survey implementation. We experienced a refusal rate of 3 percent, very small for this type of survey. Such a high response rate reduces the likelihood of biased responses.

Survey responses were coded by the team headed by Dr. Max Fernandez. The data was then entered and processed by a team headed by Lic. Bertrand de Windt. The data was analyzed using SPSS, a common software for statistical analysis in the social sciences. Frequency tables - a sample count of the number of responses per answer per question and contingency tables were prepared in order to examine the effect of economic activity (sector) and firm size (number of employees) on the responses.

RESULTS AND CONCLUSIONS

The key results of the survey are the following:

- o Most Dominican entrepreneurs feel the business climate has improved over the last year and most feel that it will continue to be favorable for the next two years.
- o Agribusinesses and small firms are generally less upbeat about the present and future than FTZ and large firms.
- o Most firms believe the key constraints to business growth are production (supply) constraints rather than consumption (demand) constraints.
- o The single largest perceived production constraint is lack of reliable electric energy.

- o In June 1988, 31 percent of the electricity generated by the private sector firms surveyed came from privately owned electric plants.
- o The country's skilled labor needs have grown and changed and are not being met by the currently available skilled labor pool.
- o Lack of long-term financing is seen as a serious constraint to growth by over 80 percent of respondents.
- o Over 3/4 of all Dominican firms belong to at least one trade association.
- o Most respondents believe that trade associations are effective vehicles for action, but do not have high expectations regarding a lobbying role.
- o Most respondents believed that agribusiness still offers them the best new investment opportunities (although tax breaks, smaller scale, and ease of entry may outweigh absolute profitability).

Generally, the pattern of responses confirmed that referring to a "private sector" is misleading. The Dominican private sector is not a monolith. There is substantial variability between the perceptions of firms of different sizes and in different sectors. But there are a few issues in which there is a consensus across sectors and firm sizes. Such is the case with electric energy and long-term financing needs.

II. OBJECTIVES OF THE STUDY

STUDY BACKGROUND

In Phase I of the Private Sector Development Framework (PSDF) as it is being implemented in the Dominican Republic, the Project Team worked with the USAID mission to identify those goals and objectives central to the long and short term development strategy for the Dominican Republic (see section on Articulation of USAID/DR Strategy). The Mission also identified its strategy for increasing national employment, income, and foreign exchange earnings. A basic component in this strategy is the creation of a policy environment that will stimulate private sector growth.

The success of this strategy depends on the Mission's knowledge and understanding of private sector needs and priorities. The second phase of the PSDF developed data to answer key descriptive questions pertaining to the private sector's role in the economy: its contribution to employment, foreign exchange, and GDP.

But description alone is not enough. A private sector strategy must take into account the opinions and attitudes of the private sector actors. Attitudes are subjective data, shaped by the political and economic conditions within which private sector actors make decisions. The results of this study will be combined with the descriptive data elaborated in Phase II, enabling the Project Team to assess the critical constraints which limit private sector growth. The survey instrument paid special attention to areas of current Mission priority:

- o Industrial Development (especially free trade zones)
- o Agribusiness Development
- o Small and Microenterprise Development
- o Financial Sector Stabilization

The section below provides further details on the areas covered by the survey.

PURPOSE AND OBJECTIVES

The objective of this study is to develop information on perceptions of the business community regarding:

- o the past, current and future investment climate;
- o the role and effectiveness of business associations.
- o resource constraints to business development;
- o existing and potential growth and investment opportunities;
- o the effect of public policies on business growth.

To this end a survey instrument was designed to gather data from the industrial (including agroindustrial), tourism, free trade zone and microenterprise sectors. The topics covered by the survey included not just questions on the business climate but on perceived resource constraints in the areas of credit, labor, energy, transportation and communications. In addition, it included questions on the effectiveness of support provided by current business associations.

The results of the survey will help the Mission identify new program/policy priorities and strengthen on-going program activities. The information gathered through this survey will also enable the AID Mission to identify not just the total effect of particular policies which seek to address the constraints or widen the investment opportunities, but to assess the distributional implications of these policies and programs. This will help promote a more efficient use of AID and host country resources to promote the development of the private sector.

ORGANIZATION OF THE REPORT

The report is organized as follows. Chapter 3 presents the methodology used for gathering data on private sector perceptions. This includes a discussion of the scope of the survey, and of the key issues addressed by the survey. It also presents the analytic tools for understanding and interpreting the survey results.

Chapter 4 presents the major findings of the survey. It includes a description of the characteristics of the firms included in the survey sample and interprets their perceptions regarding present growth and future investment prospects.

Chapter 5 summarizes the study's key findings.

III. STUDY METHODOLOGY

SELECTION OF SURVEY SAMPLE

The sample universe consisted of the 1981 Census of Industries taken by the Secretaria de Estado de Industria y Comercio (SEIC), the list of registered tourism establishments furnished by the Secretaria de Estado de Turismo, the complete list of Free Trade Zones establishments furnished by the Consejo de Promocion de Inversiones, the government's list of registered financial institutions and a list of micro-enterprises furnished by the Asociacion para el Desarrollo de Microempresas (ADEMI).

The universe was segmented as follows:

- o Agribusiness
- o Finance
- o Tourism
- o Free Trade Zones
- o Micro-enterprise

Randomness of the Sample -- Based on the above, a sampling methodology was designed with the assistance of Dr. Max Fernandez. The methodology relied on a random number generator. The probability each firm had of being in the sample was proportionate to the total number of firms in a sector and a geographic area. A total of 305 firms were interviewed. This number was selected partly because of budgetary restrictions, but also because, as will be explained below, it is the minimum number which could yield results with a 95 percent level of confidence.

Table III-1A provides the breakdown of the sample by sector, and shows the extent to which the sample is representative of the distribution of firms in the sample universe. Table III-1B provides the breakdown of the sample by region and displays the degree to which it is representative of the geographic distribution of firms.

TABLE III-1A

SECTOR	No. OF FIRMS		% OF UNIVERSE*
	SAMPLED	% OF SAMPLE	
Free Trade Zone	30	10	2.5
Finance	30	10	1.8
Tourism	30	10	8.7
Micro enterprises Industries	30	10	N.A.
(including agro)	180	60	87.0

* Based on the latest (1981) census data.

TABLE III-1B

REGION	No. OF FIRMS		% OF UNIVERSE
	SAMPLED	% OF SAMPLE	
Southeast	37	12	8.7
Southwest	12	4	6.3
Cibao	81	26	29.3
National District	175	57	55.7

The geographic regions into which the firms in the sample were divided were those used by the National Statistics Office (ONE) in its census studies. These are:

Southeast: Includes the provinces of Peravia, San Cristobal, Seybo, Romana, Altagracia, San Pedro.

Southwest: Includes the provinces of Bahoruco, Barahona, Independencia, Pedernales, Azua, Elias Pinas, San Juan.

Cibao: Includes the provinces of Espaillat, La Vega, Puerto Plata, Santiago, Duarte, Maria Trinidad Sanchez, Samana, Sanchez Ramirez, Dajabon, Montecristi, Santiago Rodriguez, Valverde.

National District Includes Santo Domingo

SURVEY DESIGN

The survey instrument was carefully elaborated in terms of substance and language. It is the result of close collaboration with AID Mission personnel and Dominican survey experts. The following is a brief description of the steps involved in survey design.

Initial Questionnaire Reviewed By USAID -- An initial version of the questionnaire was prepared in the earliest stages of this study. The content of this questionnaire followed closely that of earlier surveys carried out in other countries as part of the Private Sector Development Framework. This version was circulated among representatives of various divisions in the Mission (the Agriculture, Human Resources and Training and Private Sector offices) to assess their data needs and interests. On the basis of their comments and suggestions a second version was prepared.

Language Adapted To Dominican Environment -- After agreement on the contents was secured, the language of the survey instrument was revised. Nomenclature was important. Selection of data elements had to be pertinent, and comprehensible to industry representatives. Ambiguities in the meaning of some of the terms could produce questionable results. It was important to speak the language of the industry.

The Project Team used the services of a number of survey experts in the country to review and to provide formatting and instructional language edits. The formatting was important in order to facilitate post-survey codification and data entry.

Survey Modified For Micro Sector -- We also met with representatives of ADEMI to review the survey questionnaire language and its application to the microenterprise sector. It was important to ensure that any alteration in the manner in which the questions were asked of the small entrepreneur, would provide responses comparable in meaning to the responses obtained from other sectors.

Second AID Review and Pre-Test -- The revised survey instrument was submitted to the Private Sector Office on May 10 for final comments and revisions. This re-worked version of the survey instrument was pre-tested using 6 firms in the National District area on May 11. The team of 15 interviewers from INTEC, supervised by Dr. Jorge Max Fernandez, the director of the survey implementation staff undertook the field test. The firms surveyed in the pre-test were chosen at random from the sample list. They comprised 1 finance company, 1 commercial bank, 1 hotel, 1 car rental company, 1 agroindustry, and one manufacturing company.

Survey Modified Based On Pre-Test Results -- After the pre-test was completed the Project Team met with the survey team to discuss difficulties arising from the interpretation of the questions. On the basis of the pre-test results and of a final series of consultations with the Private Sector Office, the survey instrument content, language and structure was finalized.

Appendix 1 provides a copy of the survey instrument. Appendix 2 lists the key issues areas being addressed by the survey instrument and identifies the questions in the survey instrument which provide the data necessary to answer them. Note that survey questions 2 through 11 were designed to gather data on key firm attributes. This enabled the Project Team to present a profile of Dominican firms as well as to analyze results by industry, firm size and other firm attributes of importance.

SURVEY IMPLEMENTATION AND RESPONSE RATES

Sensitivity of Survey Team -- The Project Team took every precaution to reduce the likelihood of biasing responses. Biases could be easily established by having only a few firms answer all the questions in the survey. Establishment management is not always receptive to these types of studies, in particular in the Dominican Republic, where most firms are privately held and closely guarded family enterprises. The decision to divulge even the smallest detail about the internal operation of the firm is a matter of grave consideration at the highest echelons of the enterprise. The survey team had to be sensitive to these issues to avoid incurring many outright interview refusals and unanswered questions.

Survey Language -- There are no pat formulas for gaining cooperation from an industry. One important factor in successful data collection efforts of this nature is the instrument's ability to speak in the language of the industry. In the section above we described the care with which the language and structure of the questionnaire was developed.

Selection of Surveyors -- Another factor affecting response rates is the type of interviewers recruited for the task. Dr. Max Fernandez recruited an excellent team of 4th year economics and industrial engineering students, as well as some Economics Department faculty from the Instituto Tecnológico de Santo Domingo (INTEC) for this task. These interviewers were often well connected with the business community, facilitating their ability to obtain interviews with the larger enterprises. An ADEMI credit counselor helped our team member locate and set interviews with the owners and managers of the very small firms.

Prior Notification to Establish Legitimacy -- The Project Team also sent letters to all the FTZ directors, explaining the purpose of the survey and asking for the cooperation of the member institutions. Finally they obtained the full cooperation of important business groups in the country, such as the National Council of Businessmen (CNHE) and the Investment Promotion Council. Such co-sponsorship and cooperation helped to establish the legitimacy of the survey and secured higher level of cooperation.

Field Supervision -- Survey progress was closely followed by a field supervisor. Because the interviewers did not get paid unless the completed survey was approved by the field supervisor, the interviewer was motivated to be conscientious and neat in his or her data gathering.

In addition, all interviewers participated in special orientation and training sessions held both prior to the pre-test and after the pre-test. The sessions covered the purposes of the study and interviewing skills. Interviewers were told enough about the subject matter and the purpose of the study to recognize relevant responses, to probe for more meaningful answers, and to record answers without reservation into their correct categories in a multiple response set. They were not told which answers to expect or which answers would bear out hypotheses to avoid biasing the results.

We experienced a refusal rate of about 3 percent, very small for this type survey. This reduced the likelihood of biases in the responses.

SURVEY ANALYSIS

All survey variables and responses were coded by the survey team headed by Dr. Max Fernandez. The data was then entered and processed by a team headed by Lic. Bertrand de Windt of the Centro de Desarrollo Empresarial, a group specializing in this sort of work, and which had previous experience collaborating with Dr. Max Fernandez's team. The data was analyzed using SPSS, a common software for statistical analysis in the social sciences.

The first output produced from the survey data was a complete set of frequency tables -- a sample count of the number of respondents per answer per question. Frequency distributions for each question are presented in Appendix 1 of this Report. In addition, contingency tables, or bivariate "cross-tabulations," were prepared in order to examine the effect of economic activity (sector) and firm size (number of employees) on the responses.

Most of the questions in the survey have scaler or categorical response measures, requiring the respondents to give ratings ranging from "strongly agree" to "strongly disagree." Rather than computing a measure, such as the mean response, more

appropriate when the response is measured in an ordinal scale, we have shown the relative frequency distribution.

ACCURACY OF THE SAMPLE

The accuracy of the sample is gauged by two parameters: absolute or tolerated error and confidence levels. How much absolute error we tolerate depends partly on the planned use of the survey results and on how much precision we demand of our responses. In part this depends on the size of the sample. The larger the sample size, the lower the absolute error, the smaller the range, and the surer we can be that the sample results reflect the true population parameters.

Once the sample size is set, the absolute error due to sampling decreases as the value of the characteristics being estimated moves away from a 50-50 split. Since one often does not have accurate information about the occurrence of many characteristics being studied, the worse case is assumed: that about 50% of the population have the characteristic being estimated.

After setting the absolute error range we need a statement of confidence that the error due to sampling is not greater than that which we have specified. In other words, we need to estimate how sure we are that our results are as precise as planned for. Sampling precision (as opposed to the absolute error) indicates how sure we are that the true population-value lies within the error range tolerated for our sample estimate.

The Project Team established the sample size so that, assuming that the characteristics under study occur on average in 50 percent of the population, the estimates would be subject to a sampling error of 5 percentage points in either direction. It also established a confidence level of 94 percent. This means that the chances are about 94 in 100 that an identical sample could produce a result within the established range of 5 percentage points, i.e. there is a 6 percent chance that the sample estimate is further than 5 percentage points in either direction from the population value.

IV. RESULTS OF THE SURVEY

This section presents first descriptive data on the firms sampled. It focuses on those variables which may have a direct effect on perceptions regarding the business climate and growth prospects. Subsequent sections discuss these perceptions and detail how they are distributed by sector and firm size. They quantify the magnitude of certain development bottlenecks as perceived by respondents and show how these are distributed among different types of firms. These results provide a clear picture of the Dominican private sector and how it is coping with the present economic situation.

A. DESCRIPTION OF THE SAMPLE

The survey data provides a useful profile of the average Dominican company in the surveyed industries and a useful overview of who the Dominican private sector is.

Dominican Firms are Small to Medium Size -- For the purposes of the analysis of survey results, those firms employing 1 to 20 people were classified as small or microenterprises. Those employing between 21 and 200 employees were classified as "medium" and those with more than 200 employees were classified as "large" (and "very large" means over 500 workers). These divisions were not arbitrary. Our preliminary analysis of the data showed that in most questions there were substantial differences in the responses of those firms employing under 20 employees and those employing over 200. Exhibit 1 shows how the firms are distributed between these size categories. About 38 percent of the firms surveyed can be classified as small, 46 percent as medium, 12 percent as large. Fifty-four percent of the large (including the very large firms) were located in the FTZ's.

Based in Santo Domingo -- The dominance of the capital city in all areas of economic activity is reflected in the sample. Exhibit 2 shows that 69 percent of all non-FTZ firms sampled are located in the National District (DN) area. Another 19 percent are in the Cibao region. This conforms to the distribution of economic activity in the country as a whole.

They Produce Primarily for the Domestic Market -- Exhibit 3 shows that most Dominican firms surveyed are essentially inward-oriented. Only 21 percent of firms

surveyed said they export over 50 percent of their output. This includes all FTZ firms. As is to be expected given import substitution policies, only 10 percent of industrial sector firms export most of their output. However, about a quarter of Agroindustrial firms said they export the majority of their products.

They are Dependent on Imported Inputs -- But while most firms are inward looking in terms of their markets for their output, most are outward oriented in terms of their source of inputs. Exhibit 4 shows that 91 percent of firms surveyed imported most (over 50 percent) of the inputs needed for production.

18 Percent Have Some Foreign Ownership -- Few Dominican firms reported any foreign participation. Only 18 percent, as shown in Exhibit 5, reported foreign equity holders. Nevertheless, a high percentage of those reporting foreign participation were located, as would be expected, in the free trade zones. The extent to which a firm has ties to foreign investors was thought to affect its outlook regarding growth and production bottlenecks. In many instances, these firms have an easier time obtaining capital and finding foreign markets for their goods.

They Value Business Associations -- By and large Dominican firms are joiners. Exhibit 6 shows that 86 percent of all firms interviewed belong to at least one business association (may belong to more than one). Most of those questioned expressed satisfaction with the work their associations do representing their interests (see Exhibit 7). The degree of solidarity in the private sector may affect AID's ability to mobilize action. The existence and satisfaction with existing associations may also indicate that AID can use existing groups as implementing agents.

B. PERCEPTIONS REGARDING BUSINESS GROWTH AND INVESTMENT CLIMATE

In this section perceptions regarding the general business and investment climate in the country are presented.

Despite the perceived instability of the policy environment, the Dominican private sector seems generally upbeat about the present environment. Exhibit 10 shows that about 63 percent of all firms surveyed reported that the business climate today is better than it was a year ago. Agribusinesses and microenterprises were less likely to share this

view. Larger firms generally felt better about the climate today than did the smallest firms.

1. Dominican Firms Tend To Be Positive About Current Conditions -- Despite the numerous complaints regarding resource constraints and an unstable policy environment, Dominican firms report doing well -- over one-third reported gross sales volume increases of more than 20 percent between June 1987 and June 1988. Although some respondents may not have taken inflation fully into account, over three-fourths of respondents reported positive real sales growth over the same time period. A sizeable majority also feel that they will continue doing well over the next two years.

2. Dominican Firms Tend To be Optimistic About The Future -- The degree of optimism is not shared equally by firms in all categories. Exhibit 17 shows that agribusiness and microenterprise were generally less optimistic than firms in other sectors. Approximately 52 percent of FTZ firms and 55 percent of service sector firms expect to grow (in terms of volume of sales) over 20 percent in the next two years. But only 38 percent of microenterprise and 48 percent of agribusinesses share this perspective. Generally, however, Dominican firm believe they can cope with the uncertain policy environment they will face.

3. Unstable Rules Of The Game Have Adversely Affected Past and Future Growth Prospects -- The factors most respondents believe will have the largest effect on their ability to grow in the future are similar to the factors they believe have affected their past growth: "economic stability" (including stable rules of the game regarding exchange rates and exchange market regulations), electricity generation capacity, and credit availability and costs.

4. Issues Regarding Foreign Exchange Market Instability Figure Prominently Among The List Of Perceived Constraints To Private Sector Growth. Exhibit 8 shows that almost 50 percent of the firms surveyed believe that the single most important step the government can take to promote private sector growth is to stabilize the exchange rate. When probed, many thought the key issue to be tackled was not so much the stabilization of the rate but of the rules of the game pertaining to the reporting and exchanging of foreign earnings and to foreign currency transactions in general. Many firms surveyed also believe that the government's unwillingness or inability to cut its

own expenditures is critical to economic (and private sector) growth. Runaway government spending, in their view, has increased the money supply to enormous proportions, leading to inflation and a downward pressure on the value of the peso vis a vis the dollar.

5. Although most firms feel that ill-defined government policies (unstable "rules of the game") are an important constraint to growth, relatively few firms believe that their associations should step up efforts to lobby the government on their behalf. Exhibit 9 shows that less than 30 percent of those interviewed felt their associations should lobby the government. This was less likely to be true for smaller firms, which tend to have fewer personal contacts and "connections" in the government.

6. Dominican Firms See Prospects In Agribusiness -- Most firms surveyed thought that future growth would take place in agricultural based activities. Despite recent growth experienced by the FTZ and tourism sectors, most firm managers interviewed believe either "traditional" or "non-traditional agribusiness" offer the best prospects. Exhibit 18 also shows that the majority of firms surveyed believe non-traditional agribusinesses will offer a better return in the long-term than those specializing in traditional agricultural products. There are several possible ways to explain these answers. Growing worldwide protectionism may have made interviewees less confident of FTZ's future. FTZ's are generally inherently unstable and the levels of investment and commitment are limited and firms can pull up stakes and switch locations quickly. In addition, respondents may think that the growth experienced by tourism is simply not sustainable over the longer term. One Dominican entrepreneur commented "one cannot create sustainable growth based on an economy of chamber maids and taxi drivers." Their answers also probably reflect the fact that the Dominican Republic has been, until very recently, an essentially agrarian society. Even in 1988, almost 40 percent of the population continued to derive at least part of their income from agriculture. People are more likely to invest in what they know best, in this case agriculture. The allure of owning land, of producing, of becoming a "terrateniente," may still be strong among Dominican entrepreneurs. Significant tax advantages exist in this sector. Thus the answers in Exhibit 18 may reflect considerations other than actual expected returns on investment.

C: FACTORS INFLUENCING CURRENT PRODUCTIVITY

1. Constraints Are On The Production Side

Survey results also suggest that, in the eyes of the Dominican business community at least, growth has been impeded by production bottlenecks rather than weak demand for their product. Very few firms, either in the closed or open-ended questions regarding past growth performance, specifically mentioned demand or market as a constraint to growth. Most Dominican firms surveyed believe as illustrated in Exhibit 11 that if they could produce more, they could sell more. Demand for their product is not the issue, their ability to meet this demand is. This was particularly true of agribusinesses, which, as shall be seen in subsequent sections, have been the hardest hit by a number of production bottlenecks including lack of capital and adequate production infrastructure.

Perceived production constraints are of two sorts: policy environment and resource constraints. Under the former our survey specifically probed exchange rate policy, financial sector policies (including interest rate and loan processing regulations) and government monetary and fiscal policies. Under the latter we asked questions on the availability and costs for a number of production inputs: labor, capital, utilities (including electricity, communications, water, garbage collection) transportation services, production technology, and raw and intermediate physical inputs.

2. Policy Constraints

In terms of public policy constraints, the exchange rate (both fluctuations and regulations pertaining to foreign currency exchanges) was mentioned most often as having influenced the firm's performance over the last year. In terms of resource constraints, the inadequacy of the electric power generation was also mentioned most frequently by respondents (see Exhibit 12). It was followed by lack of capital and lack of quality labor. The section below offers more detail on perceptions regarding production input constraints.

3. Electric Power

The electric energy crisis has been one of the most documented and discussed issues in the last year. Our survey confirms the gravity of the problem. Exhibit 13 shows that over 80 percent of all firms interviewed believe that the lack of reliable electric power has constrained their productivity over the last year. The gravity of this problem is illustrated by the fact that almost 70 percent of all firms interviewed have a generator. This distribution varies by size: (90 percent of firms with more than 200 employees had generators compared to 46 percent of firms with less than 50 employees). Of those firms owning a generator, almost 60 percent reported using it over 30 percent of the time in May 1988; approximately 45 percent reported using it over 50 percent of the time. Thus, our survey suggests that in June of 1988 at least 31 percent of the electricity used by the private sector was generated by private power plants.

Capital

The difficulty obtaining capital has also been widely documented. Recent government monetary and investment policies have been said to be crowding out private investment. Survey results confirm the lack of long-term capital as a bottleneck in production. The survey also shows that the lack of long term financing is perceived as a relatively larger bottleneck than the lack of short-term financing. As Exhibit 14 illustrates, practically 100 percent of all the firms surveyed believe that long term capital is difficult to find. A slightly lower proportion, 76 percent, believe working (short-term) capital is difficult to find. But the exhibit also shows that the capital that is available is not particularly expensive. About two thirds of all respondents said they can find capital at rates under 30 percent. Given these results, it is not surprising to find, as Exhibit 9 indicates, that the majority of responding firms believe that the most important step that could be taken by a business association to increase the production of their firm is to make credit available. This was true for firms of all sizes and in all sectors, save those in the FTZ's.

Given the lack of access to capital through formal channels, the results in Exhibit 15 are not surprising. It indicates that 55 percent of the sample have used personal (either own or friends' and family) funds as a source of capital for their business. Only 2 percent of the sample had used development bank loans (such as FIDE funds) over the

last year. As is to be expected, small firms (1 to 20 employees) were far more likely to rely primarily on personal and family funds, while large firms were far more likely to say they relied almost exclusively on formal local finance institutions and foreign lenders.

5. Labor

Opinions regarding the quality and costs of Dominican labor vary substantially across sectors. Generally, agribusinesses were far more satisfied with the training and quality of their labor pool than firms in all other sectors; while only 21 percent of agribusinesses believe they have to spend too much training new hires, over 50 percent of firms in other sectors believe this. The responses make intuitive sense. The Dominican Republic's economy has been, until recently, agriculturally based. It is only in the last decade that other sectors, notably the service (including FTZ's) and finance sectors, have grown in importance, both in terms of employment and value added. Survey results suggest that the training capabilities of the country are running behind the needs of an increasingly diversified economic base.

Exhibit 16 drives this point home. Perceptions regarding the quality of personnel in different categories vary considerably across sectors. While the majority of firms in every sector agreed that good quality secretarial help was easiest to obtain, there was little agreement regarding the adequacy of other types of labor. Thus, FTZ firms were more likely to perceive shortages of quality professional and technical personnel (engineers and production technicians) while agribusinesses were least likely. The quality and quantity of "agronomos" is apparently seen as adequate for meeting industry needs. Large firms and agribusinesses were more likely to believe that managerial level personnel is more difficult to obtain than other types of labor.

6. Other Factors of Production

Firms were also asked to comment on the adequacy (both in terms of quality and price) of other inputs to production: raw and intermediate materials, garbage collection, water utility, ground, sea and air transportation services, and communication services. Generally the quality and costs of these was perceived as adequate. Generally as well,

FTZ firms were least likely to perceive any sort of problems with the adequacy of these factors. Small firms were most likely to perceive problems.

V. SUMMARY AND CONCLUSIONS

A. DOMINICAN FIRMS ARE OPTIMISTIC

Despite the numerous complaints regarding resource constraints and an unstable policy environment, Dominican firms report doing well. Over one third report real gross sales volume increases of more than 20 percent between June 1987 and June 1988 although some respondents may not have taken inflation fully into account. Over three fourths of respondents reported positive real growth over this time period. A sizeable majority also believe that they will continue doing well over the next two years. This phenomena, reporting healthy business growth despite numerous production bottlenecks, is not new. Past surveys of the Dominican agribusiness sector reported similar findings. One possible explanation is the basic Latin attitude "todo se puede resolver," everything can be fixed, if you have the right connections and a fighting spirit. Dominican firms, these results suggests, are telling us, "things are bad for everyone, but, I can cope."

It is also important to remember that while there may be many things wrong with the economy, the Phase I results of the PSDF showed that there are also many things right with it. Over the last decade the private sector has strengthened despite slower growth. The Dominican economy is no longer primarily dependent on a few crops such as sugar. It has successfully evolved into one of the most diversified economies in the Caribbean. Thus, the buoyancy in the outlook also reflects the positive experience of those business executives who have participated in growth sectors of the economy.

B. BUT THEY ARE CONCERNED THAT POLICY INSTABILITY HAS HURT PROSPECTS FOR GROWTH

The most important policy constraint affecting both past and future growth is the instability of the "rules of the game" and more specifically those "rules" pertaining to the foreign exchange market.

C. LACK OF RELIABLE ELECTRIC ENERGY HAS HURT PROSPECTS FOR GROWTH

The most important resource constraint, affecting past growth and future growth potential, is the lack of reliable electricity. About 70 percent of all firms reported owning an electric plant and 45 percent of those owning a plant said they used it over 50 percent of the time in June 1988. Thus in June 1988 almost one third of the electricity generated by the private sector came from privately owned generators.

D. LONG-TERM FINANCING IS DIFFICULT TO FIND

According to the survey, the formal finance sector has not been able to fulfill the demand for credit in general. Many firms report current dependency on personal and family funds.

E. THE COUNTRY'S SCHOOLS HAVE NOT KEPT PACE WITH INCREASINGLY DIVERSIFIED SKILLED LABOR NEEDS

Though agribusinesses were generally satisfied with the quality of the technical personnel, firms in newer industries such as tourism and FTZ firms expressed dissatisfaction with the pool of technical and professional labor available. A majority of the larger firms also expressed dissatisfaction with the quality of the managerial labor force. As the Dominican economy has grown and diversified the type of skills needed has changed, but apparently, training programs and professional schools have failed to respond adequately in terms of the quality and quantity of personnel required.

**F. BUSINESS ASSOCIATIONS ENJOY WIDESPREAD SUPPORT
(BUT ARE NOT SEEN AS EFFECTIVE LOBBYING MECHANISMS)**

Over 80 percent of Dominican entrepreneurs interviewed reported belonging to at least one association. Relatively few believe the role of these associations is to lobby the government. Many would like associations to provide credit to their members. This suggests Dominican firms prefer to find "individual," "personal" solutions to their problems, using their own contacts. As is to be expected, this is far more likely to be true of larger firms (who do have contacts in the "right" places) than of the smallest firms.

G. AGROINDUSTRY IS BELIEVED TO OFFER THE BEST SHORT- AND LONG-TERM OPPORTUNITY FOR FUTURE INVESTMENT

Such perceptions may have more to do with the continued psychological reliance on the land than with an objective assessment of the investment's potential return. It may also have to do with perceived limitations regarding the sustainability of growth in more dynamic sectors such as tourism and FTZ's. In the case of tourism, a Dominican businessman said "one cannot create sustainable growth based on an economy of chamber maids and taxi drivers." Others voiced their concern regarding FTZ prospects in the face of increasing protectionist sentiments, particularly in the United States, the largest market for Dominican FTZ output.

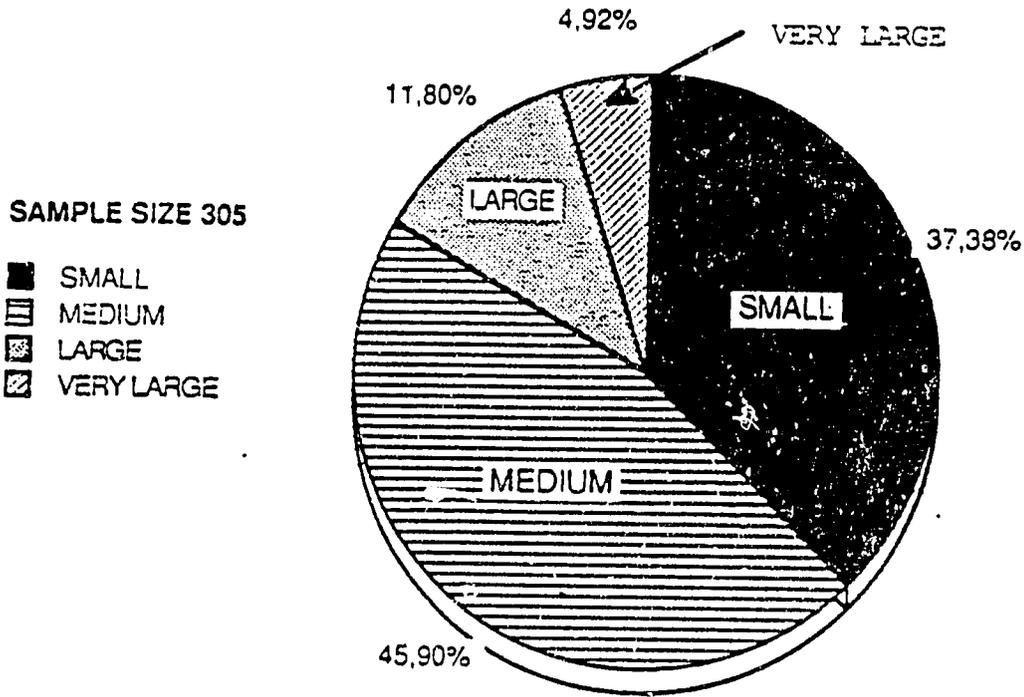
H. IMPLICATIONS FOR DIALOGUE AND STRATEGY

The above findings have a number of implications for private sector strategy:

1. Policy dialogue should be a number one concern for USAID given the importance of stabilizing the rules of the game and the policy environment for business growth.
2. Resolving the credit bottlenecks; electricity problems and human resource shortages must be central to any strategy to promote private sector growth.
3. There is still widespread interest in investing in agribusiness, both traditional and non-traditional.
4. Associations can play key roles such as implementing agents as they enjoy widespread support. However, work must be done to enhance their role representing member interests before the government.

EXHIBIT 1

DESCRIPTION OF SAMPLE BY FIRM SIZE



LOCATION OF FIRM NON FTZ

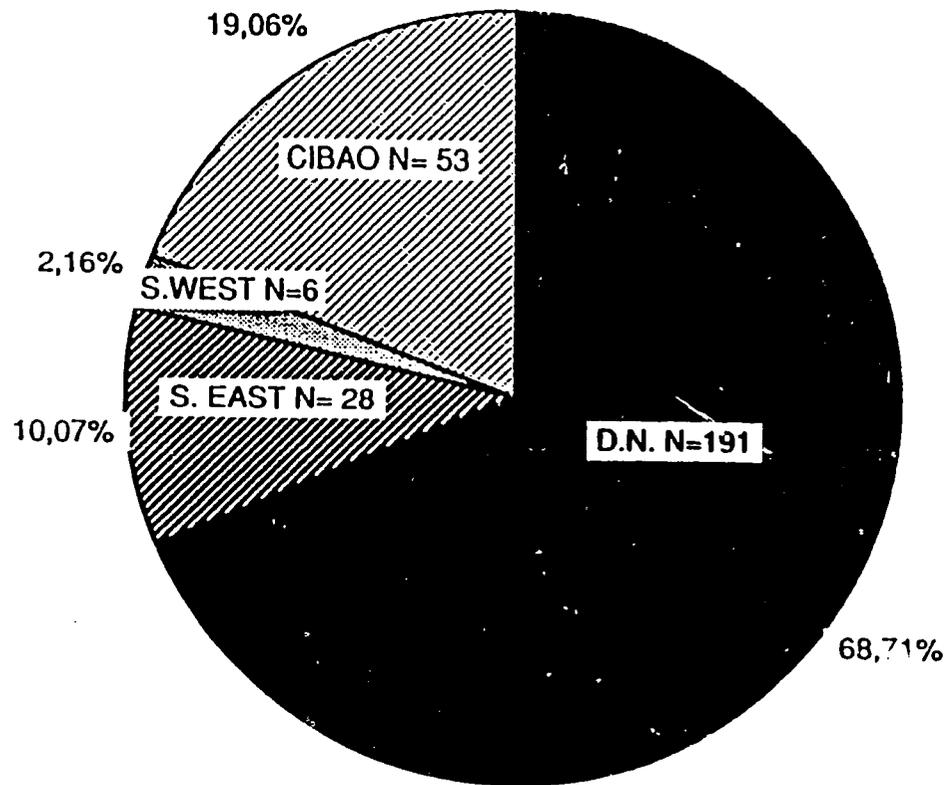


EXHIBIT 2

1/29

PROPORTION OF FIRMS BY MARKET ORIENTATION

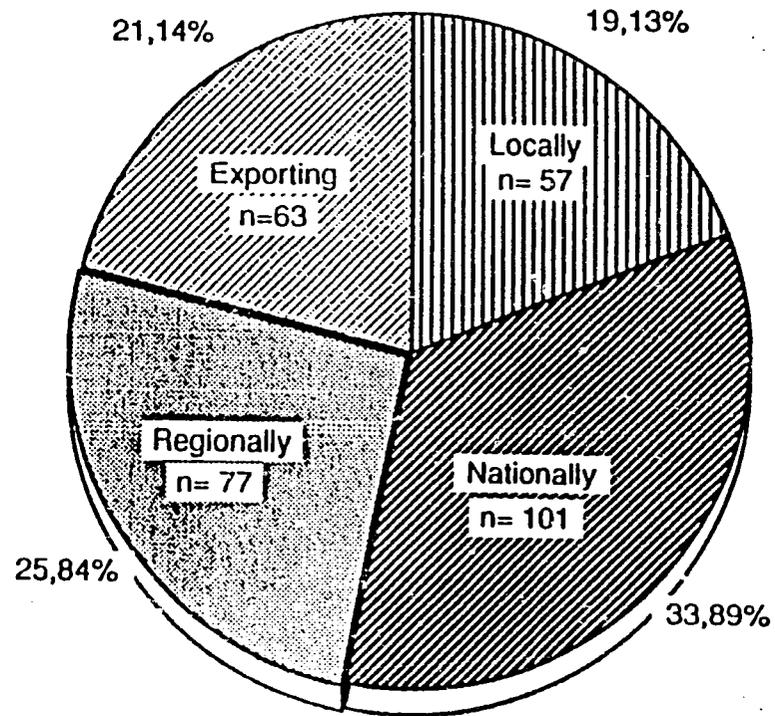
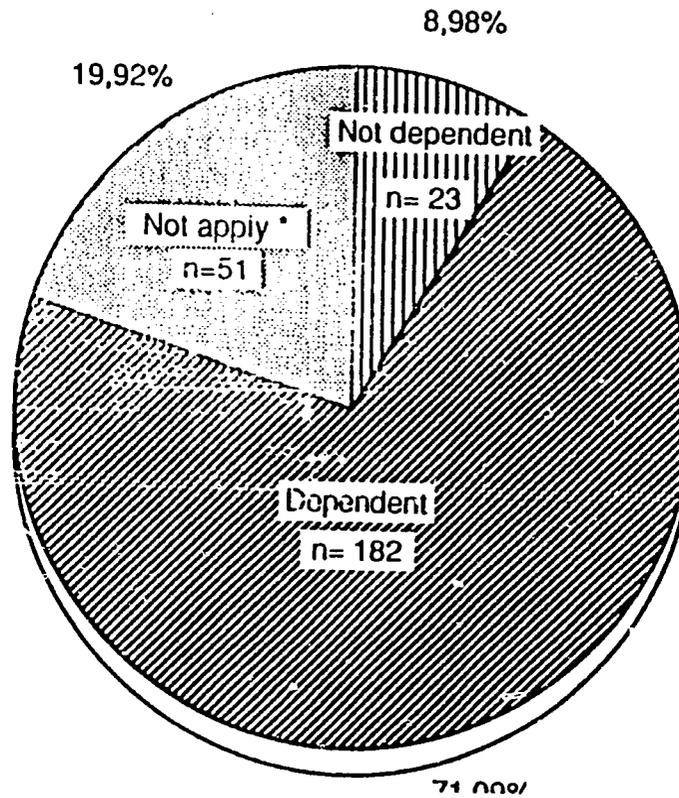


EXHIBIT 3

PROPORTION OF FIRMS DEPENDING ON IMPORTED INPUTS

- ▨ not dependent
- ▩ dependent
- ▣ not apply



* Special laws

EXHIBIT 4

66/

PROPORTION OF FIRMS BY SOURCE OF CAPITAL

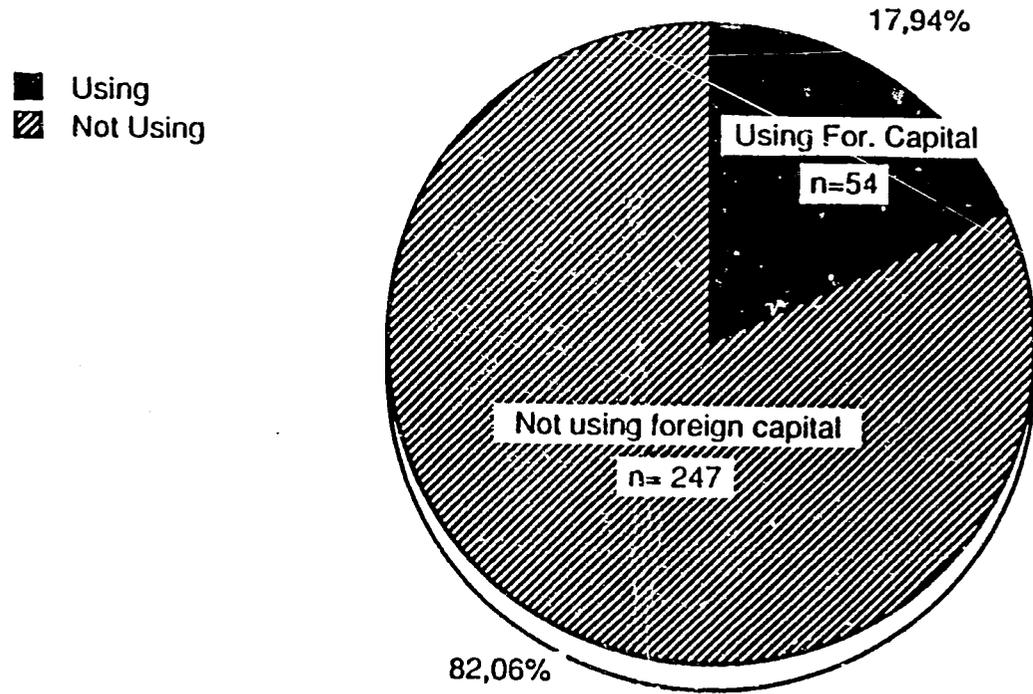


EXHIBIT 5

10/29

DO YOU BELONG TO A BUSINESS ASSOCIATION?

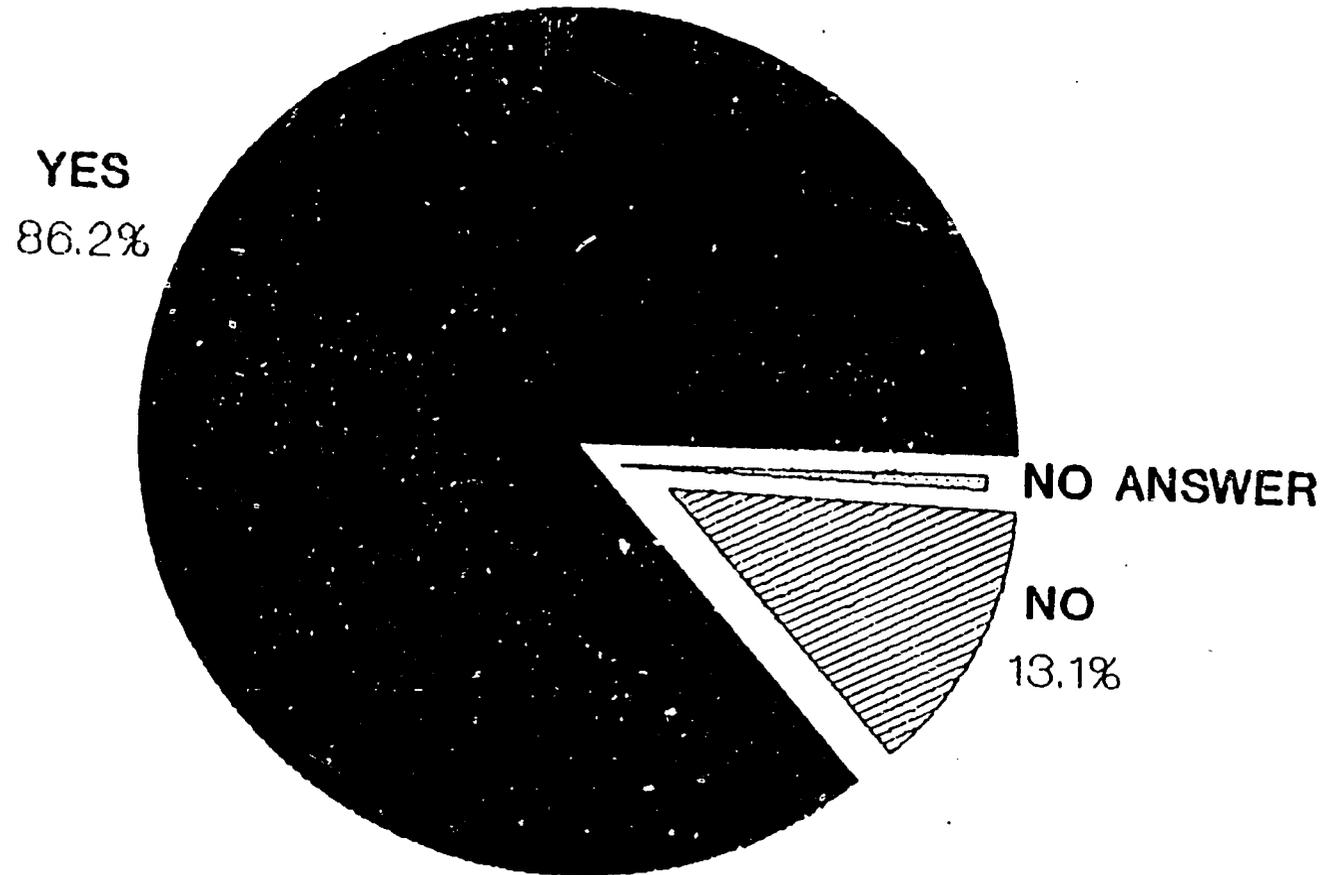
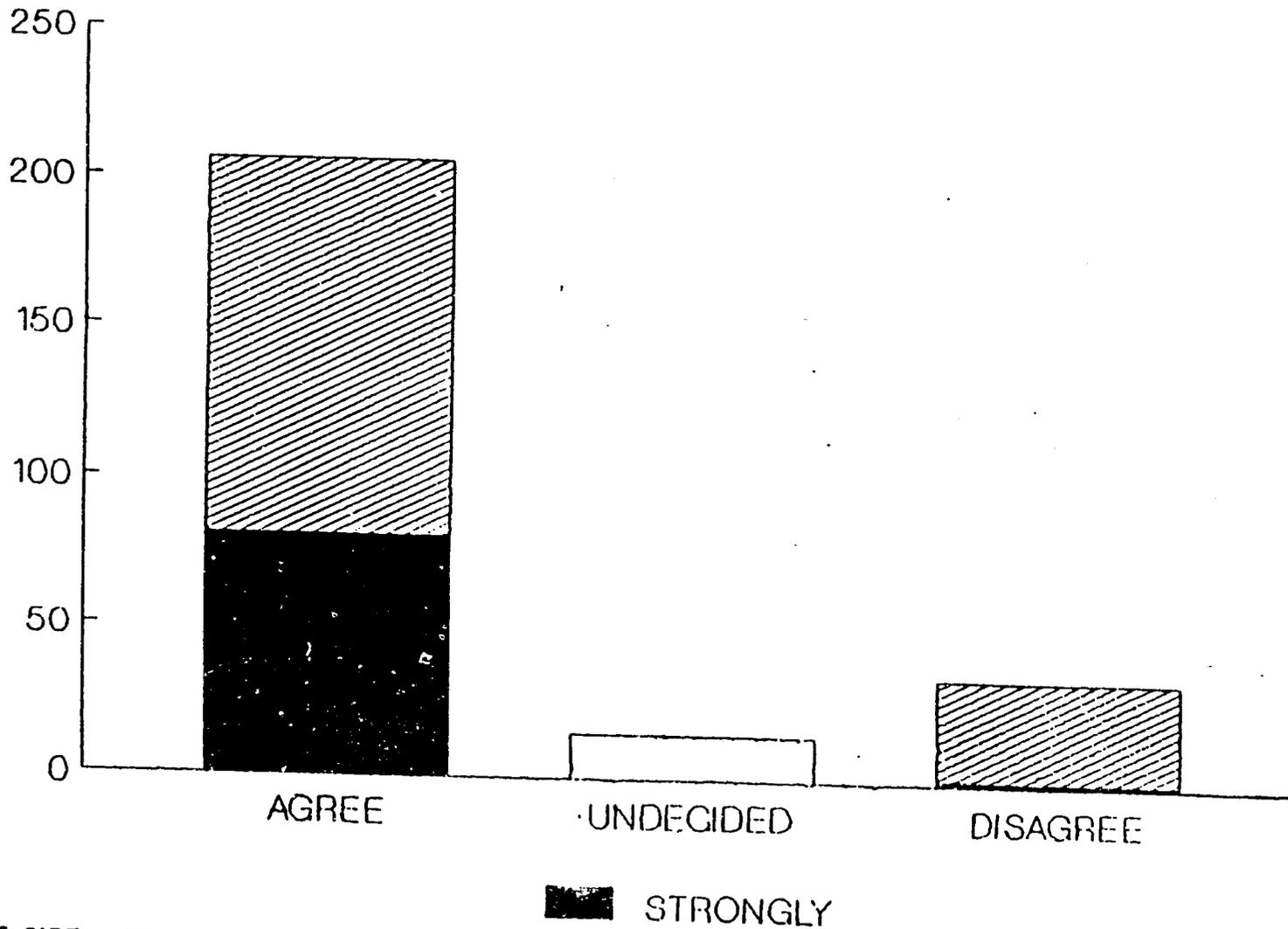


EXHIBIT 6

SAMPLE SIZE: 306 FIRMS

140

MY ASSOCIATION EFFECTIVELY REPRESENTS MY BUSINESS INTERESTS



SAMPLE SIZE: 306 FIRMS

EXHIBIT 7

MOST IMPORTANT INITIATIVES GOVERNMENT COULD TAKE TO PROMOTE GROWTH OF PRIVATE SECTOR

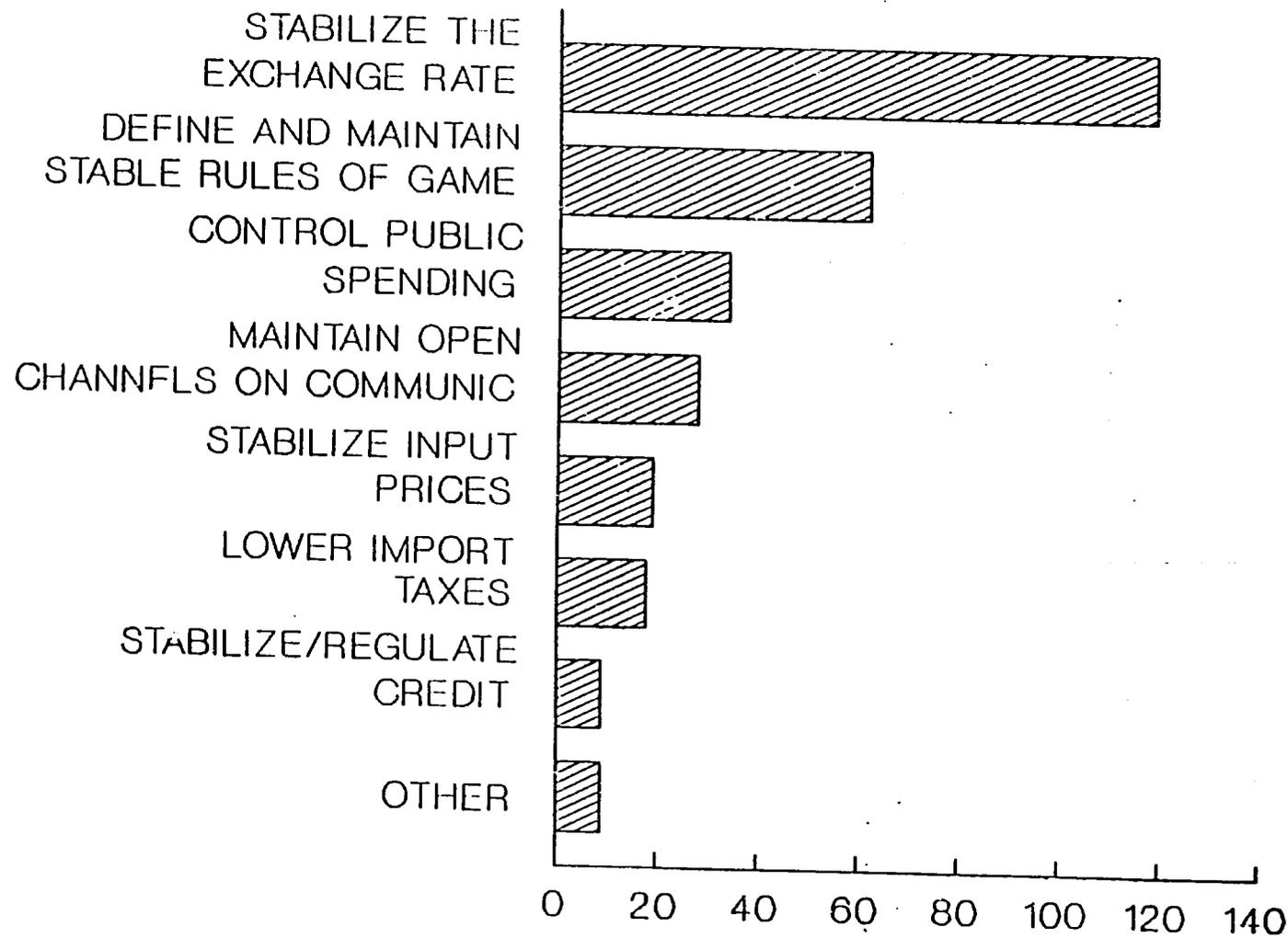


EXHIBIT 8

SAMPLE SIZE: 306 FIRMS

142

MOST IMPORTANT STEPS ASSOCIATION CAN TAKE TO EXPAND GROWTH POTENTIAL OF MY BUSINESS

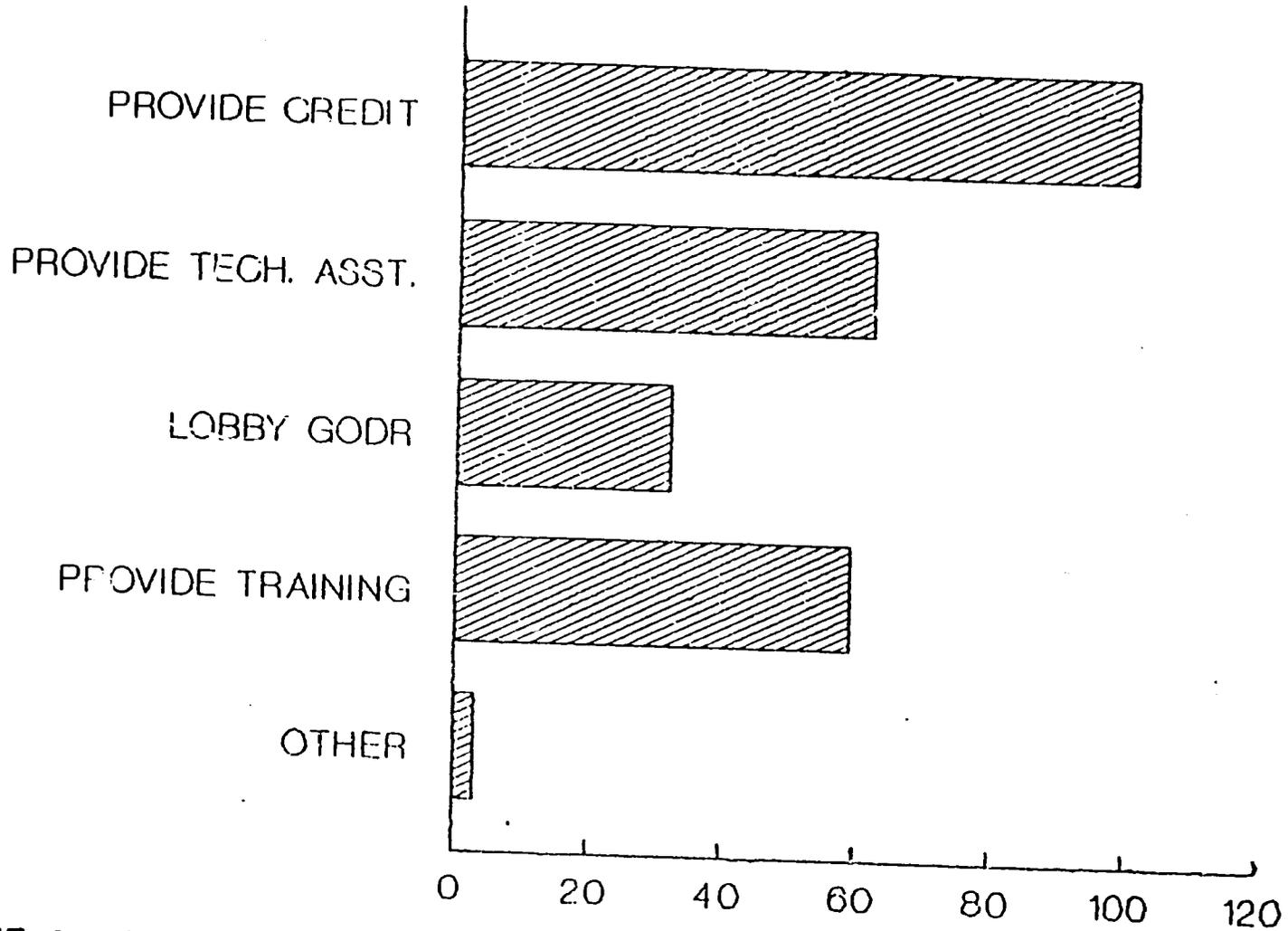
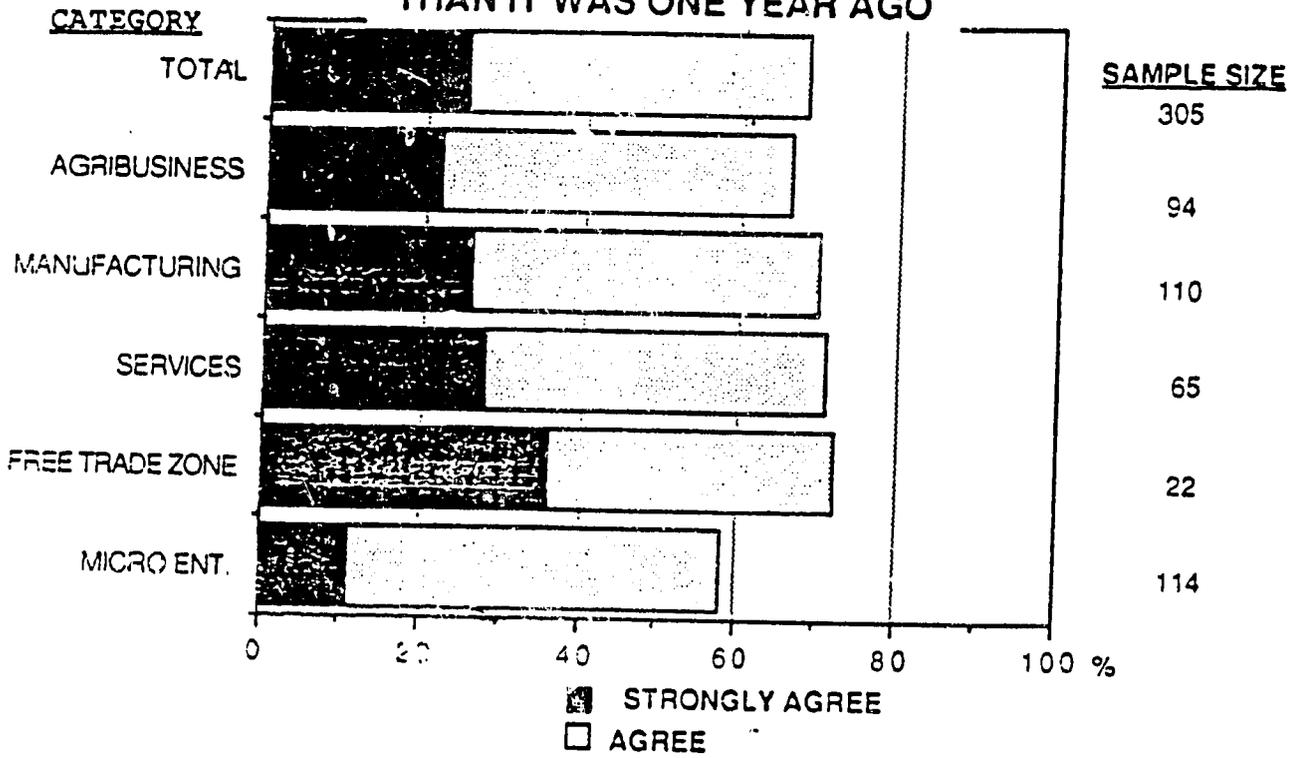


EXHIBIT 9

SAMPLE SIZE: 306 FIRMS

EXHIBIT 10

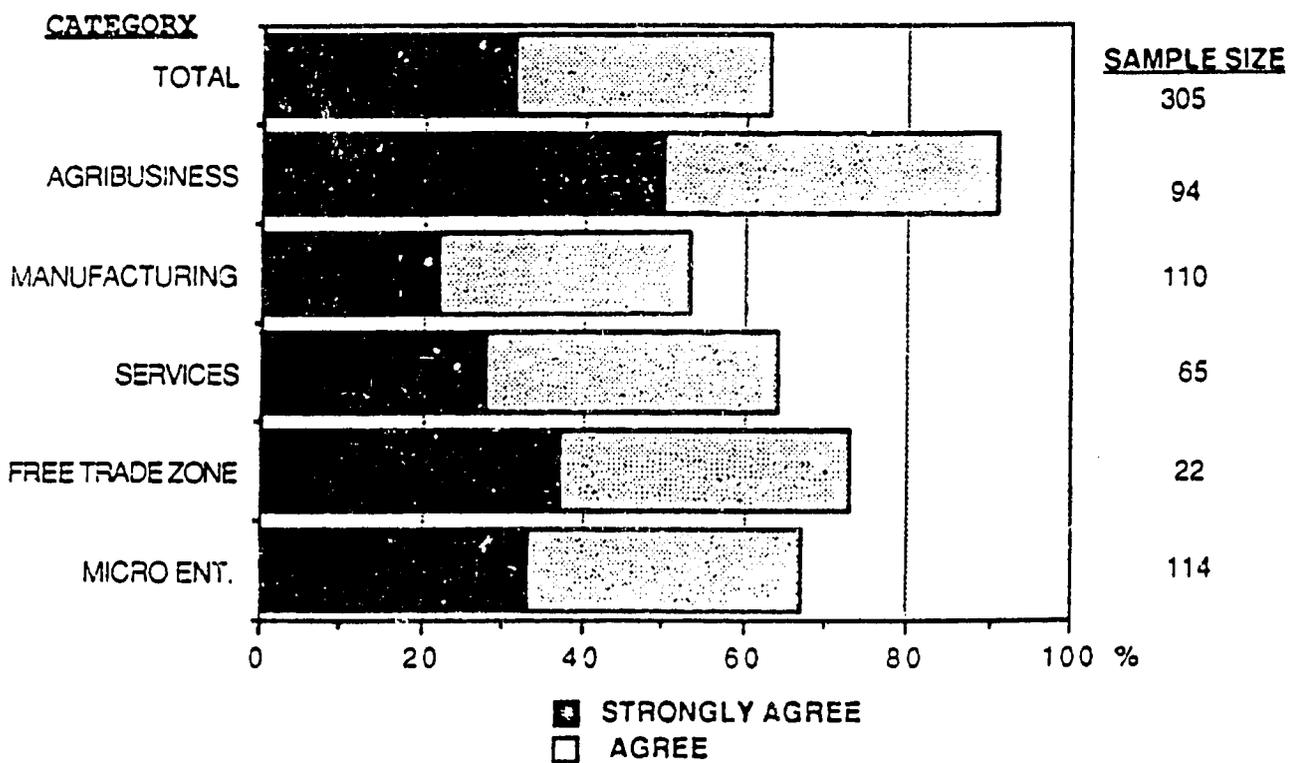
THE BUSINESS ENVIROMENT IS MUCH BETTER
THAN IT WAS ONE YEAR AGO



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EXHIBIT 11

WE COULD SELL MORE THAN WE CAN PRODUCE



FACTORS INFLUENCING FUTURE GROWTH

1. "ECONOMIC STABILITY" (12%)
2. ELECTRIC SERVICE (8%)
3. LAWS AND REGULATIONS
REGARDING FINANCIAL SECTOR (6%)

IMPACT OF POWER OUTAGES ON DOMINICAN BUSINESS

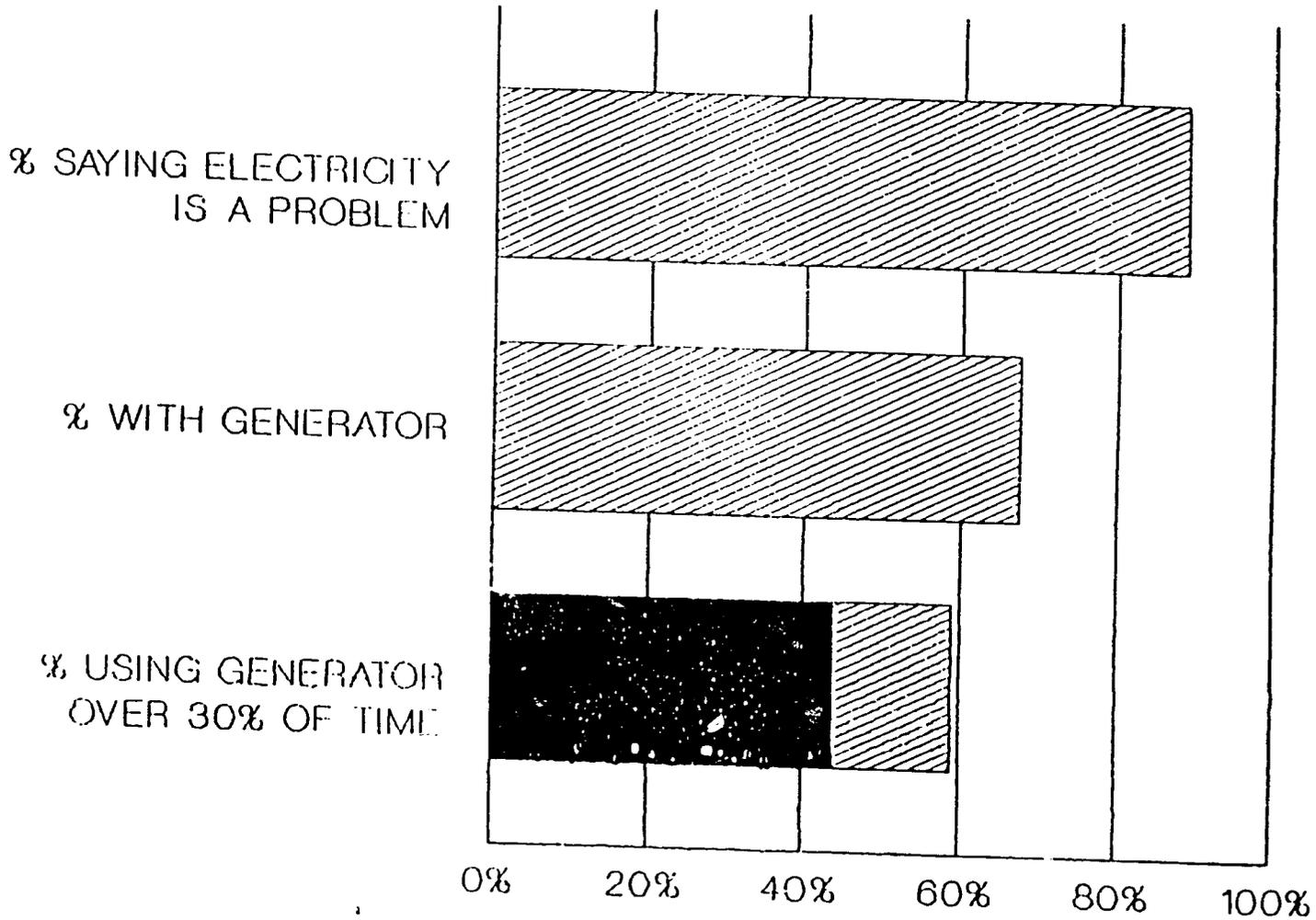


EXHIBIT 13

SAMPLE SIZE: 306 FIRMS

■ USING GENERATOR OVER 50% OF THE TIME DURING JUNE, 1988.

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DIFFICULTY OF OBTAINING CAPITAL

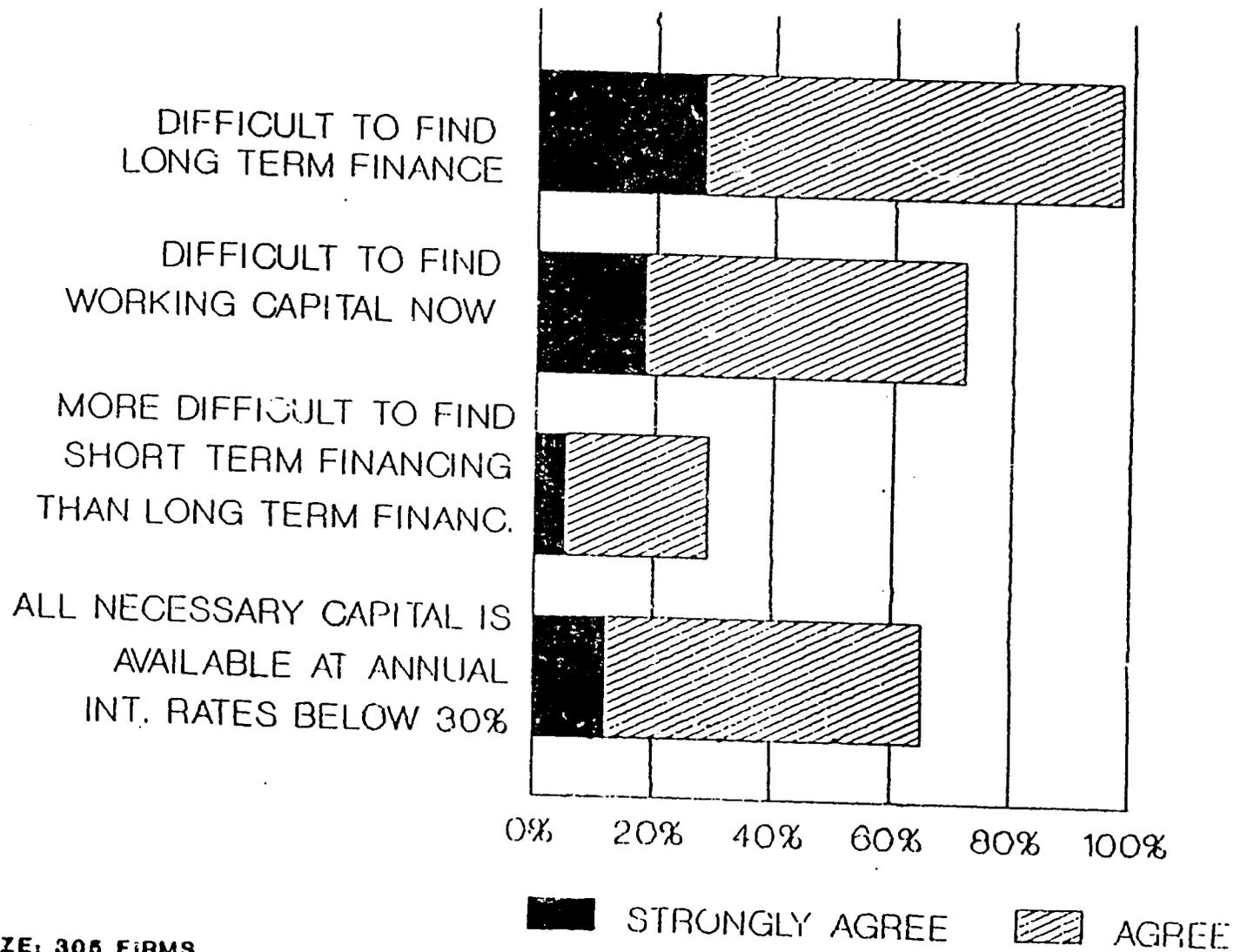


EXHIBIT 14

SAMPLE SIZE: 306 FIRMS

142

SOURCES OF CAPITAL

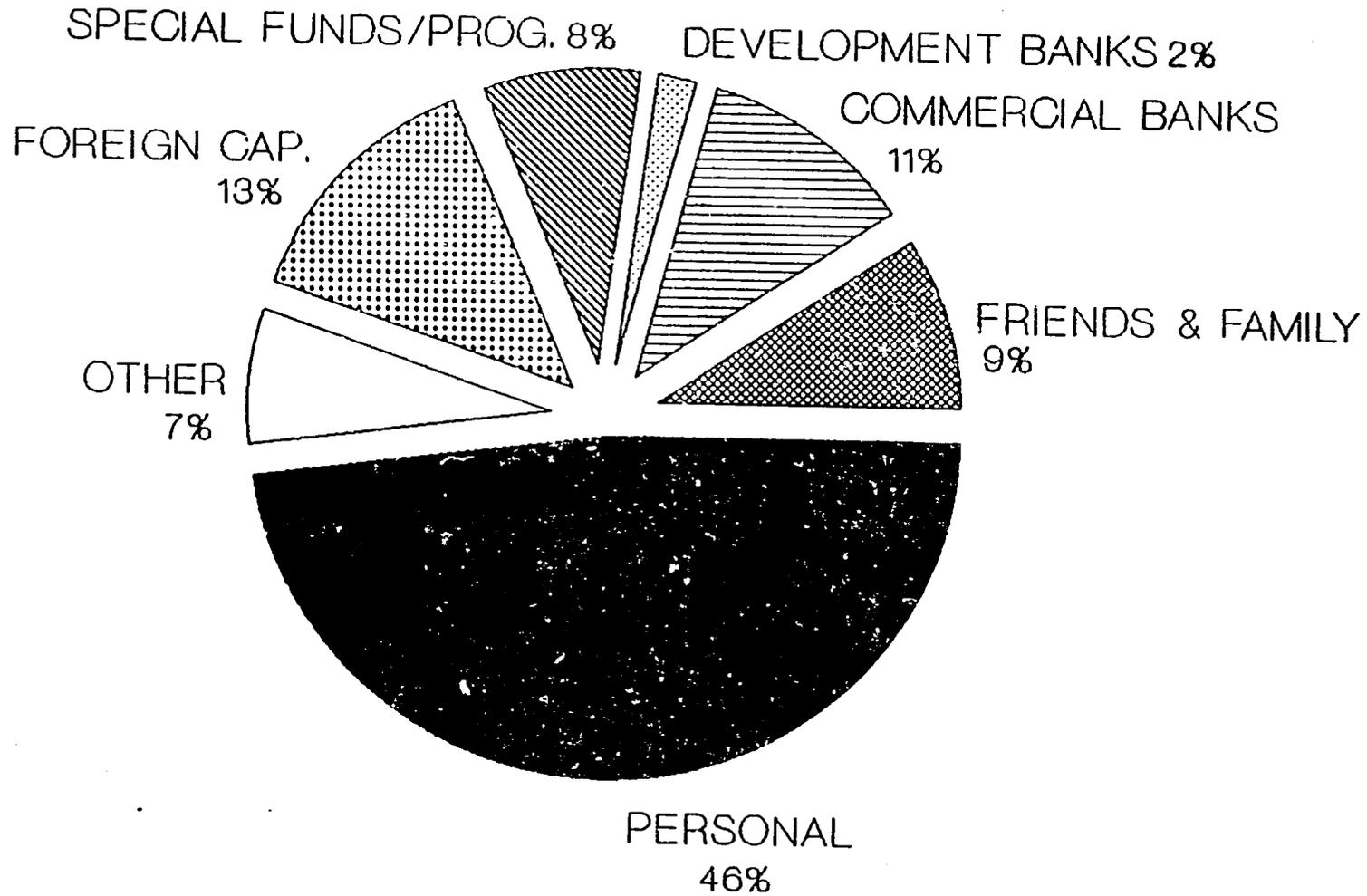


EXHIBIT 15

SAMPLE SIZE: 306 FIRMS

**RATINGS OF DIFFICULTY OBTAINING
WELL TRAINED PERSONNEL**

LABOR CATEGORY

ADMIN. - SECRETARIAL - PROFESSIONAL - TECHNICAL

ALL FIRMS	3	4	2	1
AGRICULTURE	1	4	2	3
MANUFACTURING	3	4	2	1
SERVICES	2	4	1	3
TTZ	3	4	1	2
SMALL	3	4	2	1
MEDIUM	3	4	1	2
LARGE	1	4	2	3

EXHIBIT 17

WHAT REAL GROWTH DO YOU ANTICIPATE OVER THE NEXT 2 YEARS

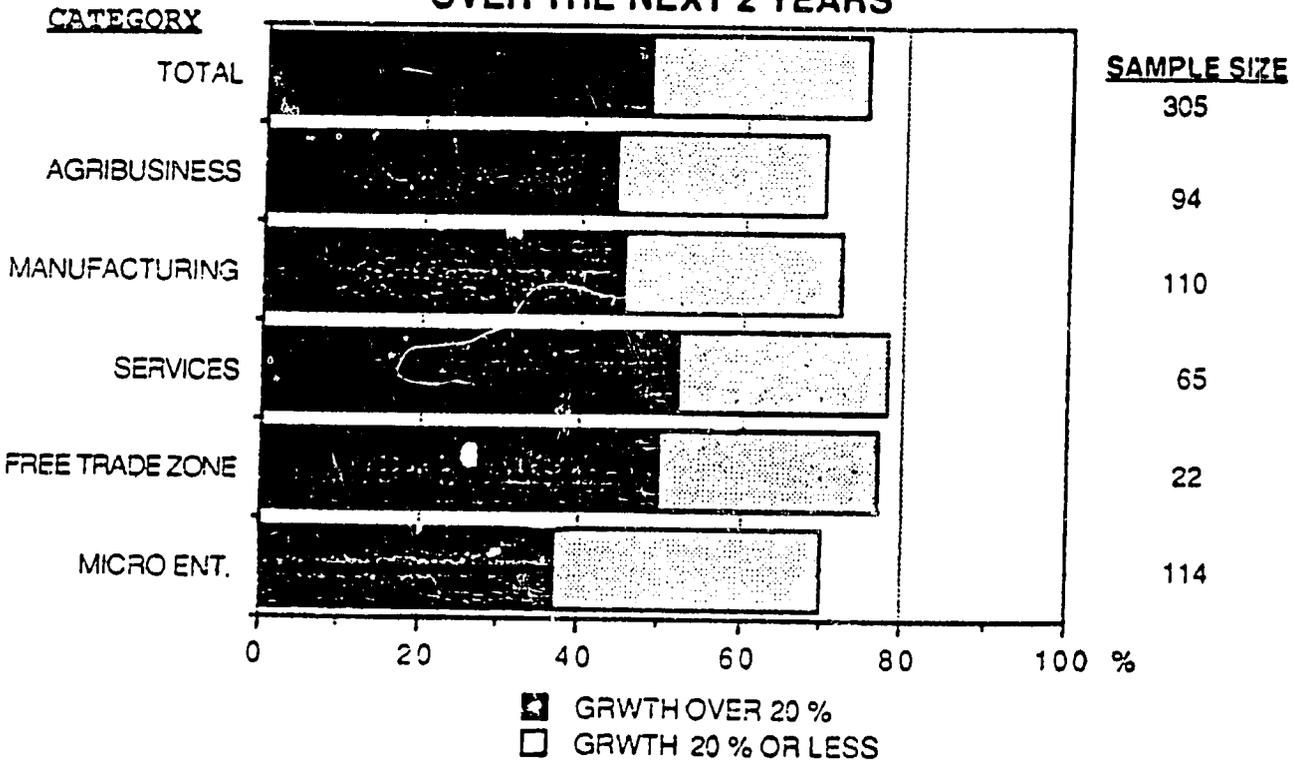


EXHIBIT 18

FACTORS INFLUENCING FUTURE GROWTH

1. "ECONOMIC STABILITY" (12%)
2. ELECTRIC SERVICE (8%)
3. LAWS AND REGULATIONS
REGARDING FINANCIAL SECTOR (6%)

MOST ATTRACTIVE INVESTMENT AREAS

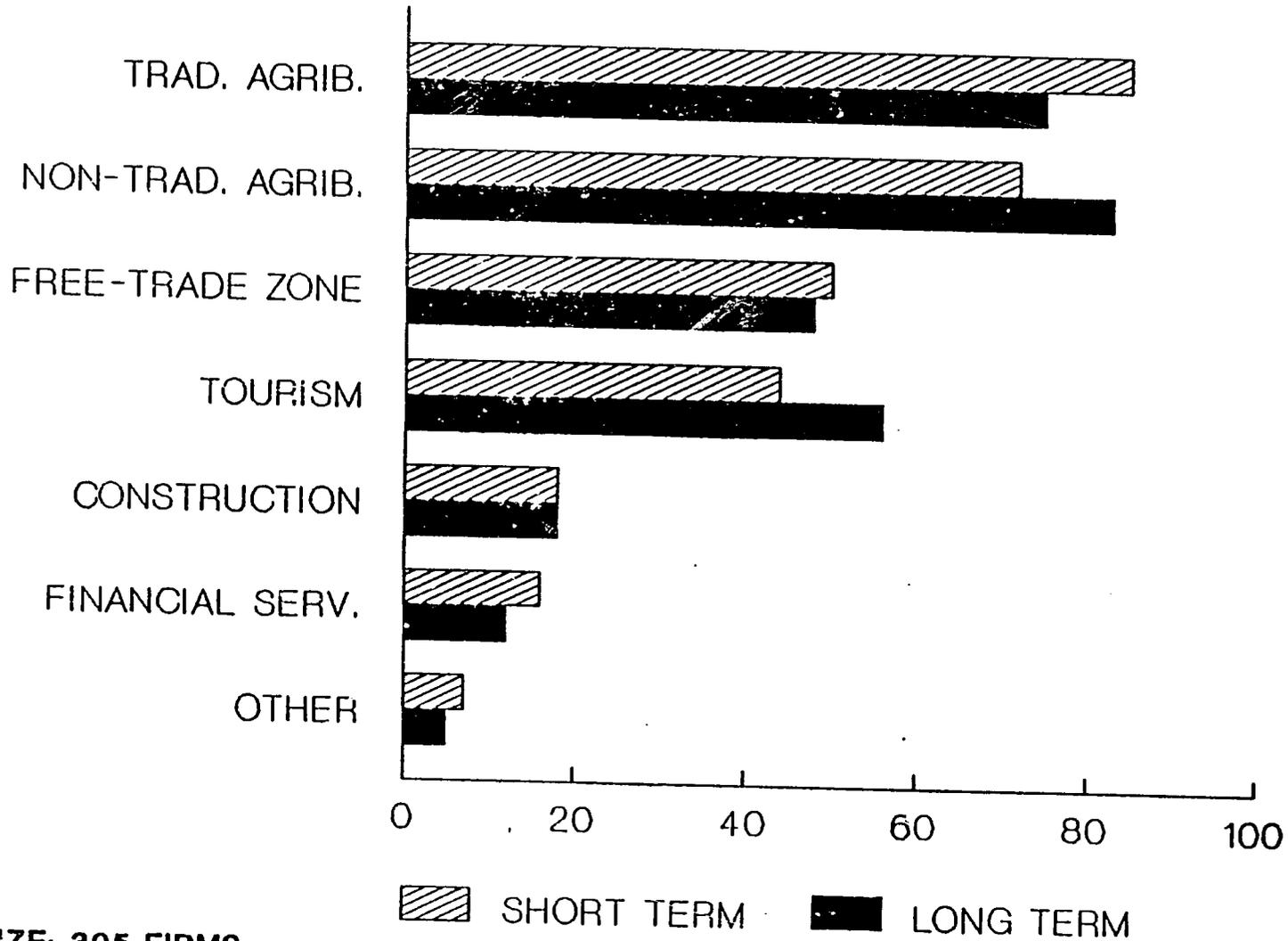


EXHIBIT 19

SAMPLE SIZE: 305 FIRMS

153

PRIVATE SECTOR DEVELOPMENT FRAMEWORK

USAID - SANTO DOMINGO

APPENDIX 4 - SUMMARY RESULTS OF DIALOGUE PROCESS

SUMMARY RESULTS OF DIALOGUE PROCESS

PSDF implementation for USAID-Santo Domingo included an expanded dialogue process. Informal dialogue sessions with private sector leaders began as early as the second week of PSDF implementation and continued throughout the 15 weeks of PSDF implementation. Larger and more structured focus groups were held during the latter weeks of PSDF implementation. The following are the most significant results.

1. Results Common To All Sectors

- a) Participants of all the focus groups were in general agreement with the findings and conclusions of the private sector description and diagnostic survey.
- b) Specifically, there was strong consensus on the identification of the following key problems:
 - 1) Lack of stability in the "Rules of the Game," especially inflation, exchange rates and interest rates.
 - 2) Deficiencies in electric power, capital/credit and qualified human resources.
- c) The most severe constraints to private sector growth are on the production side, not the marketing side.
- d) The focus groups tended to question the optimism reflected in the surveys regarding past and projected growth. Business growth for last year and similar projections for next year may not take into account the impact of inflation on real growth.
- e) Although there is strong and widespread agreement in the private sector concerning the need for policy reform, participants expressed frustration with their previous attempts to influence GODR policy, as well as a reluctance to participate in major new policy dialogue initiatives.
- f) Nonetheless, new groups have emerged which have been trying to educate people through newspapers, studies and television regarding the importance of the private sector and the need for sound economic policies.

2. Microenterprise

- a) Cooperation and Consensus: The dialogue session and focus group with micro-enterprise leaders catalyzed cooperative efforts. Key organizations decided to unite their efforts and work together to resolve the critical shortage of capital. Consensus regarding the need for competitive interest rates and the need to mobilize domestic

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savings was also evident.

b) **Ban-Micro Postponed:** the desirability of working towards a fully chartered Micro-Enterprise Bank (Ban-Micro) was expressed. However, it was generally agreed that it would be premature to seek the necessary approvals from the Monetary Board at this time.

c) **"Aso-Micro" Proposed:** The creation of a national micro-enterprise association (Aso-Micro) was proposed and approved. One of the participants agreed to prepare a draft of the bylaws. Such an association could become a useful implementing agent in future AID projects.

d) **Confirmation of Previous Mission Effort:** The dynamism and organization of this sector has confirmed the assumptions implicit in AID's previous activities in this area and represent a successful Mission intervention. The sector is now poised for further growth and institutional strengthening. The level of cooperation found among agencies which could view each other as competitors is surprising and enhances the probability of success.

3. Agri-business

a) The major problems in the agri-business sector, according to participants, included:

- 1) Scarcity of long-term and short-term credit
- 2) Insecurity regarding land titles and increased agrarian reform pressures.
- 3) Lack of capable and well-trained administrators, especially farm managers and agro-export managers.
- 4) An inefficient domestic commercialization system characterized by lack of grading standards, bonded warehouses, bank accredited guarantees and commodity market exchanges.
- 5) Problems with access to imported inputs due to Customs delays and procedures and to lack of availability and cost of foreign exchange.
- 6) Price controls in selected sectors, the most pressing example being the dairy sector.

4. Financial Sector

The primary concern of the participants in the focus group for this sector was the critical need for policy reform to address the problem of inflation, and resulting decapitalization, due to perceived over-regulation of the

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sector, especially the constraints on positive interest rates.

The other major problems discussed were the lack of capital and/or access to credit for productive investment, and the lack of qualified human resources to support expansion and enhancement of the capabilities of the financial sector. Various possible initiatives were discussed to address these problems, including: developing new financial instruments, facilitating debt-equity transactions, establishing a stock exchange and developing special programs to mobilize savings and capture the flow of various funds in the informal sector, such as remittances from abroad.

The discussion of the focus group reflected a strong reluctance to support any new initiatives until appropriate policy reforms established a more stable business environment. To some extent, however, this may have been the result of negative group dynamics as well as a reluctance on the part of bankers to discuss specific initiatives in the presence of their competitors. On a one-on-one basis, several members of this sector have expressed interest in exploring the various initiatives listed above, such as debt-equity conversion and training programs.

E. Free Trade Zones

The impressive growth of this sector during the last decade is, at least in part, a reflection of the success of that element of USAID's private sector strategy which focused on the promotion and development of the FTZ's, particularly through support of the IPC. The FTZ's have made a substantial contribution to the country's economic growth by any of the standard statistical measures, and focus group participants agreed that the prospect for continued growth remained positive.

From the perspective of the private FTZ developers, however, the lack of capital/credit for expansion is a major constraint to continued growth of the sector. This problem is compounded by the perception of unfair competition from the government subsidized FTZ's. No specific initiative was proposed to alleviate these problems other than the usual suggestions for policy reform.

The lack of qualified human resources, especially technically skilled labor and mechanics, was identified as a major problem confronting the firms which actually operate in the FTZ's. Very strong interest was expressed by the focus group participants in supporting development of a major vocational training program, with on-site units at each FTZ and high level involvement by the FTZ firms in curriculum design, as well as providing space, equipment and technical personnel for the training program.

Another issue discussed by the focus group represents more of an opportunity than a problem. Interest was expressed in exploration of initiatives to expand local capability to supply inputs to FTZ producers-- so-called "backward linkages". Specifically, it was suggested that a first step would be to prepare an audit of demand from all the information with a survey and assessment of local capability to supply specific inputs. Assuming the audit identified opportunities for backward linkages, a follow-up initiative could involve some sort of clearing-house to link buyers and sellers, as well as technical assistance to enhance the capabilities of local producers to meet export quality standards.

BACKGROUND NOTES TO THE REPORT

The PEDS Project

This study was conducted under the Private Enterprise Development Support Project. The PEDS Project is a five year (FY88 - FY92) \$20 million project managed by the Bureau for Private Enterprise. In the first year of the project, PRE provided technical assistance for nearly fifty different requests from Missions and Bureaus. The PEDS Project is designed to provide a wide range of expertise in private sector development. Areas of technical assistance include the following:

- Policy analysis related to private sector development
- Sector assessments and analyses
- USAID private sector strategy development
- Legal and regulatory analysis and reform
- Small-scale business development
- Trade promotion
- Investment promotion
- Free trade zone development
- Financial institutions and instruments
- Management and financial training
- The role of women in private enterprise
- Applications of MAPS: Manual for Action in the Private Sector

USAID Missions have the resources of thirteen contractors available to them through the PEDS Project.

- | | |
|------------------------------------|--------------------------|
| ● Arthur Young (prime) | ● Ferris & Company |
| ● SRI International | ● Metametrics |
| ● Management Systems International | ● Elliot Berg Associates |
| ● The Services Group | ● Robert Carlson Ass. |
| ● Trade and Development, Inc. | ● Ronco |
| ● Multinational Strategies | ● Dimpex Associates |
| ● J.E. Austin Associates | |

The Consultancy

USAID/Santo Domingo requested that J.E. Austin Associates undertake a private sector strategy assessment. The team used MAPS (Manual for Action in the Private Sector) as the primary methodological tool. Field work was conducted from April through September 1988.

The Authors

Kevin Murphy was the team leader for the private sector strategy. Mr. Murphy is the President of J.E. Austin Associates. Previously, Mr. Murphy served as a senior management advisor to the Instituto Superior de Agricultura in the Dominican Republic. He holds a Master of Business Administration from Harvard Business School and a Master of Public Affairs from the Harvard University School of Government.

Dr. Anna Teresa San Martin supervised the private sector survey and assisted in other phases of the assessment. Dr. San Martin is a senior economist at Jack Faucett Associates. Previously, she was an adjunct professor at Florida International University. Dr. San Martin holds a Ph.D. in Political Economy and a Master in Public Administration from Harvard University.

Joseph Thomas and Robert Wagner assisted in the development of the private sector strategy.