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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-844
June 20, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Dominican Republic - Private Investment Fund

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$8,000,000 to the Government of the Dominican Republic to assist in financing the costs of loans by the Central Bank of the Dominican Republic ("Central Bank") acting through the commercial banks, the private finance corporation(s), and the Borrower's industrial and agricultural banks ("Intermediaries") for the creation, expansion and more efficient operation of industrial, agricultural, transportation, mining, medical and service enterprises in the private sector of the Dominican Republic.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Thursday, June 26, 1969.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES I-IV

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DOMINICAN REPUBLIC - PRIVATE INVESTMENT FUND

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PART ONESUMMARY AND RECOMMENDATIONS

1. Borrower and Executing Agency: The Borrower would be the Government of the Dominican Republic (GODR) which, in accordance with an existing "Contract of Administration", would transfer the funds to the Central Bank, an autonomous agency of the Dominican Republic. The Bank's Department of International Agreements would be responsible for administering the A.I.D. loan and other resources of the Fondo de Inversiones para el Desarrollo Economico (FIDE).

2. Loan: A.I.D. would loan an amount of up to \$8 million for the procurement of goods and services in the United States. The loan would carry the concessional terms of 40-years repayment including an initial 10-year grace period with interest of 2% during the grace period and 3% during the 30-year repayment period.

3. Project Description: The proposed loan is designed to cover part of the US dollar costs of high priority projects in the private sector financed by eligible financial intermediaries through the resources of the FIDE. The eligible intermediaries consist of all the commercial banks, the Government owned industrial and agricultural development banks and private financieras. The Central Bank lends FIDE resources to the financial intermediaries at 5% and the latter relend to the end-borrowers at between 8% and 10%, in both cases at terms of not less than three years or more than twelve. Sub-loan repayments (rollovers) would be used for economic development purposes within the legal framework established for the FIDE. The credit risk is taken by the intermediaries and maintenance of value of foreign lending by the GODR.

The A.I.D. loan would be used to finance the creation, expansion and more efficient operation of private industrial, agricultural, transportation, mining, medical and service enterprises. The funds would be utilized in accordance with the following priorities established by the Central Bank:

- a) the diversification and promotion of export earning enterprises;
- b) the elimination of production bottlenecks related to exports;
- c) import substitution; and
- d) the production of domestic goods and services in short supply.

NOTE: Exchange rate, US\$1.00 = RD\$1.00



4. Purpose: The principal purpose of the loan is to assist in expanding the medium and long-term credit sources available to the private sector in order to assure greater private investments in selected areas. The results should consist of an improvement in the balance-of-payments, increased revenues to the Government, increased business competition leading to more competitive pricing and increased employment opportunities.

5. Background: The FIDE has been capitalized through an initial \$5 million loan from A.I.D., signed on April 12, 1965, a \$5 million loan from the IDB, signed on May 19, 1966, and a \$5 million contribution from the Central Bank's own resources. Because of political instability during CY-1965, the first sub-loan was not made until June, 1966. However, from that date a healthy rhythm of disbursements developed which has only recently slowed due to the small amount of remaining uncommitted resources in the Fund.

To provide additional resources, the Central Bank has requested new financing from both the IDB and AID. An IDB loan for \$7 million has been approved and the loan agreement is in the final stages of negotiation. It is hoped that the A.I.D. loan presented herein can be approved in June, 1969.

6. Financial Plan: The A.I.D. loan of \$8 million would form part of total new injections of \$20 million to FIDE. The other components consist of the \$7 million loan recently approved by the IDB and a \$5 million contribution from the Central Bank. In addition to these funds FIDE will be able to rollover recuperations from past loans with the exception of amounts due to service the previous IDB and AID debts. (The flow of funds is analyzed in greater detail in Part Two, Section II(C)). The financial resources for the three-year program are presented in tabular form below:

<u>SOURCE</u>	<u>FX</u>	<u>LC</u>	<u>TC</u>
AID	\$8.0	-	\$8.0
IDB	6.9	0.1	7.0
Central Bank	-	5.0	5.0
Repayments (minus debt service to IDB and AID)	-	10.0	10.0
	\$14.9	\$15.1	\$30.0

7. Economic Justification: FIDE supports the on-going GODR stabilization program by promoting private productive investment to the ends mentioned immediately above. It also constitutes a source of medium and long-term financing not otherwise available in sufficient supply, thereby making the prevailing tight credit policies more palatable to the business community. Since FIDE's operations are project oriented the country's economic base is broadened.

The demand for project financing has been thoroughly checked and is sufficiently strong to assure efficient use of FIDE's total available resources, including the A.I.D. loan proposed herein. (See Part Two, Section II-B, for a fuller economic discussion.)

8. Alternate Sources of Financing: Both the IBRD and Export-Import Banks have declined to undertake this project. The second IDB loan was made in the full knowledge that additional external financing would be required by the FIDE program to meet the demand projections over the next three years.

9. Statutory Criteria: All Statutory Criteria have been or will be met (See Annex III).

10. Views of Country Team: The Country Team places this loan project as its highest priority in view of its effects in promoting a resurgence of competitive private enterprise which will bring about the beneficial economic results described under points 4 and 7.

11. Issues: The issues faced during preliminary and intensive review are summarized as follows (See Part Two, Section IV, for a more detailed discussion):

- a) GODR/Central Bank Contribution - The IRR indicated that it would be difficult to negotiate a matching contribution from the GODR and AID/W set an absolute minimum of \$2.4 million. However, to assure sufficient peso resources prior to the heavy rollovers in CY-1971, the USAID has negotiated a \$5 million peso equivalent contribution with the Central Bank. (Copy of letter from Central Bank agreeing to this contribution is included in Part Three, Annex II, Exhibit A .) In addition, we will require that the Central Bank provide whatever additional local

resources are necessary to carry out the program.

- b) The Law on Industrial Incentives and Protection could act to reduce demand for FIDE loans and slow industrial growth in the Dominican Republic - The USAID has closely examined the Industrial Promotion Law and is of the opinion that certain of its clauses may have a detrimental effect on the rate of industrial growth along the most efficient lines. However, for the reasons set out in Part Two, Section IV, we recommend against negotiating for changes as a condition for this loan.
- c) IIS Report on FIDE operations - A recent report (March 31, 1969) by the Inspections and Investigations Staff of AID indicated that there were some weaknesses in loan administration by the Central Bank and in the USAID's monitoring procedures. We have reviewed the report's findings in detail, as is more fully discussed in Part Two, Section IV, and are acting to correct the weaknesses.
- d) Competition of the FIDE with the A.I.D. financed Financiera Dominicana - There is little question that a contributing factor to the relatively slow start of the Financiera is due to the dynamism and competitiveness of the FIDE system. It is the USAID's opinion, however, that the Financiera has sufficient flexibility to compete as it can (1) offer lower interest rates in view of the 2-1/2% interest charge on its A.I.D. loan, (2) take equity positions, and (3) provide longer terms than the commercial banks. Furthermore, the Financiera is eligible to use FIDE for financing local costs of projects.

12. Loan Administration: The disbursement and procurement procedures are well established and no changes are anticipated from the first loan.

Disbursements will be made through the Letter of Commitment - Letter of Credit procedure. Once conditions precedent are met, the Central Bank will request A.I.D. to open a letter(s) of commitment in a US bank(s) in favor of the Central Bank. Once the end-borrower is ready to place a firm order with a US supplier, the intermediary will request the Central Bank to authorize a commercial letter of credit to the supplier.

All of A.I.D.'s procurement policies will be adhered to. The small business requirement would be met by making a general announcement concerning the loan, its purposes and the role of the Central Bank. It is recognized that sub-borrowers may have already selected the supplier based on previous solicitations, necessity for standardization and local dealer services. Similar to the first loan, the Central Bank will be required to make this A.I.D. service known to each sub-borrower who will procure items under the loan from the United States.

13. Recommendations: On the basis of the conclusions of the Project Committee and the USAID that the Project is technically, economically and financially justified, it is recommended that a loan to the Government of the Dominican Republic for an amount not to exceed \$8 million be authorized subject to the following terms and conditions:

- a) The Borrower shall repay the Loan to A.I.D. in United States dollars within forty (40) years from the first disbursement of the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the Loan interest of two percent (2%) per annum during the grace period herein above mentioned and three percent (3%) per annum thereafter.
- b) Equipment, materials and services financed by the Loan shall have their source and origin in the United States.
- c) Loans by the intermediaries shall be made in accordance with an agreement between the Borrower and Central Bank, as approved by A.I.D., and as it may from time to time be modified in a manner mutually satisfactory to A.I.D. and Borrower. (Annex II, Exhibit J, Pg. 43.)
- d) Except as A.I.D. may otherwise agree in writing, the Loan will not be used in projects which result in the increased production for export of food or feeds which are in United States or world surplus, nor will the Loan be used in projects resulting in the increased production of non-food or feed agricultural products in world or United States surplus and the Loan will not be used to finance new or increase the production of existing cotton textile enterprises.

- e) Except as A.I.D. may otherwise agree in writing, the Loan shall not be used to finance a loan by the Bank to an Intermediary for a project sub-loan:
- i. which is either all or in part for working capital purposes;
 - ii. where private sources of financing are available on reasonable terms and conditions;
 - iii. where the amount of financing from this Loan is more than two hundred fifty thousand dollars (\$250,000);
 - iv. where the amount of financing from this Loan is more than fifty percent (50%) of the total cost of the sub-project; or
 - v. where such financing would cause the Bank's total assistance to any single enterprise to exceed five hundred thousand dollars (\$500,000).
- f) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Project Committee:

Coordinator: KDavidson *(K)*
 Loan Officer: RBobel *(RB)*
 Industry Officer: JRiley *(JR)*
 Financial Analyst: DWalls *(DW)*
 Economist: WWhiting
 Legal Counsel: David Elliotson
 Controller: MGren *(M)*

Principal Drafters:

RBobel *(RB)*
 KDavidson *(K)*

PART TWO

SECTION I - NATURE OF THE PROJECT

A. Project Description and Objectives

The proposed loan would provide \$8 million of additional A.I.D. funds to the Government of the Dominican Republic (GODR) for the Fondo de Inversiones para el Desarrollo Económico (FIDE), administered by the Central Bank, to cover part of the US dollar costs of high priority sub-projects in the private sector of the Dominican economy. The A.I.D. loan would be used to finance the creation, expansion, and more efficient operation of private industrial, agricultural, transportation, mining, medical and service enterprises in accordance with the following priorities established by the Central Bank:

1. the diversification and promotion of export earning enterprises;
2. the elimination of production bottlenecks related to exports;
3. import substitution; and
4. the production of domestic goods and services in short supply.

The proceeds of the loan would be used to help finance necessary fixed investments by the end-borrowers. The working capital and costs of land, structures and buildings required for the sub-projects would be financed out of local resources.

In order to assure a sufficient dispersion of funds, AID would normally not permit its funds to be used in sub-projects where the Bank's total assistance to any single enterprise exceeds \$500,000. Exceptions would have to be approved by AID in writing, on a case by case basis.

The Central Bank, in addition to administering the A.I.D. loan, would also be responsible for administering the other resources of the F.I.D.E. F.I.D.E.'s fund are made available to the private sector through financial intermediaries (commercial banks, state development banks and private financieras). The credit risk of the sub-loans passes to the intermediaries but they are not responsible for maintenance-of-value with the dollar. The latter is the responsibility of the Dominican Government (GODR).

The principal objective of the loan and the project is to assist in expanding the availability of medium and long-term credit to the private sector in selected priority areas. The results should provide for improvements in the balance of payments, increased revenues to the Government, increased business competition leading to more competitive consumer prices and increased employment opportunities.

B. Background

The private sector in the Dominican Republic has not had an opportunity to develop under competitive conditions, until recently, due to the Trujillo dictatorship and the ensuing political turmoil which culminated in the 1965 civil war.

In 1962, after the fall of Trujillo, the GODR acquired his properties and businesses including the sugar industry. These enterprises then represented 60% of Dominican Industry and perhaps as high as 15% of all commercial businesses.

Today, while GODR involvement in the industrial sector remains heavy, its percentage of the total in that sector is diminishing due to increased investment activity on the part of the private sector since 1966. From time to time the GODR has suggested the possibility of selling some of its interests in business to the private sector only to be met by opposition from the press and other vested interests. Recently a method has been established to put shares of public corporations into private hands by paying for privately held lands with shares of stock from GODR held businesses. This method is not primarily to transfer ownership to private hands, but to make more land available for the land reform program.

Nevertheless, private investment continues to grow as exemplified by such projects as Falconbridge \$160 million; Industrias Portela \$1.7 million; Envases Antillanos \$1.5 million and Fertilizantes Santo Domingo \$1.2 million. Of significant importance are the medium (US\$ \$500,000 to 1,500,000) and small (under U.S. \$500,000) new industries and expansions that have been brought into being by the GODR's Investment Fund for Economic Development (FIDE).

FIDE was established when AID and the GODR, as a result of discussions in 1964 and early 1965, decided that the private sector, within the framework of available resources, could best be assisted by the establishment of a private investment fund modeled to some extent on other successful AID-supported PIFs.

The Loan Agreement (No. 517-L-007) establishing FIDE was signed on April 12, 1965 by AID and the GODR. The Loan Agreement provided U.S.\$5 million for the creation of FIDE and placed it under the administration of the Central Bank of the Dominican Republic. The FIDE made medium-term credit available to investors through the Dominican commercial banking system. The AID loan was matched by a \$5 million loan from IDB signed on May 19, 1966, which provides credit funds for essentially the same basic purposes as the AID loan, and by a \$5 million counterpart contribution by the GODR.

The FIDE encountered considerable difficulty in making the loan operational, due, in large part, to the 1965 revolution and its aftermath. The most significant problems involved the organizational structure of the FIDE and the development of sub-lending procedures acceptable to the banking system and AID. However, the FIDE department of the Central Bank has become an effective analysis and control group for medium and long term credit projects.

As a result of the initial difficulties the first AID sub-loan was not made until June 1966. By August, 1968 the entire AID portion of the FIDE financing was fully committed. Disbursement of the IDB portion has been somewhat slower because of a higher interest rate (4% vs. 1% for AID funds), but nevertheless is totally committed. Both the IDB loan and the AID loan have been effective in relieving pressure on the expansion efforts of the private/commercial sector which have resulted from its limited access to foreign exchange.

The success of the AID-FIDE project can be demonstrated by the following data (covering the period from June 1966 to December 1968):

a) Number of sub-loans	55
b) Total Investment	\$13.6 million
c) Amount provided by AID loan funds (including sub-loans made with rollover funds)	\$ 5.1 million
d) Amount provided by private sector	\$ 8.5 million
e) Direct jobs created	1313
f) Estimated net import substitution	\$ 7.5 million
g) Estimated export earnings	\$ 1.5 million

By themselves these figures cannot convey the developmental effect of the FIDE. Of the 55 sub-loans made with AID funds, 20 were for new projects, many of which have had a substantial and positive impact upon the country's economy. In several sectors (fertilizer mixing, paint manufacture, granite tile manufacture) industries established with FIDE assistance have broken semi-monopolies and as a result have substantially reduced prices to the consumer.

For a complete breakdown of AID- financed sub-loans by company, date, activity, location, investment, dollar and local currency costs, new jobs, import substitution and intermediary institutions see Annex II, Exhibit B.

The effects of the total FIDE operation from May, 1966 to March 1969, including AID - IDB - FIDE and private sector inputs are very impressive:

Loans approved	218
Total Investment	\$ 30.8 million
Private sector input	\$ 17.2 million
FIDE LOANS	\$ 13.7 million
Import Substitution	\$ 15.5 million
Jobs Created	4,631
Increase - Hospital beds	516
Increase - Student capacity	5,097
Increase - Hotel rooms	54

Annex II, Exhibit C, contains statistical tables on total FIDE operations. They show that loans approvals, on a month to month basis, appears to be tapering off in 1969. This is only because FIDE's resources are exhausted. Geographically the loan funds are concentrated in Santo Domingo and Santiago, with 75% and 16% respectively by value. It is not expected that this pattern will change substantially in the near future although industrial incentives are provided for decentralization. Manufacturing activities have used 73.7% of the funds and health facilities 14.3%, most of the latter being provided by the GODR.

The statistics also show that of the 218 loans outstanding, three intermediaries have channeled 204 loans and six have channeled 14 loans. The active intermediaries have established operating divisions to provide development banking services, whereas the others (largely foreign owned commercial banks) have preferred to concentrate on purely commercial banking. Two foreign banks are planning to participate more actively in FIDE operations and are adding staff for this purpose. In the course of the intensive review all banks were interviewed to ascertain, among other things, if the flow of funds was deliberately directed toward certain institutions. Assurances were given that this was not the case.

It is USAID's opinion that this is one of the most successful projects in the USAID/DR loan program. The objectives of the loans are being met. The borrower has complied satisfactorily with the conditions and covenants of the first loan, 517-L-007. Not one loan is delinquent. The checks and balances provided by AID - IDB - GODR and the banking system assures effective project development and loan monitoring. A good system has been institutionalized and a pool of development banking skills has been created.

In view of the success of the first loan, the CODR submitted a formal application for \$5.0 million of additional funds in April, 1968 which was subsequently updated and increased to \$10.0 million in early 1969. An IRR for \$10.0 million--\$5.0 million for general industrial and agricultural development and \$5.0 million for tourism development - was forwarded to AID/W under TOAID 194 of 4-14-69. LA/CAEC approved the \$5.0 million industrial/agricultural portion for intensive review and the tourism portion is pending further study and policy determinations. Intensive review approval was forwarded to USAID Santo Domingo under State Telegram 072002 received May 8, 1969, included in Annex I, Exhibit A.

Our intensive review has shown that the demand for FIDE financing justifies an \$8.0 million loan to the CODR. Projects requiring financing by the FIDE system over the next 12 months (FY 70), are estimated at more than \$13.0 by the Central Bank. The demand is discussed more fully in Part Two, Section II-B.

We believe the present demand for funds to finance local tourism can be covered within the context of the present FIDE operation.

USAID management has reviewed this CAP prior to submitting it to AID/W and are in accord with the findings and conclusions.

C. Program Justification

1. Place of Project In Country Program

The A.I.D. Program is concerned with maintaining an economic environment conducive to political stability and development which implies maintaining a growth rate above stagnation and as close to the Alliance target of 2 1/2 percent per capita as possible, avoiding a balance of payments crisis, trying to reduce unemployment and providing the structural base for more rapid development. This primary A.I.D. economic objective has evolved from the massive public works program carried out after the Revolution to a program designed to stimulate the dynamic sectors of the economy--agriculture and industry.

The proposed FIDE Loan is a key project in support of the USAID short run economic objective as it will facilitate investment, growth and employment within the context of fiscal and monetary restraint which are required by the present balance of payments situation. In the longer run, projects financed through FIDE should help reduce the balance of payments problem and its constraint on economic growth as well as to strengthen a relatively weak entrepreneurial class.

2. Impact on U.S. Economy

The \$8 million A.I.D. loan as well as all but \$100,000 of the \$7 million IDB loan will be used for purchases in the United States. This combined amount of \$14.9 million constitutes the entire FIDE foreign ex-

change requirements for the next three years. In view of the advantages of financing through FIDE as compared with alternative sources - including such considerations as terms, interest rates, maintenance of value, and availability of financing - there is little question that additionality of U.S. exports to the Dominican Republic will result. Furthermore, the procurement of U.S. equipment under these loans will result in continued procurement from the U.S. for spare parts and, in most cases, replacement of machinery.

For these reasons, we conclude that the impact of the loan on the U.S. economy will be very favorable.

3. Consistency with the CIAP Reviews

The recommendations and conclusions of the recent CIAP Review included comments on the "very effective work of FIDE in financing new industrial projects" and on the need to "assure the prompt refinancing of FIDE with internal and external resources." Also noted was the need to continue pursuing a policy aimed at promoting exports and import substitutes using national raw materials in accord with the industrial incentive law and to orient FIDE and FOMENTO in accord with the same criteria. Thus, the proposed FIDE Loan is fully consistent with the CIAP conclusions and recommendations and has been structured in such a way as to provide incentives for export and import substitute projects which have a high level of value added.

4. Certification of USAID Director

In view of the demonstrated capability of the Borrower's (GODR) implementing agency (Central Bank) and the experience to date with FIDE the Director/USAID/DR has certified that the required human, financial and other resources are available to carry out the project. This certification is included as Annex I, Exhibit B.

SECTION II - PROJECT ANALYSIS

A. The Borrower and Implementing Agency

The Borrower would be the GODR and the implementing agency the Banco Central de la Republica Dominicana (BCRD). The BCRD is located in Santo Domingo and is an autonomous agency with the power to contract. Its prime objective is to manage the fiscal and monetary policy of the country. It is governed by a Monetary Board of seven members composed of the Governor, the Minister of Finance and 5 representatives of the private sector. The Governor is the chief executive officer seconded by the General Manager.

The Department of International Agreements (DIA) was established by the BCRD on April 7, 1965 to manage financial agreements with international agencies. It has divisions for project analysis, loan administration and international financial relations and a staff of 23, of which 18 are professionals. The project would be carried out by DIA.

FIDE was established on April 14, 1965 as a fund of indefinite duration. It does not have a statutory base or legal powers. These are vested in the BCRD and the FIDE is administered by DIA, as a department of the BCRD. The prime objective of the FIDE is development financing to promote economic development. (See Part Three, Annex II, Exhibit D, for complete description of BCRD and FIDE.)

Since the BCRD cannot legally make loans to the public the FIDE channels its resources through the banking system of the country.

There are presently ten eligible intermediary institutions in the Dominican Republic, seven commercial banks, a private finance corporation, an agricultural bank and an industrial development bank. The latter two and one of the commercial banks are owned by the Dominican Government. The intermediaries have shown varying degrees of interest in the project. A short resume of each institution follows:

a) The Chase Manhattan Bank

The Santo Domingo main office was established in 1962 and one branch office also operates here. There is a branch in Santiago.

b) First National City Bank

This bank has two offices in Santo Domingo and one branch in Santo Domingo and one branch in Santiago. It was established in 1962. The Manager has contracted for development banking talent and plans a more active participation in FIDE.

c) The Bank of Nova Scotia

This bank was established in Santo Domingo in 1920. It has two additional branches.

d) The Royal Bank of Canada

The Santo Domingo main office was opened in 1912 and there are four other branches here. It has seven other branches in the country.

e) Banco Popular Dominicano

This is the only privately owned Dominican Bank. It has approximately 856 Dominican shareholders who own in excess of 80% of the stock. The balance is owned by four Puerto Rican stockholders. It is the first publicly held Dominican company. Although it has only been in existence since August of 1963, the project committee was favorably impressed by its management. It has a Santo Domingo office and six branches elsewhere in the country. It also has six agencies, of which 5 are in Santo Domingo and one in Santiago. Banco Popular of Puerto Rico, the largest Puerto Rican bank, furnishes this bank with technical assistance. A staff of seven professionals manages the FIDE operations.

f) Banco de Reservas de la Republica Dominicana

This is a state owned bank with its principal office and two branches in Santo Domingo. Nine branches are spread throughout the country. There are also four agencies in Santo Domingo and 20 in the rest of the country. This bank plays an active role in FIDE operations and has a professional staff of 5.

g) Banco Agricola de la Republica Dominicana

This is the government owned agriculture bank. It is not a commercial bank and does not take deposits. Its funds come from state contributions, short-term loans from the Central Bank, and long-term loans from international agencies; e.g., A.I.D. and IDB. It is not expected to participate actively in the Fund.

h) Corporación de Fomento Industrial or Industrial Development Corporation (IDC)

This state owned company was chartered in 1962. It is the only existing industrial development bank.

i) Compañía Financiera Dominicana

This was founded in 1968 with principal offices in Santo Domingo

j) Bank of America

This bank purchased the Banco Nacional in 1968 and is planning an active participation in the project. It is located in Santiago.

B. Economic Evaluation

1. Project Contribution to Country's Economic Development. The Dominican Republic's current situation with respect to budget operations, the balance of payments and economic growth have been recently described and analyzed in the Country Assistance Strategy Paper (CASP). Further data and analysis are contained in the semi-annual trends report (A-45 of February 8, 1969) and a series of reports on developments in the balance of payments, money supply, Central Bank operations, fiscal operations, prices and wages, the latest of which is A-192 of June 2, 1969. In addition, a current, interim revision of the Embassy's balance of payments estimates for 1964 and 1966-1968 and a projection for 1969 are provided in Annex II, Exhibit E.

The economic justification for the FIDE project was, and is, based upon the constructive effect of long term credit availability on a number of high-priority economic objectives of the GODR:

- a) to reduce the negative balance of payments problem by providing long term credit (otherwise not available in the country) to encourage accelerated private investment in:
 - i. import substitution projects
 - ii. production for export
- b) to reverse the flight of capital from the country.
- c) the reduction of consumer prices.
- d) to reduce the serious unemployment problem by creating

direct new job opportunities through the establishment or expansion of industrial plants, agricultural, mining and transportation projects as well as new indirect jobs in ancillary and service enterprises.

The FIDE has been and will continue to be an important source of investment funds in the context of the policies of monetary and fiscal restraint being followed by the Balaguer Government. Money supply (defined as currency in circulation plus all sight deposits except those of the Central Government) in 1966 and 1967 was held below the 1963 and 1964 levels. The average 1968 level was only 5.1 percent over the 1966 level. The Central Bank has tried to limit loans and discounts to non-Central Government borrowers to an amount necessary to meet seasonal requirements and emergency bank problems. After deducting new loans outstanding to Banco Agricola for its price stabilization program, it appears that credit to the non-Central Government sector expanded by only 5 percent in 1968. New Central Bank credits to the Central Government have been limited to about RD\$5 million a year - a moderate amount in comparison with domestic budget receipts of RD\$191 million in 1968. The ability of banks to lend has also been restrained by the high basic reserve requirement of 50% on sight deposits and 30% on savings and time deposits. Increases in deposits above the March 3, 1967 level are subject to a complicated marginal reserve requirement system that is even more restrictive until banks are in a position to redirect their portfolios to include more loans to the productive sector (including a high percentage of loans of more than one year term) and less to the commercial sector than were held by banks in March, 1967. (The required reserve system is summarized in Annex II, Exhibit F.) Thus far, only the newly admitted Bank of America is on the new, "unified required reserve system" which requires lower reserve levels but a less flexible portfolio. The remaining banks are reluctant to switch to the new system without Central Bank discounts to provide greater flexibility.

In these circumstances FIDE money has been an important source of funds for commercial bank loan expansion. The picture of growth in bank loans outstanding is obscured somewhat by the Banco de Reserva's acceptance, in June 1967, of Government-owned shares in Banco Agricola as repayment of old loans (to the State Sugar Corporation) that had been taken over by the Government. Deducting the \$27.7 million of these credits from total bank loans outstanding at the end of 1966 provides a more accurate view of the trend in bank loans. From the adjusted base of RD\$96.8 million on December 31, 1966, total bank loans outstanding grew by 16.9% in 1967 to RD\$113.2 million and a further 33.6% in 1968 to RD\$151.2 million. Loans to the private portion of the "productive sector" (industry,

agriculture, construction and repairs) grew from RD\$38.3 million at the end of 1966 to RD\$54.7 million in December, 1967, a 42.8% increase and to RD\$74.4 million at the end of 1968, a further 36.0% increase. FIDE has provided about one third of the RD\$36.1 million increment in loans outstanding to the private productive sector from 1966 to 1968.

The base for most of the rest of bank loanable funds has come from rapid increases in sight, time and savings deposits while currency in circulation has declined. This process reflects increasing profits, growing confidence in banking and more and improved banking facilities since banks in downtown Santo Domingo were closed during the 1965 conflict. The movement out of cash and into deposits that is attributable to a return to a more normal cash/deposit ratio following the 1965 conflict may now have ended. Further increases in bank deposits are likely in 1969, but they may not be as great as in the past two years.

The impact of future FIDE operations on the balance of payments resulting from this proposed loan is best indicated by data already available on past operations and by projections for several large investments recently financed by FIDE (See Annex II, Exhibits E&C.) These data indicate that the net foreign exchange gain from FIDE financed industries is already being felt and should be very considerable from 1969 forward.

2. Demand for Development Financing. Following the revolution, problems of staffing, developing credit evaluation criteria and application-processing procedures were quickly overcome. As the commercial and development banks gained experience in the use of the FIDE, the volume of loans approved increased quite rapidly from June, 1966.

Loan approvals have averaged over five million in every full year of operation in spite of expected delays and problems in the start up period as well as the declining trend due to the exhaustion of the fund.

The management of FIDE assured the project committee that there are ample projects in the pipeline to be financed during the rest of 1969 and the first six months of 1970, as follows:

<u>Status</u>	<u>Loan Request</u>	<u>Total Investment</u>
Loan applications under final review by FIDE	\$2.7MM	\$7.3MM
Loan applications under final review by intermediaries not yet submitted to FIDE	3.3MM	10.4MM
Loan projects produced by FIDE consulting firm and actively being promoted	1.9MM	3.7MM
Loan projects under preliminary review by intermediaries	<u>5.2MM</u>	<u>11.2MM</u>
	\$13.1MM	\$32.6MM

Detailed lists of these projects are shown in Annex II, Exhibit G.

The project committee carried out extensive interviews with the intermediaries to assess the status of the demand for financing and the investment climate. Our best estimate of projects to be financed for the next twelve months are:

<u>Institution</u>	<u>Loan Projects to be financed</u>
Banco Popular	\$4.4MM
Banco de Reservas	3.1MM
Corporación de Fomento Industrial	3.2MM
Financiera Dominicana	2.2MM
Chase Manhattan	1.5MM
First National City Bank of N.Y.	0.3MM
Royal Bank of Canada	0.4MM
Bank of Nova Scotia	0.3MM
Banco Agricola	0.2MM
Bank of America	<u>0.4MM</u>
Total	\$16.0MM

Lists of the above projects were forwarded to the project committee by the intermediaries and are attached as Annex II, Exhibit H.

It is interesting to note that the demand estimated by FIDE management is more conservative than that of the intermediaries' management (\$13.0MM vis a vis \$16.0MM). Also, the demand for lending by intermediaries closely follows the pattern of the use of FIDE to date. This pattern clearly indicates that those banks which have installed development banking divisions have much greater volume. The Bank of America and the National City Bank of New York have added staff to use more of FIDE resources in the future, which could stimulate increased activity by the other commercial banks.

Informal checks with businessmen indicate that many have plans for expansion or new projects. This is a potential demand not yet known to the intermediary or FIDE. The fear of piracy of investment plans might be the cause for maintaining a low profile until projects are well underway. An estimate of this potential demand is not feasible.

The banking community and the entrepreneurs interviewed reflected cautious optimism and confidence in the present investment climate. They are moving ahead with their projects.

In conclusion, the project committee believes that \$8.0 million in additional A.I.D. loan funds would be effectively used by FIDE. Based on the experience with the first \$5.0 FIDE loan, the proposed loan would be used in the following manner:

<u>Sectors</u>	<u>%</u>	<u>US \$ Amount</u>
Industry	75	\$6,000,000
Agro-Industry	10	800,000
Transportation	5	400,000
Mining	4	320,000
Services	3	240,000
Health Services (Private Clinics)	3	240,000
	<u>100</u>	<u>\$8,000,000</u>

C. Financial Analysis

1.- Funding Requirements and Sources-

The A.I.D. loan of \$8 million would form part of total new injections of \$20 million to F.I.D.E. to cover its foreign currency needs and a part of its peso needs during the final months of CY 1969 and during CY 1970, 1971 and 1972. In addition to these funds F.I.D.E. will be able to rollover recuperations from past loans with the exception of amounts due to service the previous AID and IDB debts. The financial resources available to cover the projected program of some \$30 million is presented in tabular form below:

<u>Source</u>	<u>U.S.\$</u>	<u>Peso</u>	<u>Total</u>
AID	8.0	-	\$8.0
IDB	6.9	0.1	7.0
Central Bank	-	5.0	5.0
Repayments (minus debt service)	-	10.0	10.0
	<u>\$14.9</u>	<u>\$15.1</u>	<u>\$30.0</u>

During the three-year disbursement period of the AID and IDB loans, the Central Bank estimates sub-loan disbursements to increase from \$8.8 million to \$9.5 million to \$11.1 million. Even at the end of that period the accumulated repayments, minus debt servicing, and earnings of the F.I.D.E. operation will permit it to maintain a yearly average of approximately \$7.5 million in new sub-loans through 1978. An important factor for this is the ten-year grace periods on the two A.I.D. loans. (The projected Cash Flow, Balance Sheets and Profit & Loss Statements for F.I.D.E. covering the ten-year period from 1969 through 1978 are presented in Annex II Exhibit I).

No local currency financing is required from either the AID or IDB loans. Sub-loans are expected to average about a ratio of one to one between dollars and pesos, and the peso requirements will be fully covered by the new \$5 million contribution of the Central Bank plus some \$10 million of recuperations from previous loans.

2.- Financial Position-

Following are the Profit and Loss Statements covering FIDE's first three-years of operations for the periods ending December 31, 1966, 1967 and 1968.

	(Equivalents in US\$)		
Operating Income	1966	1967	1968
Loan interest	630	21,973	164,258
Interest earned during grace period	-	118,809	181,422
Commission for late withdrawal	-	3,701	-
TOTAL	630	144,433	345,630
Operating Expenditure			
Interest on AID loan	312	11,476	33,274
Interest and other charges on IDB loan	17,055	53,750	103,850
Inspection and supervision (IDB)	-	7,500	10,000
Technical Assistance (ICAITI)	-	-	38,275
Administrative expenses	24,899	64,585	83,570
Promotional expenses	625	1,877	4,210
Technical assistance expenses	-	-	291
General expenses	-	15,149	25,467
TOTAL	42,891	154,337	303,937
Net surplus (deficit) for the year	(42,261)	(9,854)	41,643

In view of the low levels of sub-lending during the first year of operation, income was insufficient to cover administrative expenses, resulting in a loss equivalent to US\$42,261. Increased lending brought the loss for 1967 down to \$9,854. In view of the fact that by the end of 1967 sub-loans had reached a sufficient volume so that interest due would exceed the administrative expenses, there was a net profit of \$41,743 during 1968 which reduced the cumulative deficit to only \$10,372 and improved the current financial position. The projections for 1969 show a profit of \$146,000 which increases year by year to a level of \$611,000 by 1973. Particularly noteworthy is the fact that the sub-loan portfolio is 100% up to date. The reason is that under the collection procedures applied to loans made from FIDE resources, the Central Bank, on the due date for any installment of such a loan, automatically debits the account of the appropriate intermediary institution for the amount of principal and interest due and credits the same amount to FIDE. With respect to the portfolios of the intermediary institutions themselves, a sample analysis shows less than 1% of payments in arrears.

The following condensed balance sheets show the financial condition of FIDE as of December 31, 1966, 1967 and 1968.

(Equivalents in thousands of US\$) ^{1/}

Assets	1966 ^{2/}		1967		1968	
	\$	%	\$	%	\$	%
Current	39.3	5.7	237.8	4.2	1,654.3	14.6
Short-term receivables	2.0	0.3	8.9 ^{4/}	0.2	5.5 ^{4/}	0.1
Long-term receivables ^{3/}	<u>643.3</u>	<u>94.0</u>	<u>5,406.4</u>	<u>95.6</u>	<u>9,596.2</u>	<u>85.3</u>
	<u>684.6</u>	<u>100.0</u>	<u>5,653.1</u>	<u>100.0</u>	<u>11,256.0</u>	<u>100.0</u>
<u>Liabilities</u>						
Short-term	424.9	62.1	1,020.7	18.0	1,252.4	11.1
Long-term	300.0	43.8	4,684.5	82.9	10,009.2	88.9
Deferred Retained Earnings (Deficit)	2.0	0.3	-	-	4.7	-
	<u>(42.3)</u>	<u>(6.2)</u>	<u>(52.1)</u>	<u>(0.9)</u>	<u>(10.3)</u>	<u>-</u>
	<u>684.6</u>	<u>100.0</u>	<u>5,653.1</u>	<u>100.0</u>	<u>11,256.0</u>	<u>100.0</u>

The above comparative balance sheets show that the total assets of FIDE amounted to \$684,583 at the end of December, 1966, increased to \$5,653,165 in December, 1967, and rose further to \$11,256,000 in December, 1968. The increase to just over sixteen times the December 1966 figure in such a short period of time reflects vigorous activity in the loan portfolio of the FIDE. Of particular note is that in all three years between 85% and 95% of the assets were applied to long-term credit operations authorized by the FIDE.

- ^{1/} Rate of exchange: US\$1 = RD\$1.
- ^{2/} The FIDE began operations on May 1, 1966.
- ^{3/} Long-term receivables are the amounts actually disbursed and outstanding.
- ^{4/} As of December 31, 1967 and 1968, short-term receivables include an amount of US\$93 which appears in the balance sheets of FIDE under "Other Assets".
- ^{5/} Includes the equivalent of US\$33,275 for technical assistance to be provided by the Central American Institute for Industrial Research and Technology.

Certain factors emerge from an analysis to date of the FIDE operation:

- 1) its liquidity position is satisfactory;
- 2) its loan portfolio shows a very satisfactory degree of collectibility and an absence of arrears;
- 3) operating expenses represent a satisfactory ratio of 1.3% of outstanding loans;
- 4) the net losses suffered from the start of operations in May 1966 to December 31, 1967 are normal in amount and are attributable solely to the low volume of disbursements made to borrowers; and,
- 5) the training obtained through the technical assistance of ICAITI and the experience acquired have resulted in a substantial improvement in capacity to process loan applications, with a total of 78 operations in 1968.

SECTION III - LOAN ADMINISTRATIONA. Project Execution

Following the Loan Authorization, which is expected in June, 1969, the USAID Capital Development Office and Legal Counsel respectively will prepare Implementation Letter No. 1 and the Loan Agreement. As the new USAID Counsel is not expected to arrive at post until September, 1969, the USAID will request either the TDY services of an AID/W lawyer or preparation of the draft Agreement in AID/W. As the principal covenants and conditions of the new loan have been discussed with the Central Bank during the course of intensive review, and as most of them conform closely to the conditions of our previous loan, no delays are foreseen in negotiation of the loan documents.

It should be pointed out, however, that the AID loan, as well as the IDB loan, must be formally approved by the Dominican Congress. As the Congress is recessed until August, such approval is expected in either August or September. No delays are foreseen in the approval of either loan as the ruling coalition holds a majority in each of the chambers. We expect the Loan Agreement to be signed in September, 1969 and, in view of the similarities with the first AID loan, the conditions precedent should be met within a maximum of 60 days after signing. Thus, disbursements under the AID loan should begin in November, 1969. See Part Three, Annex II, Exhibit J, for Contract of Administration (Trust Agreement) between the GODR and the BODR.

As the first AID loan as well as the IDE loan have been fully committed there are no available sources of foreign currency for new commitments under the FIDE. Thus, we would recommend that AID agree to reimburse the Central Bank for all eligible project dollar costs from sub-loans approved after the date of the Loan Authorization.

As the Central Bank cannot make loans to other than financial institutions, primary responsibility for the rate of use of FIDE funds rests with the financial intermediaries. Sub-borrowers make applications to the latter which, if approved, are passed to the Central Bank. Once the latter reviews and approves the sub-project a loan document is signed with the intermediary. The latter is then free to sign a loan agreement with the end-borrower. The processing time varies with the quality of the loan proposal and generally takes a longer time at the Central Bank - in many cases as long as two months - than at the commercial banks. (The reason for this is that the commercial banks are less critical of project analysis when dealing with respected clients and are assured that the loans are fully secured. However, the Central Bank carefully studies the viability of the project itself).

With greater experience under the program, including development banking seminars with personnel from the intermediaries, the processing time should be reduced.

In view of the present rate of new project development described previously, it is expected that the AID loan will be fully committed by December 31, 1972, or some three years after loan signing. The loan should be fully disbursed by June 30, 1973.

Technical assistance - No technical assistance is recommended under the present loan in view of the fact that the IDB has allocated \$150,000 for such purposes under its loan. It is anticipated that the present contract with the Instituto Centroamericano de Investigación y Tecnología Industrial (ICATTA) will be extended. The Technical assistance would consist in (1) advice, assistance and training of counterpart personnel of the Central Bank and the intermediary institutions in identification, selection, preparation and evaluation of projects and (2) assistance to the end-borrowers in machinery installations, productivity improvements, etc.

B. Loan Monitoring

The Industrial Development Division of the USAID would have the primary monitoring responsibility for the USAID, including the day to day contact with the Central Bank and intermediaries. It would also be in charge of inspection of end-borrower facilities to assure proper use of AID loan funds. It should be pointed out that the effective procedures developed under the first loan will be continued under this loan.

The Capital Development Office would be responsible for general project coordination and maintain close contact with the Industrial Development Division, Controllers Office, the Legal Counsel and, to the extent necessary, the Engineering Development Division. The USAID is fully capable of adequately monitoring this loan.

C. Disbursement and Procurement Procedures

It is anticipated that both the reimbursement and letter of commitment/letter of credit procedures will be used to disburse AID funds. Once conditions precedent are met, the USAID will reimburse the Central Bank for all eligible dollar costs incurred from the time of Loan Authorization. Subsequent disbursements will be made under AID letters of commitment.

At the request of the Central Bank, A.I.D. will open one or more letters of commitment, in a US bank or banks, in favor of the Central Bank. Once the end-borrower is ready to place a firm order with a US supplier, the intermediary will request the Central Bank to authorize a commercial letter of credit to the supplier. The Central Bank will request a copy of the letter of credit for itself and for the USAID.

All of A.I.D.'s procurement policies will be adhered to. However, requiring a separate publication for each loan would help neither the U.S. businessman nor the sub-borrower. In most cases the equipment will be selected in accordance with the necessity for standardization, local dealer services, confidence in a particular line, etc. '

This has been A.I.D.'s experience with the first FIDE loan and other ICT loans. Therefore it is recommended that the Director/USAID/DR be authorized to waive the Small Business notification requirement when: (1) it serves no useful purpose; and/or (2) an emergency procurement situation arises. An airgram delegating this additional authority to the Director/USAID/DR will be sent once the loan is authorized, patterned after prior similar cases.

Where the Small Business Notification may serve a useful purpose to either the sub-borrower or the U.S. businessmen, the Central Bank and the intermediaries will be required to make known this A.I.D. service.

As stated before, IDB has authorized a second tranche in the amount of \$7.0 million to be used by FIDE. In view of the fact that A.I.D.'s terms are more concessional than IDB's the project committee believes that A.I.D.'s resources would be used first, thereby causing a pipeline problem for IDB. In order to assure disbursements of the A.I.D. and IDB loans as well as to assure contributions from the GODR to the FIDE, certain conditions are to be set forth in the Loan Agreement. These are set forth under the following sub-title "D. Conditions and Covenants," points 3 and 10. A.I.D. would open the initial letter(s) of commitment in an amount of \$U.S.2 million. Thereafter, a letter(s) of commitment would be opened only if the conditions had been met to assure the pari passu contributions of the GODR vis-a-vis A.I.D. disbursements and to assure the use of IDB funds on approximately a pro rata basis with those of A.I.D.

D. Conditions and Covenants

The following are the principal conditions and covenants to be included in the Loan Agreement:

1. Prior to the first disbursement under the Loan, the Borrower and Central Bank shall update the existing Contract of Administration to the satisfaction of A.I.D. Loans by the Intermediaries shall be made in accordance with such agreement, as approved by A.I.D., and as it may from time to time be modified in a manner mutually satisfactory to A.I.D. and Borrower.
2. Prior to the first disbursement under the Loan, Borrower shall show evidence of arrangements, satisfactory to A.I.D., of a seven million dollar (\$7,000,000) loan to the Government or the Central Bank from the Inter-American Development Bank (IDB) for the FIDE.
3. Prior to the issuance by A.I.D. of any letter(s) of commitment under the Loan, Borrower shall show evidence, satisfactory to A.I.D., of an undertaking by the Central Bank to contribute not less than the equivalent of five million dollars (\$5,000,000) for the FIDE on a pari passu basis with disbursements under the A.I.D. loan. As a condition precedent to A.I.D.'s obligation to issue any letter(s) of commitment under the loan subsequent to the initial letter(s) of commitment thereunder, Borrower shall submit to A.I.D. evidence satisfactory to A.I.D. that the Central Bank is in compliance with the undertaking to contribute funds for the FIDE on a pari passu basis with disbursements under the A.I.D. loan. (See Section III-C for rationale.)
4. Equipment, materials and services financed by the loan shall have their source and origin in the United States.
5. A.I.D. will agree to reimburse the Central Bank, once conditions precedent are met, for all eligible costs of sub-loans approved by the Central Bank after the date of the Loan Authorization.
6. Except as A.I.D. may otherwise agree in writing, the Loan will not be used in projects which would result in the increased production for export of foods or feeds which are in United States or world surplus or which would result in the increased production of non-feed or non-food agricultural products which are in world or United States surplus.
7. Except as A.I.D. may otherwise agree in writing, the Loan will not be used to finance new cotton textile enterprises or increase the production of existing cotton textile enterprises.
8. Except as A.I.D. may otherwise agree in writing, the Loan shall not be used to finance a loan by the Central Bank to an Intermediary for a project sub-loan:
 - a) which is either all or in part for working capital purposes;
 - b) where private sources of financing are available on reasonable terms and conditions;

- c) where the amount of financing from this Loan is more than two hundred fifty thousand dollars (\$250,000);
- d) where the amount of financing from this Loan is more than fifty percent (50%) of the total cost of the sub-project; or
- e) where such financing would cause the Bank's total assistance to any single enterprise to exceed five hundred thousand dollars (\$500,000).
9. Unless A.I.D. otherwise agrees in writing, the loan shall not be used to finance more than fifty percent (50%) of any sub-loan for medical facilities nor shall any such sub-loan be made without the prior written approval of A.I.D.
10. Unless A.I.D. otherwise agrees in writing, no disbursement under the loan subsequent to the first disbursement will be made which would cause the disbursements under the loan to exceed by more than one million dollars (\$1,000,000) disbursements under the second loan from the IDB. (See Section III-C for rationale.)
11. All amounts received by the Central Bank as principal repayments on loans to Intermediaries for project sub-loans will be placed in the Bank in a special account. To the extent that such payments exceed the amount of funds required to meet Borrowers payment of principal to A.I.D., the repayments will be utilized by the Bank, except as AID, Bank and Borrower may otherwise agree in writing, for relending to Intermediaries for sub-loans in accordance with the terms and conditions of this agreement, with the exception of the requirement for purchases in the United States, and the Contract of Administration between the Borrower and the Bank.
12. Should the additional funds provided to the FIDE by A.I.D., IDB ¹ and the Central Bank not be used as rapidly as projected over the three year period (1970-1972 inclusive), the Borrower agrees to review, discuss and make best possible efforts to revise existing incentive legislation for economic development, with a view toward stimulating investment.
13. Unless A.I.D. otherwise agrees in writing, the maximum interest rate charged the end-borrowers shall not be greater than ten percent (10%) and for terms of not less than three (3) years nor more than twelve (12) years, including any grace period.

¹ - IDB has authorized a \$7.0 loan, not yet signed, with an effective interest rate of 4%, repayment within 15 years, including a grace period of three and one-half years.

SECTION IV - ISSUES

The issues faced and resolved during the course of the review of this loan proposal were as follows:

A. Amount of the Contribution to FIDE by the Central Bank and/or the GODR

The IRR states that it would be difficult to negotiate a new \$5 million contribution from the GODR and indicated that, while an attempt would be made to obtain such a commitment, a contribution of \$2.4 million would be accepted as an absolute minimum. In its cable of May 8, 1969, approving the Intensive Review Request, AID/W indicated that it considered a contribution of \$2.4 million as an absolute minimum and acceptable only if the USAID were convinced that a larger contribution was not possible.

Based on these instructions, the USAID has negotiated for the recommended \$.5 million of new peso financing from the Central Bank. The Bank has formally agreed to provide this amount as is evidenced by the letter from its Governor (See Annex II, Exhibit A.) In addition, the Loan Agreement will require that the GODR provide whatever additional local resources are necessary to carry out the project.

As both the A.I.D. and IDB loans will be restricted to direct US dollar costs of sub-loans, the Central Bank contribution is important to assure a sufficient source of financing peso costs until the level of repayments from previous loans is adequate.

B. Weaknesses of Law on Industrial Incentives and Protection

The cable approval (STATE 072002) to proceed with the intensive review presents the issue as follows: "Program memorandum indicated weakness in current investment law. Should proposed \$5 million loan be used to encourage more satisfactory law? If not, will weakness current compromise objectives proposed loan?"

The law was passed on April 23, 1968 and insufficient time has elapsed to accurately measure effects. However, we have examined and analyzed FIDE's experience both prior to and since passage of the law. FIDE approved 123 loans amounting to \$6.9 million during the year prior to the passage of the law and 71 loans in an amount of \$3.9 million during the year after the passage of the law. However, this reduction was normal in view of the fact that FIDE's available resources were almost

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totally committed (A.I.D. Loan 517-L-007 of \$5.0 million fully committed by August, 1968) half way through the year. Thus it cannot be directly attributable to the Law. Furthermore, there does not appear to be any slackening in project development. The FIDE system has developed a list of 65 industrial projects, at various stages of development, requiring \$13.0 million of financing by FIDE and representing a total investment of \$32.5 million. (See illustrative list of projects to be financed in Annex II, Exhibits G and H.)

Our best analysis of the Law shows that, while it does provide certain incentives, it is also protectionist. In view of the fact that it was passed by the Dominican Congress and is supported by influential Dominican businessmen, any loan condition requiring amendments to the Law would be politically unacceptable to the GODR at this time. Furthermore, too little experience has yet been gained in implementation of the Law to corroborate opinions that the law is weak. In any event such pressures for change should come from Dominicans and not representatives of a foreign Government.

Our recommendation is to call attention to this law and other industrial incentive legislation in the first Implementation Letter. A statement should be included which would request a joint review of existing incentive legislation if A.I.D. funds were not being committed as rapidly as projected.

C. Findings of the Inspections and Investigations Staff (IIS) on FIDE Loan Administration and Monitoring

The IIS report indicates some eleven areas of irregularities. Of the eleven areas, we conclude that seven do not, in fact, show irregularities, three must be monitored, in the first instance, in AID/W, and the remaining one in the field. A summary of the principal findings, and our comments, follow:

1. Sub-loans were made for certain business activities - such as manufacture of shaving cream, deodorants, and hair tonics; manufacture of stockings; manufacture of wooden doors and kitchen cabinets, etc. - which do not appear to conform with the provisions of the Loan Agreement. (Comment: All of these sub-loans are in accordance with the Loan Agreement since each project "increases the production of agriculture, industry, mining or transportation" (Section 1.2) in accordance with the established priorities of "import substitution" (Section 1.2) or "elimination of domestic shortages" (Implementation Letter No. 12)).
2. A US supplier paid a dollar commission to a Dominican agent who, in violation of Dominican laws, did not turn in the dollars to

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the Central Bank for pesos. (Comment: This is not in violation of A.I.D. regulations; however, the Central Bank was notified in order that remedial action could be taken.)

3. Dominican sub-borrowers were required to pay customs duties on equipment financed by A.I.D. Letter of Commitment. (Comments: Duty free importation of equipment is not a requirement of the Loan Agreement and only Category A type industries received such exoneration under the Industrial Incentives Law. Our monitoring, in accordance with Section 6.9 of the Loan Agreement, is restricted to assuring that A.I.D. funds are not used to pay such duties. No evidence of the latter has been found.)
4. Personal service contracts for technical assistance were entered into with sub-borrowers for assistance in equipment installation and start-up. (Comment: In purchase of certain equipment, technical assistance for installation and start-up advice are an integral part of the purchase and is an eligible item for A.I.D. financing.)
5. Imports of several US commodities were made on foreign vessels, allegedly paid for with A.I.D. financed pesos. (Comment: USAID auditors have found no evidence of this. As funds are fungible and both A.I.D. and the sub-borrower's own funds are used for a variety of peso expenses, the A.I.D. funds in every case can be attributed to eligible peso costs. The IIS attributed them to financing foreign shipping. The problem of attribution will not arise under the new loan as it is restricted to US costs.)
6. A.I.D. financed equipment was sold by the sub-borrower to another business as part of liquidation. (Comment: A.I.D. cannot guarantee the success of the 55 sub-loans. Sale of the equipment after unprofitable operation seems to have been a rational business decision.)
7. A.I.D. financed local currency expenditures freed the sub-borrower's own funds for the purchase of third country equipment. (Comment: Section 6.2(g) provides for such purchases, without A.I.D. approval, if third country purchases are 20% or less of total project costs. Higher percentages can be purchased in third countries with non-A.I.D. funds if A.I.D. so approves. In the case cited, USAID auditors found that the expansion project did not include third country procurement although most machinery bought previous to expansion was from Italy.)

8. Equipment from Italy was paid for by AID/W although no false declaration was made. (Comment: As the supplier certificate clearly showed that the purchase was from Italy, the US bank and AID/W should have refused payment.)
9. Certain pieces of used equipment were substituted for new equipment by the US supplier. (Comment: This is an apparent case of fraud which the USAID asked IIS to investigate.)
10. A US supplier in collusion with a Dominican sub-borrower overpriced equipment to liquidate a previous debt. (Comment: This is an apparent case of fraud which the USAID asked IIS to investigate.)
11. A working capital loan was made to a sub-borrower who used the money to pay off a bank debt which existed prior to the receipt of the A.I.D. loan. (Comment: This IIS finding has been investigated and appears to be correct. The USAID will initiate a reimbursement claim.)

Our review of the IIS findings appears to confirm our belief that monitoring of this loan has been adequate on the part of both the Central Bank and the USAID, although improvements can and will be made. At the present time an internal audit, a further monitoring check of the USAID, is being carried out to disclose and correct those irregularities which may exist.

We are presently answering the IIS report and are adopting certain of their recommendations in order to assure that all appropriate measures are taken to guard against the misuse of A.I.D. funds. These measures will be in effect under the second loan and should assure better monitoring results.

D. Competition of the FIDE with the A.I.D. Financed Financiera Dominicana

There is little question that a contributing factor to the relatively slow start of the Financiera is due to the dynamism and competitiveness of the FIDE system. However, our assessment of private investment plans in the Dominican Republic shows that there is room for the Financiera if it improves its promotion and seeks out business.

The Financiera claims that it loses business because it cannot provide the banking services offered by the commercial banks. In spite of this it is our opinion that the Financiera has sufficient flexibility to compete as it can (1) offer lower interest rates in view of the 2-1/2% interest charge on the A.I.D. loan, (2) take equity positions,

(3) provide underwriting services, and (4) provide longer term loans than the commercial banks. Finally, the Financiera is eligible to use FIDE for financing local costs of projects.

INCOMING AMEMBASSY SANTO DOMINGO

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Control 099

Date: May 8, 1969

STATE 072002

AIDAC

SUBJECT: IRR - PRIVATE INVESTMENT FUND

1. AID/W HAS APPROVED \$5 MILLION INDUSTRIAL LENDING PORTION SUBJECT IRR FOR INTENSIVE REVIEW.

2. SECOND \$5 MILLION PENDING POLICY DETERMINATION ON USE DL FUNDS FOR TOURISM. ISSUES PAPER NOW BEING PREPARED WILL FOCUS ON POLITICAL, ECONOMIC AND SOCIAL RAMIFICATIONS AND

DIRECT INVOLVEMENT THIS SECTOR. USAID WILL BE ADVISED AID/W DECISION ASAP.

3. LA/CAEC RAISED FOLLOWING SPECIFIC QUESTIONS ON INDUSTRIAL LENDING PROGRAM FOR TREATMENT IN LOAN PAPER:

✓ A. CAEC CONCERNED WITH AMOUNT GODR PARTICIPATION. IT CONSIDERS \$2.4 MILLION AS ABSOLUTE MINIMUM AND ACCEPTABLE ONLY IF USAID CONVINCED GODR CAN NOT INCREASE CONTRIBUTION AND A.I.D. LOCAL COST FINANCING PORTION PROPOSED \$5 MILLION LOAN DOES NOT EXCEED \$2.4 MILLION. IN THIS CONTEXT, LOAN MUST HAVE BREAKDOWN LOCAL AND FOREIGN EXCHANGE EXPENDITURES.

B. PROGRAM MEMORANDUM INDICATED WEAKNESSES IN CURRENT INVESTMENT INCENTIVE LAW. SHOULD PROPOSED \$5 MILLION LOAN BE USED TO ENCOURAGE MORE SATISFACTORY LAW? IF NOT WILL WEAKNESSES CURRENT LAW COMPROMISE OBJECTIVES PROPOSED LOAN?

C. WITH RESPECT ISSUE NUMBER 4 IRR, AID/W UNDERSTANDS USAID EXPECTED PERFORM REVIEW OF ITS FINDINGS. AID/W BELIEVES THIS REVIEW SHOULD BE CONDUCTED ASAP AND ITS RESULTS INCLUDED IN LOAN PAPER.

D. LOAN PAPER MUST CONTAIN IN DEPTH REVIEW EXPERIENCE FIRST LOAN. ASSUME MISSION WILL PREPARE THIS PAPER.

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INITIALS

PAGE TWO

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4. SPECIFIC QUESTIONS WITH RESPECT TOURISM PROGRAM AS FOLLOWS
(FOR COVERAGE IN EVENTUAL TOURISM LOAN PAPER):

A. IRR INDICATES PROPOSED \$5 MILLION TO BE SPENT WITHOUT REGARD TO ANY OVERALL PLAN OR PROGRAM. DOES GODR HAVE ANY SPECIFIC PLAN OR PROGRAM TO PROMOTE THIS SECTOR? DOES IT INTEND INVEST IN PROMOTING DEVELOPMENT THIS SECTOR? HOW DOES IT INTEND USE STUDIES MENTIONED IN IRR? CAN \$5 MILLION AID PROGRAM REALLY BE EFFECTIVE IN ABSENCE CONCERTED FINANCIAL EFFORT ON BEHALF GODR AND NEW INCENTIVES TO FOREIGN AND LOCAL INVESTORS?

B. WOULD ANY OF PROPOSED \$5 MILLION BE USED FOR PURCHASE REAL ESTATE?

C. AID/W WOULD APPRECIATE MORE DETAILED EXPLANATION WHY USAID FEELS RELENDING TO GOVERNMENT-OWNED ENTERPRISES MIGHT BE NECESSARY UNDER THE TOURISM PROGRAM, THIS REPRESENTS COMPLETE REVERSAL PRIOR POLICY.

5. PLEASE ADVISE TIMING LOAN PAPER SUBMISSION.

ROGERS

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CERTIFICATION PURSUANT TO SECTION 611(e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, John P. Robinson, the principal officer of the Agency for International Development in the Dominican Republic, having taken into account, among other things, the administration of similar projects in the Dominican Republic previously assisted by the United States, do hereby certify that in my judgment the Dominican Republic has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project called "Dominican Republic - Private Investment Fund". (Second tranche.)

This judgment is based upon the experience of the past three years under Loan 517-L-007, likewise titled "Dominican Republic - Private Investment Fund". (First tranche.)

The Borrower (GODR) implemented the first loan through the Central Bank under a contract of administration (trust agreement). The Central Bank, considered to be one of the ablest GODR agencies, organized an Investment Fund for Economic Development within the Department of International Agreements to carry out the project through the commercial and development banks of the country.

The Borrower has essentially met project objectives and results are significant. Covenants and conditions have been fulfilled. Borrower has built a viable development banking system. Project administration has improved consistently. Finally, of 218 loans approved none are delinquent.


John P. Robinson
June 10, 1969



BANCO CENTRAL DE LA REPUBLICA DOMINICANA

SANTO DOMINGO, R. D.

10 JUN. 1969

"AÑO DE LA EDUCACION"

5471

Mr. John P. Robinson,
Director USAID/DR Mission
Santo Domingo, D. N.

Mr. Director:

Reference is made to your kind letter dated June 9th., 1969 - relative to a Loan Application for additional assistance.

I wish to thank you very much for the help you are giving us in order to obtain this Loan in the amount of US\$8.0 millions which will increase the resources originally granted to the Fondo de Inversiones para el Desarrollo Económico (FIDE), under the administration of the Department of International Agreements of this Bank.

I make proper this occasion to inform you that Banco Central is willing to grant Dominican Pesos in the amount of \$5.0 millions, after obtaining the approval of the "Junta Monetaria" of this Bank.

I hope this will fulfill the request made in the last paragraph of your letter.

Sincerely,

Dr. Diógenes H. Fernández
Governor
Banco Central de la República
Dominicana

DHF
RHC/gcl.

"COURTESY TRANSLATION"

(Original (in Spanish) in LA/DR Official Files)

INVESTMENT	LOW	P.D.\$	U.S.\$	PERCENT	NET G.O.T. SUBSTITUTION	INTEREST BY INSTITUTION
\$ 128,500.00	\$ 67,200.00	\$ 31,200.00	\$ 56,425.00	21	\$ 29,313.33	Banco Popular
\$ 227,805.16	\$ 37,534.69	\$ 37,534.69	-	100	\$ 440,649.66	Banco de Reservas
\$ 60,510.00	\$ 250,000.00	-	\$ 250,000.00	57	-	Banco Agrícola
\$ 37,700.00	\$ 7,035.00	-	\$ 7,035.00	10	\$ 22,302.87	C.F.I. (FOMENTO)
\$ 174,000.00	\$ 87,075.00	-	\$ 87,075.50	15	\$ 26,776.33	Banco de Reservas
\$ 244,000.00	\$ 90,000.00	\$ 50,000.00	-	23	-	Banco de Reservas
\$ 120,000.00	\$ 125,000.00	\$ 65,000.00	\$ 60,000.00	8	-	Banco Popular
\$ 100,000.00	\$ 50,000.00	\$ 143,356.00	\$ 305,644.00	34	\$ 1,003,554.00	Banco de Reservas
\$ 300,000.00	\$ 200,000.00	-	\$ 200,000.00	143	\$ 900,000.00	Banco Popular
\$ 116,000.00	\$ 77,000.00	\$ 12,000.00	\$ 34,250.00	19	-	Banco Popular
\$ 98,372.45	\$ 45,000.00	\$ 41,000.72	\$ 4,736.00	7	\$ 71,398.49	C.F.I. (FOMENTO)
\$ 218,000.00	-	\$ 1,000.00	\$ 104,500.00	4	\$ 135,066.65	Banco de Reservas
\$ 248,778.00	\$ 117,000.00	-	\$ 117,000.00	29	-	C.F.I. (FOMENTO)
\$ 200,805.00	\$ 120,000.00	-	\$ 120,000.00	7	-	Banco Popular
\$ 1,000,000.00	\$ 21,000.00	\$ 1,100.00	\$ 22,000.00	9	-	C.F.I. (FOMENTO)
\$ 1,000,000.00	\$ 72,000.00	\$ 40,700.00	\$ 30,700.00	2	-	C.F.I. (FOMENTO)
\$ 65,000.00	\$ 26,000.00	\$ 26,000.00	-	10	\$ 6,000.00	C.F.I. (FOMENTO)
\$ 52,000.00	\$ 22,000.00	\$ 22,000.00	-	8	-	C.F.I. (FOMENTO)
\$ 152,000.00	\$ 13,000.00	\$ 13,000.00	-	25	-	Banco Popular
\$ 50,000.00	\$ 50,000.00	\$ 50,000.00	-	12	-	Banco Popular
\$ 13,000.00	\$ 60,000.00	\$ 60,000.00	-	15	-	Banco Popular
\$ 76,000.00	\$ 25,000.00	\$ 25,000.00	-	6	-	Banco de Reservas
\$ 46,698.41	\$ 21,062.41	\$ 19,580.00	\$ 27,322.41	8	-	C.F.I. (FOMENTO)
\$ 60,000.00	\$ 250,000.00	\$ 11,750.00	\$ 235,750.00	53	\$ 1,200,000.00	Chase Manhattan Bank
\$ 55,382.15	\$ 24,035.00	\$ 11,213.00	\$ 12,010.00	4	-	C.F.I. (FOMENTO)
\$ 121,717.50	\$ 60,000.00	\$ 31,000.00	\$ 28,321.00	15	-	C.F.I. (FOMENTO)
\$ 36,153.00	\$ 17,000.00	-	\$ 17,000.00	3	-	C.F.I. (FOMENTO)
\$ 265,500.00	\$ 40,000.00	\$ 40,000.00	-	30	-	Banco Popular
\$ 120,000.00	\$ 17,000.00	\$ 17,000.00	-	10	-	Banco Popular
\$ 426,873.00	\$ 115,000.00	\$ 115,000.00	-	117	\$ 450,000.00	C.F.I. (FOMENTO)
\$ 350,000.00	\$ 175,000.00	\$ 72,500.00	\$ 102,413.00	21	-	C.F.I. (FOMENTO)
\$ 468,305.00	\$ 125,000.00	\$ 55,000.00	\$ 65,000.00	44	-	Banco Popular
\$ 20,000.00	\$ 14,000.00	-	\$ 14,000.00	4	-	Banco Popular
\$ 55,200.00	\$ 42,750.00	\$ 10,000.00	\$ 13,750.00	5	-	C.F.I. (FOMENTO)
\$ 35,000.00	\$ 16,790.00	\$ 16,790.00	\$ 2,400.00	-	-	C.F.I. (FOMENTO)
\$ 98,434.92	\$ 49,000.00	\$ 24,750.80	\$ 24,750.80	30	-	C.F.I. (FOMENTO)
\$ 160,000.00	\$ 160,000.00	\$ 160,000.00	-	-	-	Banco de Reservas
\$ 601,051.00	\$ 164,483.65	\$ 164,483.65	-	66	\$ 1,070,441.00	Banco Popular
\$ 249,313.33	\$ 100,000.00	\$ 100,000.00	-	25	-	Banco Popular

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 Exhibit B, Page 1 of 2

AID - F. L. S.

FIRM	DATE	ACTIVITY	LOCATION
1.-Al. ...	Jan. 15, '66	Electric ...	Santo Domingo
2.-Fact. ...	Jan. 10, '66	Rice ...	Santiago
3.-Matadero d. ...	Aug. 18, '66	Slaughterhouse	Higüey
4.-Tejidos de Punto	Aug. 18, '66	Stoolings & Seel	Santo Domingo
5.-Pa. billa. ...	Sept. 17, '66	Light Balls	Santo Domingo
6.-Bar. ...	Oct. 15, '66	Plastain Covers	Barahona
7.-Iz. ...	Oct. 15, '66	Refr. Mix. Concrete	Santo Domingo
8.-Fertilizantes Santo Domingo	Oct. 25, '66	Fertilizers	Santo Domingo
9.-Iz. ...	Dec. 14, '66	Tomato Paste & Juices	Villa Bisonó (Stgo.)
10.-Molina y Castillo	Dec. 27, '66	Coffee Processors	Santo Domingo
11.-Molina del ...	Dec. 27, '66	Animal Feed	Liccy (Stgo.)
12.-Cartón ...	March 23, '67	Cardboard Boxes	Santo Domingo
13.-Agropec. de Marigón	March 23, '67	Crushed Stones	Santiago
14.-Impres. Industriales	April 30, '67	Oxygen-Nitrogen	Santo Domingo
15.-C. ...	May 19, '67	Mattresses & Box Springs	Santo Domingo
16.-F. ...	May 19, '67	Terrazzo Tiles	Santo Domingo
17.-Mario A. ...	May 31, '67	Roofing Caston	Santo Domingo
18.-J. ...	June 23, '67	Animal Feed	El Seybo
19.-I. ...	July 3, '67	Aluminum Windows & Doors	Santo Domingo
20.-I. ...	July 3, '67	Aluminum ...	Santo Domingo
21.-Acadulo ...	July 29, '67	Boxing & Storage	Santo Domingo
22.-Victo. ...	July 29, '67	Batel Espresso	La Vega
23.-José ...	July 29, '67	Clorox & Detergents	Santo Domingo
24.-Bar. ...	July 29, '67	Tomato Juice & Catnip	Santiago
25.-Laboratori. ...	July 29, '67	Shaving Cream & Deodorant	Santo Domingo
26.-Confecciones ...	Aug. 19, '67	Knives Slacks	Santo Domingo
27.-COPERCA C. por A.	Sept. 8, '67	Well Drilling	Santo Domingo
28.-C. ...	Sept. 29, '67	Medical Center	San Francisco
29.-Dr. José ...	Sept. 29, '67	Medical Center	Barahona
30.-I. ...	Sept. 29, '67	Vegetable Canning	San Cristóbal
31.-I. ...	Sept. 29, '67	Meat Processing	Santo Domingo
32.-Centro Médico ...	Sept. 29, '67	Medical Center	La Vega
33.-Industria ...	Nov. 3, '67	Composites & Manufacturing	Santiago
34.-I. ...	Nov. 3, '67	Paints	Santo Domingo
35.-I. ...	Nov. 3, '67	Ceramic Tiles	Santo Domingo
36.-I. ...	Nov. 3, '67	Fashion Goods	Santo Domingo
37.-I. ...	Nov. 16, '67	Pharmaceuticals	Santo Domingo
38.-Industrias Lavador	Nov. 25, '67	Vegetable Oil & Margarine	Santo Domingo
39.-Dulcera Dominicana	Nov. 25, '67	Candy	Santo Domingo

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Macorís

<u>INVESTMENT</u>	<u>LCN</u>	<u>E.D.\$</u>	<u>U.S.\$</u>	<u>NEW JOBS</u>	<u>NET IMPORT (50% DEDUCTIBLE)</u>	<u>INTERMEDIARY INSTITUTION</u>
\$ 513,701.44	\$250,000.00	-	\$250,000.00	24	-	Royal Bank
\$ 129,207.99	\$ 65,948.25	\$ 31,812.00	\$ 32,136.25	11	-	C.F.I. (TORONTO)
\$ 81,200.00	\$ 30,000.00	\$ 30,000.00	-	23	-	Banco de Reservas
\$ 57,133.40	\$ 47,917.00	\$ 47,917.00	-	-	-	C.F.I. (TORONTO)
\$ 119,113.40	\$ 60,128.00	\$ 36,147.00	\$ 23,981.00	-	\$ 667,630.00	Banco de Reservas
\$ 26,851.50	\$ 13,300.00	\$ 2,425.00	\$ 10,875.00	-	-	C.F.I. (TORONTO)
\$ 62,035.00	\$ 20,000.00	-	\$ 20,000.00	15	\$ 60,000.00	Royal Bank
\$1,200,000.00	\$466,942.00	-	\$466,942.00	32	\$2,100,000.00	Banco Popular
\$ 159,649.00	\$ 41,300.00	\$ 44,300.00	-	17	-	C.F.I. (TORONTO)
\$ 861,150.05	\$214,215.14	-	\$214,215.14	52	\$ 20,000.00	Banco de Reservas
\$ 739,469.64	\$ 48,000.00	\$ 49,000.00	-	31	-	Banco Popular
\$ 141,397.00	\$ 32,500.00	\$ 32,500.00	\$ 32,500.00	13	-	Banco de Reservas
228,000.00	55,500.00	\$ 55,500.00	\$ 55,500.00	26	-	Banco Popular
\$ 15,000.00	\$ 15,000.00	-	-	-	-	Banco de Reservas
\$ 244,801.00	\$ 7,500.00	-	\$10,545.00	26	-	C.F.I. (TORONTO)
\$465,820.00	\$ 20,000.00	\$ 23,059.00	\$ 4,911.00	5	-	C.F.I. (TORONTO)

3,000,562.23	\$1,497,111.91	\$ 489,375.71	\$1,046,215.50	449	\$2,422,596.73
5,800,624.75	\$2,401,433.88	\$1,192,311.63	\$1,160,094.19	613	\$2,276,959.56
\$1,120,874.61	\$1,212,798.39	\$ 364,101.00	\$ 866,097.39	251	\$2,847,010.00

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<u>NAME</u>	<u>DATE</u>	<u>AGENCY</u>	<u>LOCATION</u>
40.-Talleres Industrial	Jan. 12, '67	Concrete Blocks	Santo Domingo
41.-Industria de la Teca	Jan. 12, '68	WPC Panels	Santo Domingo
42.-Sociedad Manufacturera por A.	Jan. 17, '68	Plastic Kitchen Cabinets	Santo Domingo
43.-Industria de la Teca	Feb. 23, '68	Staircase Panels & Fittings	Santo Domingo
44.-Industria de la Teca	Feb. 22, '68	Iron Works	Santo Domingo
45.-Industria Industrial	Feb. 21, '68	Concrete Blocks & Tiles	Santo Domingo
46.-Rafael Caputo Hijo, C. por A.	April 9, '68	Cherry Gum	Santo Domingo
47.-Industria de la Teca	April 9, '68	Tin Cans	Santo Domingo
48.-Industria de la Teca de Callejas	May 24, '68	Cooking & Cleaners	Santo Domingo
49.-Industria Industrial Dominicana	June 23, '68	Medicine	Santo Domingo
50.-Cordero Alvarez & Asociados	July 31, '68	Maternity Clinic	Santo Domingo
51.-Hotels y Servicios	Nov. 22, '68	Hotel	Santo Plata
52.-Clinica de la Teca	Nov. 22, '68	Clinic	Moca
53.-Soluciones de la Teca	Nov. 22, '68	Aluminum Doors	Santo Domingo
54.-Industria de la Teca C. por A.	Nov. 22, '68	Production of minerals aggregates	Santo Domingo
55.-Industria de la Teca	Nov. 22, '68	Wash Water	Santo Domingo

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1956
1967
1968

FIDE LOAN OPERATIONS

May 1966 - March 1969

Page

- 2 FIDE Loan Approvals, by month**
- 3. FIDE Loan Approvals, by geographical distribution**
- 4 FIDE Loan Approvals, by Economic Sector and Source of Funds**
- 5 FIDE Loan Approvals, by Intermediary and Source of Funds**
- 6 Appraisal of Socio-Economic Effects**
- 7 FIDE Disbursements**

FIDE LOAN APPROVALS

M O N T H S	1966		1967		1968		1969		T O T A L	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
January	-	-	4	500,028.84	8	314,687.12	6	150,583.14	18	965,299.10
February	-	-	1	72,587.50	5	484,485.17	4	63,230.00	10	620,302.67
March	-	-	6	409,202.67	7	242,257.67	9	504,610.54	22	1,156,070.88
April	-	-	1	120,402.00	9	1,030,713.11	3	251,149.97	10	1,151,115.11
May	3	254,632.20	24	1,640,862.80	7	625,702.40	-	<u>1/650,000.00</u>	34	2,521,197.40
June	1	67,710.00	4	61,193.00	9	830,732.00	-	-	14	959,635.00
July	-	-	21	793,552.45	9	350,702.55	-	-	30	1,144,255.00
August	4	445,534.69	6	177,011.50	6	229,220.00	-	-	16	851,766.19
September	4	295,707.32	14	857,997.71	6	130,574.59	-	-	24	1,284,279.62
October	3	665,000.00	7	168,280.00	4	83,659.50	-	-	14	916,939.50
November	2	220,358.39	18	890,751.42	3	191,000.00	-	-	23	1,302,109.81
December	6	573,510.53	2	260,646.32	5	513,286.75	-	-	13	1,347,443.60
	<u>23</u>	<u>2,522,453.13</u>	<u>108</u>	<u>5,952,516.21</u>	<u>78</u>	<u>5,027,020.86</u>	<u>19</u>	<u>718,423.68</u>	<u>228</u>	<u>14,220,413.88</u>
LESS:										
Cancellations	2	86,341.81	2	36,515.00	5	190,514.00	1	99,000.00	10	412,370.81
Decreases	-	<u>613,11</u>	-	<u>63,137.00</u>	-	<u>70,101.47</u>	-	<u>5,090.24</u>	(11)	<u>138,941.82</u>
	-	<u>86,954.92</u>	-	<u>99,652.00</u>	-	<u>260,615.47</u>	-	<u>104,090.24</u>	-	<u>551,312.63</u>
OUTSTANDING	<u>21</u>	<u>2,435,498.21</u>	<u>106</u>	<u>5,852,864.21</u>	<u>73</u>	<u>4,766,405.39</u>	<u>18</u>	<u>614,333.44</u>	<u>218</u>	<u>13,669,101.25</u>

1/ First fifteen days of May.

FIDE LOAN APPROVALS

CLASSIFIED BY REGIONS & PROVINCES

May 1966 - March 1969

Regions and Provinces	Amount of Loans		Value of Loans	
	No.	%	A m o u n t	%
<u>REGION CENTRAL</u>	<u>162</u>	<u>74.3%</u>	<u>10,203,818.21</u>	<u>74.6%</u>
Santo Domingo	153		9,894,141.01	
Peravia	3		157,022.27	
San Cristobal	6		152,654.93	
<u>YAQUE DEL NORTE</u>	<u>29</u>	<u>13.3%</u>	<u>2,176,105.21</u>	<u>15.9%</u>
Santiago	25		1,890,105.21	
Puerto Plata	2		155,000.00	
Espaillat	2		131,000.00	
Dajabón	-		-	
Montecristi	-		-	
Santiago Rodriguez	-		-	
Valverde	-		-	
<u>REGION DEL YUNA</u>	<u>10</u>	<u>4.6%</u>	<u>590,114.75</u>	<u>4.3%</u>
Duarte	3		108,536.75	
Sanchez Ramirez	1		10,000.00	
La Vega	6		471,578.00	
Samaná	-		-	
María Trinidad Sanchez	-		-	
Salcedo	-		-	
<u>YAQUE DEL SUR</u>	<u>6</u>	<u>2.8%</u>	<u>212,945.55</u>	<u>1.6%</u>
Barahona	2		125,000.00	
San Juan	3		57,296.56	
Elías Piña	-		-	
Bahoruco	-		-	
Independencia	-		-	
Azua	1		30,648.99	
Pedernales	-		-	
<u>REGION DEL ESTE</u>	<u>11</u>	<u>5.0%</u>	<u>486,117.53</u>	<u>3.6%</u>
El Seibo	2		25,044.32	
San Pedro de Macoris	2		21,073.21	
La Altagracia	4		393,000.00	
La Romana	3		42,000.00	
TOTALS	<u>218</u>	<u>100.0%</u>	<u>13,669,101.25</u>	<u>100.0%</u>

FIDE LOAN APPROVALS

CLASSIFIED

CLASSIFIED BY ECONOMIC SECTOR
AND SOURCE OF FUNDS
May 1966-March 1969

S E C T O R S	No. of Loans	T O T A L \$	%	S O U R C E S		
				AID \$	BID \$	BC \$
MANUFACTURE	92	9,413,886.21	68.9	3,912,434.93	4,579,058.77	922,392.51
MANUFACTURE (WORK- ING CAPITAL)	15	660,355.41	4.8	448,300.00	-	212,055.41
AGRICULTURE & CATTLE	2	110,000.00	0.8	90,000.00	-	20,000.00
TRANSPORTATION	-	-	-	-	-	-
MINING	2	217,612.00	1.6	217,612.00	-	-
EDUCATION	22	756,148.80	5.5	-	-	756,148.80
HEALTH	64	1,960,339.38	14.3	287,000.00	-	1,673,339.38
ARTISAN INDUSTRY	8	32,251.97	0.3	-	-	32,251.97
SERVICES	10	372,858.49	2.7	77,836.00	40,807.50	254,214.99
TOURISM	<u>3</u>	<u>145,548.99</u>	<u>1.1</u>	<u>115,000.00</u>	<u>-</u>	<u>30,648.99</u>
T O T A L S	<u>218</u>	<u>13,669,101.25</u>	<u>100.0</u>	<u>5,148,182.93</u>	<u>4,619,866.27</u>	<u>3,901,052.05</u>

TYPE OF CURRENCY:

Foreign	7,080,859.07	51.8	2,818,891.18	3,083,820.83	1,178,147.06
Local	6,588,242.18	48.2	2,329,291.75	1,536,045.44	2,722,904.9

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FIDE LOAN APPROVALS

CLASSIFIED BY INTERMEDIARY INSTITUTIONS
AND SOURCE May 1966 - March 1969

Intermediary Institutions	OUTSTANDINGS		AID		BID		BC	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Banco de Reservas de la Rep. Dom.	88	4,044,093.10	12	1,295,276.86	9	623,057.01	67	2,125,759.23
Banco Popular Dominicano	62	5,245,940.28	16	1,857,954.54	16	2,010,361.01	38	1,377,624.73
Corporación de Fomento Industrial	54	2,493,724.87	22	1,170,608.53	13	1,051,448.25	21	271,668.09
Banco Nacional, S.A.	4	40,343.00	1	14,343.00	-	-	3	26,000.00
Banco Agrícola de la Rep. Dom.	2	390,000.00	1	290,000.00	-	-	1	100,000.00
First National City Bank	1	85,000.00	-	-	1	85,000.00	-	-
The First Manhattan Bank	2	550,000.00	1	250,000.00	1	300,000.00	-	-
The Royal Bank of Canada	4	670,000.00	2	270,000.00	2	400,000.00	-	-
The Bank of Nova Scotia	1	150,000.00	-	-	1	150,000.00	-	-
	<u>218</u>	<u>13,669,101.25</u>	<u>55</u>	<u>5,148,182.93</u>	<u>43</u>	<u>4,619,866.27</u>	<u>130</u>	<u>3,901,052.05</u>
	<u>1/</u>			<u>2/</u>				

1/ The number of outstanding loans to date is 218, but, according to the source of funds it shows 228; this is due to the approval of ten loans financed from two sources.

2/ The original loan of \$5.0 million granted by AID has been completely used. The excess over said amount represents repayments received from subloans made from the original AID loan of \$5 million.

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APPRAISAL OF SOCIO-ECONOMIC EFFECTS
FIDE LOANS FROM MAY 1966 TO MARCH 1969

SECTORS	No. of Loans	Mobilization of Internal Savings	Import Substitution	Jobs Created	Increased Hospital Beds	Increased Student Capacity	Increased Hotel Rooms	Value Added
INDUSTRY	92	12,240,852.00	15,458,060.33	3,526	-	-	-	14,992,361.28
INDUSTRY (WORKING CAPITAL)	15	272,414.75	-	358	-	-	-	713,976.64
AGRICULTURE	2	272,000.00	-	34	-	-	-	91,628.00
TRANSPORTATION	-	-	-	-	-	-	-	-
MINING	2	210,234.00	-	45	-	-	-	279,228.89
EDUCATION	22	1,200,721.44	-	131	-	5,097	-	978,535.08
HEALTH	64	2,240,350.62	-	410	516	-	-	2,935,645.57
ARTISAN INDUSTRY	8	69,033.79	-	18	-	-	-	166,516.08
SERVICES	10	436,252.24	-	77	-	-	-	539,158.89
TOURISM	3	222,688.01	-	32	-	-	54	138,102.85
T O T A L S	<u>218</u>	<u>17,164,546.85</u>	<u>15,458,060.33</u>	<u>4,631</u>	<u>516</u>	<u>5,097</u>	<u>54</u>	<u>20,835,153.28</u>

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FIDE DISBURSEMENTS

CLASSIFIED BY INTERMEDIARY INSTITUTIONS
AND SOURCE May 1966 - March 1969

INTERMEDIARY INSTITUTIONS	No. of Loans	Amount of Loans	Disbursements Performed			Total of Disburse- ments	Total of Dis- bursements to be performed
			AID	BID	BC		
Banco de Reservas de la RD	88	4,044,093.10	1,233,094.95	623,057.01	1,300,269.03	3,156,420.99	887,672.11
Banco Popular Dominicano	62	5,245,940.28	1,810,730.08	1,975,361.01	1,361,109.61	5,147,200.70	98,739.58
Corporación Fomento Industrial	54	2,493,724.87	975,423.16	880,472.60	220,569.59	2,076,465.35	417,259.52
Banco Nacional, S.A.	4	40,343.00	14,343.00	-	26,000.00	40,343.00	-
Banco Agrícola de la RD	2	390,000.00	290,000.00	-	-	290,000.00	100,000.00
First National City Bank	1	85,000.00	-	85,000.00	-	85,000.00	-
The Chase Manhattan Bank	2	550,000.00	250,000.00	-	-	250,000.00	300,000.00
The Royal Bank of Canada	4	670,000.00	264,104.28	358,065.00	-	622,169.28	47,830.72
The Bank of Nova Scotia	1	150,000.00	-	83,534.33	-	83,534.33	66,465.67
T O T A L S	<u>218</u>	<u>13,669,101.25</u>	<u>4,837,695.47</u>	<u>4,005,489.95</u>	<u>2,907,948.23</u>	<u>11,751,133.65</u>	<u>1,917,967.60</u>

PART THREE

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THE BORROWER,
THE IMPLEMENTING AGENCY
AND
THE INTERMEDIARIES

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THE BORROWER AND THE EXECUTING AGENCY

The borrower would be the GODR and the implementing agency the Banco Central de la República Dominicana (BCRD). The project would be carried out through its Departamento de Convenios Internacionales (Department of International Agreements), which administers the Fondo de Inversiones para el Desarrollo Económico (FIDE) (Economic Development Investment Fund), established as part of the assets of BCRD. The money would be channeled through the banking system to the public.

The BCRD, which has its legal domicile in Santo Domingo, is a State agency which was established by Law 1529 of October 9, 1947. It is currently governed by Law 6142 of December 29, 1962, as amended by Law 46 of November 9, 1965, and Law 50 of November 15, 1965.

The BCRD enjoys complete autonomy, guaranteed by the Constitution of the Dominican Republic, and possesses juridical personality, independently owned assets, indefinite duration and power to contract.

Functions of the BCRD. Under Article 4 of its Charter Law, the functions of the BCRD include, among others:

1. in the domestic field: (a) to ensure the maintenance of the domestic value of the national currency; (b) to promote the stability and progressive development of the national economy; (c) to ensure that means of payment and credit policy are in line with the tempo of productive activity, and (d) to ensure proper distribution of credit;
2. in the international field: (a) to maintain the external value and convertibility of the national currency; (b) to conserve and manage the country's international monetary reserves, and (c) to foster the maintenance or re-establishment of the country's international economic equilibrium.

As provided in Article 48 of its Charter Law, the BCRD does not engage in direct operations with the public but channels all its credit operations through the public and private banking and financial institutions of the country, which, for the purposes of the program under consideration, will assume the credit risks arising from the loans they make to the program beneficiaries.

Financial Position

1. Capital. The paid-up capital of the BCRD amounting to the equivalent of US\$700,000. It is represented by certificates issued by the BCRD in the name of the Dominican Republic and deposited with its Treasury Department, pursuant to Article 6 of Law 6142. The capital can be increased by resolution of the Monetary Board.

2. Assets, liabilities and reserves. The following are the condensed financial statements as of December 31, 1966, 1967 and 1968:

(Equivalents in thousands of US\$) 1/

<u>Assets</u>	1966		1967		1968	
	\$	%	\$	%	\$	%
Gold and deposits, foreign currency	52,205	22.1	41,255	17.6	44,875	17.3
Participations in international agencies	24,935	10.5	27,166	11.7	29,398	11.4
Advances and re-discounts	60,177	25.6	31,788	13.7	41,315	16.0
Investments	70,544	30.1	120,805	51.7	127,375	49.0
Other assets	27,761	11.7	12,385	5.3	16,474	6.3
Total	<u>235,622</u>	<u>100.0</u>	<u>233,399</u>	<u>100.0</u>	<u>259,437</u>	<u>100.0</u>
<u>Liabilities</u>						
Monetary issue	106,597	45.3	113,776	48.7	132,392	52.9
Special accounts and deposits and obligations in Dominican currency	66,670	28.2	62,283	26.7	66,268	25.5
Foreign exchange obligations	48,809	20.8	40,850	17.6	33,850	13.1
Net worth accounts <u>2/</u>	13,546	5.7	16,490	7.0	21,927	8.5
Total	<u>235,622</u>	<u>100.0</u>	<u>233,399</u>	<u>100.0</u>	<u>259,437</u>	<u>100.0</u>

1/ US\$1.00 = RD\$1.00

2/ Includes the equivalent of US\$300,000 assigned to the FIDE for each of the three years.

There has been a notable increase in net worth accounts, as the following table shows:

(Equivalents in thousands of US\$)			
<u>Account</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Reserve of Securities Re- gulation Fund	1,792	1,792	1,340
FIDE	300	300	300
Capital	700	700	700
General Reserve	6,486	6,486	4,178
Reserve for Increase in Capital	491	491	1,423
Other asset Accounts(interest receivable, surplus, etc)	3,777	6,721	13,986
Total	<u>13,546</u>	<u>16,490</u>	<u>21,927</u>
Coefficient	100	122	162

3. Income and expenditure account. The Income and Expenditure Accounts for the Fiscal years ended December 31, 1966, 1967 and 1968 are as follows:

<u>Operating Income 1/</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Interest and discounts earned	3,519	2,708	1,839
Commission	96	89	99
Other income	-	437	436 2/
Income of previous years	6	4	1,611
	<u>3,621</u>	<u>3,238</u>	<u>3,985</u>
<u>Operating Expenditure</u>			
Interest paid	1,994	1,802	1,496
Contribution to pension fund	93	104	103
General expenses	1,155	1,299	1,464
Expenses of previous years	2	5	11
	<u>3,244</u>	<u>3,210</u>	<u>3,074</u>
<u>Net surplus for the year</u>	<u>377</u>	<u>28</u>	<u>911</u>

1/ By resolution of the Monetary Board adopted on December 30, 1965, the earnings basis was replaced by the receipts basis in income accounting from 1966 onwards.

2/ Includes RD\$426,000 representing the difference between the face value of the series of notes issued and the amounts actually paid their holders who traded them, prior to their maturity date, for new issues.

Net earnings in fiscal 1968 were almost 33 times the 1967 figure. This is attributable to the action taken by the BCRD during the second half of 1968 to reduce the volume of arrears on its loan portfolio. The inspection of the BCRD made by the Superintendency of Banks on June 17, 1968, revealed that overdue obligations of the Banco de Reserva and the Banco Agrícola accounted for 82% of the BCRD's total loan portfolio. Since some of these obligations had been overdue since 1964, the Superintendency recommended that action be taken to obtain payment or to negotiate their renewal.

The figure of net earnings for 1968 of RD\$911,000 results in part from the inclusion as income of that year of interest collected in 1968 but due in previous years. In addition, other income recorded in 1968 includes the sum of RD\$426,000 as the equivalent of 50% of the profit obtained through the withdrawal of notes.

The net monetary reserves of the BCRD fell from RD\$40.1 million in 1963 to RD\$18.9 million in 1967. The reason is that from 1963 the international assets of the BCRD were strongly affected when gold and exchange obligations increased by 502.7% while international assets increased by only 13.4%.

The falls in net monetary reserves are traceable in large measure to a policy of expansion carried out by the Triumvirate between September 1963 and August 1964; the latter month marked the beginning of a period of adjustment and austerity the effects of which are still being felt. In addition, in response to a situation of delayed collections that already amounted to more than RD\$50 million as of the middle of 1964, the BCRD made a drawing of US\$20 million against the International Monetary Fund with the object of bringing them and keeping them up to date. The BCRD also borrowed US\$30 million from foreign commercial banks and US\$6.5 million from the Stabilization Fund of the United States Treasury. 1/

Over the same period (1963-1967), the total assets of the BCRD increased at an annual average rate of 11.2%. In addition, by a resolution adopted on January 13, 1967 the Monetary Board established a new cash reserve requirement which fixes the amount of credit to importers as virtually the March 1967 level. It was stipulated that increases in the deposits of the banks or in any of their resources available for lending must be used (or loan to productive sectors or, alternatively, maintained in the form of cash. This was the first time that a multiple-type cash reserve had been established in the Dominican Republic. 1/

1/ "Política Monetaria y Cambial en la República Dominicana (1957-67)", Bernardo Vega; Boletín Mensual, Vol. III, No. 4, April 1968, Center for Latin American Monetary Studies.

Administration, Management and Organization of the BCRD

The governing body of the BCRD is the Monetary Board, which is composed of seven members:

1. The Governor of the BCRD, who presides over the Board;
2. The Minister of Finance;
3. Five representatives of the private sector of recognized probity and experience in banking and with a knowledge of economic and monetary affairs or with experience in matters relating to national production, each with his respective alternate.

The Governor of the BCRD is its chief executive officer and is responsible for the direction and supervision of its affairs. He is appointed by the Executive Branch for a term of three years and may be reappointed at the end of each term. There is a Vice Governor, also appointed by the Executive Branch, and subject to the same conditions as apply to the Governor, who replaces the latter in his absence.

The Monetary Board fixes and directs the BCRD's monetary, credit and exchange policies. Among other functions, the Monetary Board formulates and submits to the Executive Branch for approval the necessary regulations for implementation of the Charter Law of the BCRD, the Monetary Law and the General Law on Banks, issues the regulations governing credit operations and the By-Laws of the BCRD, and fixes the interest rates that may be charged by banks and other credit institutions.

Without prejudice to the functions assigned to the Monetary Board and to the Governor of the BCRD, the immediate direction and internal administration of the BCRD are entrusted to the Manager, who is the Head of the Bank's Personnel. The Manager is responsible for directing the execution of the operations of the Bank in conformity with its By-Laws, which are handed down by resolution of the higher authorities of the Bank.

The present organization of the BCRD includes the Departments of Economic Studies and International Agreements, each of which is headed by a Director. The Department of Economic Studies is responsible chiefly for tasks related to the preparation and processing of the statistics and indices required by the Monetary Board for the formulation of its operational policies.

The Department of International Agreements is responsible for administering and operating the Fondo de Inversiones para el Desarrollo Económico (FIDE), and would accordingly assume direct internal responsibility for the execution of the AID loan.

Department of International Agreements

By resolution adopted at its meeting of April 7, 1965, the Monetary Board established a Department of International Agreements to administer and handle all matters related to existing or future agreements between the BCRD and international agencies or institutions.

The functions of the Department of International Agreements include the review, from the technical, economic, financial, legal and organizational points of view, of evaluation studies of projects submitted by the intermediary institutions, with a view to the selection of those capable of contributing most effectively to the country's economic development in accordance with the priority criteria laid down.

The Department of International Agreements consists of a Director, an Assistant Director and three Technical Divisions: the Project Analysis Division, the Loan Administration Division, and the International Financial Relations Division.

These three divisions are provided with 16 professionals and the corresponding support and secretarial staff. The present organization of the Department of International Agreements is sufficient to meet objectives. The staff is adequate in size, and its technical officials possess satisfactory academic training and knowledge in the field of project selection and evaluation.

The Department is at present receiving technical assistance from the Central American Institute for Industrial Research and Technology (ICAITI), whose services have been contracted out of the technical assistance portion of IDB Loan 54/SF-DR and which is advising and assisting the Department in: (1) its work of selection, evaluation and preparation of industrial projects; (2) the training of its personnel and that of the intermediary institutions, and (3) the identification of investment opportunities and the evaluation of industrial projects in the private sector for promotion by the Department.

The Department has set up a Coordinating Committee composed of the Director of the Department and the Chiefs of the Technical Divisions, with the task of reviewing the loan documents that are to be submitted to the Loan Committee and of recommending the corresponding recommendations.

The Loan Committee is responsible for defining the conditions of the loans to be granted and the origin of the funds to be used and for deciding on the loan applications submitted by the financing intermediaries. The Committee consists of the Governor of the BCRD, who is its Chairman, the Manager of the BCRD, and the Director of the Department of Economic Studies. The Director of the Department of International Agreements acts as Secretary of the Committee, with the right to speak but not to vote.

The Fondo de Inversiones para el Desarrollo Económico (FIDE)

The resources of FIDE are obtained from (a) external borrowings; (b) contributions made by the BCRD itself, and (c) contributions from other Dominican sources.

The FIDE was established by means of a resolution passed by the Monetary Board at its meeting of April 14, 1965, as a fund of indefinite duration. Since it was set up as part of BCRD, it does not possess juridical personality, its own separate capital structure, or legal capacity to contract. These attributes are vested in BCRD itself and are administered by the Department of International Agreements, as administrator of FIDE. The regulations of FIDE are contained in a resolution issued by the Monetary Board on January 27, 1966.

The procedures used by FIDE differ from those that were followed by the BCRD, before the establishment of the Fund, for the granting of loans through the national banking system. It is therefore felt that it would be of interest to include a detailed statement of the purposes and characteristics of the Fund.

1. Purposes: The purpose of the FIDE is to apply the resources of which it is composed for promotion of the country's economic development by stimulating the productive sectors of the national economy through the promotion and financing of new industrial, agricultural, mining and transportation enterprises and of other activities closely linked to the expansion of those sectors, such as services to industry and agriculture, handicrafts and small industry, education, health and hotel establishments. These objectives are accomplished through:
 - a. the promotion of public and private capital investment for development purposes;
 - b. the utilization of the funds it obtains on the regional and international capital markets and the other resources available to it for the financing of the country's economic development;

- c. the stimulation of private investment in projects, enterprises and activities that contribute to economic development;
 - d. promotion of the contracting of technical assistance services for the preparation, financing and execution of development programs and projects, including the study of priorities and the formulation of proposals on specific projects;
 - e. the channeling and appropriate utilization of all types of financial and technical assistance available from regional and international agencies.
2. Resources: The FIDE does not possess resources of its own. It is not empowered to make venture capital investments or to grant direct loans, and its operations are conducted through the Dominican financial intermediaries that have been authorized by special agreement to operate. For the intermediary institutions, therefore, the FIDE constitutes an additional source of credit funds within the BCRD that they are able to call upon to an extent based not on capital accounts or on the calls they can make on third parties, but on the individual capacity of each intermediary to channel development projects within the framework of the policy of the FIDE.
3. Budget: The FIDE does not have a separate budgetary system. Therefore, the Department of International Agreements has adopted a budgetary system to meet its requirements.

However, the resolution adopted by the Monetary Board at its meeting of April 7, 1965, by which the Department of International Agreements was established, provides that initially the costs incurred by the BCRD for the maintenance of that Department shall be defrayed out of the commissions and interest charged by the BCRD for the administration of international loans contracted specifically for relending through the FIDE.

4. Regulations of the FIDE: As indicated in subparagraph (1.) above, regulations governing the FIDE were approved by the Monetary Board by resolution of January 27, 1966. Subsequently, in response to the need to use a system of intermediary institutions for the making of loans to end-borrowers out of FIDE resources, it was decided to establish a contract of administration (trust agreement) for the utilization of AID resources, (derived from Loan 517-L-007) by the commercial and development banks covered by the provisions regulating the national banking system and the public financing entities, which constitute the intermediary institutions.

It will be necessary to up date the contract to conform to the new terms and conditions that would govern the loan now under consideration. Accordingly, Section III-C (Conditions & Covenants) provides that prior to the first disbursement the BCRD shall submit a revised contract.

Furthermore, there is a "Manual of Operations" which sets forth the rules and procedures to be followed in the administration of the various resources at the disposal of the FIDE.

5. Accounting and Audit System: Although the accounts of FIDE are kept separately from those of the BCRD, there are links with the BCRD's general accounting system. Manual accounting is used and is considered satisfactory, since mechanized accounting is not necessary so long as the FIDE continues to operate exclusively with intermediary credit institutions. The statistical data relative to the borrowers is tabulated on IBM machines.

All operations of FIDE are recorded by means of a system of accounts that permits analytical identification at any stage of the loan, of the source of its financing, the amount disbursed, the interest paid, and so on. This system provides sufficient detail and adequate analytical breakdown.

Since the resources of the FIDE form an integral and juridically inseparable part of the assets of the BCRD, the internal auditing is the responsibility of the BCRD's own Auditing Department, which must carry out a semiannual audit. Furthermore, the annual financial statements of both the BCRD and the FIDE are audited by the Superintendency of Banks, an agency of the Ministry of Finance, pursuant to powers conferred by the General Law on Banks.

In order to provide for suitable certification of the accounting statements of the credit operations conducted with the proceeds of the loan now proposed, it has been agreed with the authorities of the BCRD and of the FIDE that these statements shall also be certified by a firm of independent public auditors, a local firm who are associates of Peat, Marwick & Mitchell.

6. Structure and Financial Position: As previously stated, the FIDE does not possess juridical personality, and the only reason for its establishment as an individual unit is the desirability of maintaining separate accounts for the new function entrusted to the Department of International Agreements, which possess characteristics and uses procedures different from those that existed prior to the establishment of the FIDE.

On April 12, 1965, AID approved Loan 517-L-007 in the amount of US\$5 million for the resources of the FIDE. The term of the loan is 40 years, with amortization beginning on November 23, 1976. Interest is at 1% during the grace period and 2.5% during the amortization period. As of December 31, 1968, US\$3.7 million (74% of the total amount of the loan) had been disbursed.

On April 15, 1965, the IDB approved a line of credit (Loan 54/SF-DR) for the equivalent of US\$5 million to form part of the resources of the FIDE for the making of subloans to small and medium-sized industry.

By means of a resolution adopted by the Monetary Board at its meeting of January 18, 1967, the ECRD authorized the transfer of up to US\$5 million to the FIDE, in installments that would be determined by the timetable of execution of the programs to be financed out of its resources, to enable FIDE to finance private-sector projects in fields additional to those served by the resources of the above-mentioned AID and IDB loans, such as health, education, tourism, services to agriculture and education, working capital for small and medium-sized industrial and agricultural enterprises, etc.

Condensed Balance Sheets

<u>Assets</u>	(Equivalents in thousands of US\$) ^{1/}					
	<u>December 31, 1966</u> ^{2/}		<u>December 31, 1967</u>		<u>December 31, 1968</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Current	39.3	5.7	237.8	4.2	1,654.3	14.6
Short-term receivables	2.0	0.3	8.9 ^{4/}	0.2	5.5 ^{4/}	0.1
Long-term receivables ^{3/}	<u>643.3</u>	<u>94.0</u>	<u>5,406.4</u>	<u>95.6</u>	<u>9,596.2</u> ^{5/}	<u>85.3</u>
	<u>684.6</u>	<u>100.0</u>	<u>5,653.1</u>	<u>100.0</u>	<u>11,256.0</u>	<u>100.0</u>
<u>Liabilities</u>						
Short-term	424.9	62.1	1,020.7	18.0	1,252.4	11.1
Long-term	300.0	43.8	4,684.5	82.9	10,009.2	83.9
Deferred	2.0	0.3	-	-	4.7	-
Fund balance	<u>(42.3)</u>	<u>(6.2)</u>	<u>(52.1)</u>	<u>(0.9)</u>	<u>(10.3)</u>	<u>-</u>
	<u>684.6</u>	<u>100.0</u>	<u>5,653.1</u>	<u>100.0</u>	<u>11,256.0</u>	<u>100.0</u>

^{1/} Rate of exchange: US\$1 = RD\$1

^{2/} The FIDE began operations on May 1, 1966.

^{3/} Long-term receivables are the amounts actually disbursed and outstanding.

^{4/} As of December 31, 1967 and 1968, short-term receivables include an amount of US\$93 which appears in the balance sheets of FIDE under "Other Assets".

^{5/} Includes the equivalent of US\$30,275 for technical assistance to be provided by the Central American Institute for Industrial Research and Technology.

The above comparative balance sheets show that the total assets of the FIDE (expressed in their equivalent in dollars) amounted to US\$684.6 in December 1966 (at the end of the first eight months of operation). These increased to US\$5,653.1 in December 1967 (eight times the 1966 figure) and rose further, to US\$11,256.0 in December 1968. This increase to just over sixteen times the December 1966 figure in a space of only 24 months reflects vigorous activity in the loan portfolio of the FIDE. In all three years between 85% and 95% of the assets were applied to long-term credit operations authorized by the FIDE.

Income and Expenditure Statement (Period ending December 31)

<u>Operating Income</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Loan interest	630	21,973	164,258
Interest earned during grace period	-	118,809	181,422
Commission for late withdrawal	-	3,701	-
Total	<u>630</u>	<u>144,483</u>	<u>345,680</u>
 <u>Operating Expenditure</u>			
Interest on AID loan	312	11,476	33,274
Interest and other charges on IDB loan	17,055	53,750	103,850
Inspection and super- vision (IDB)	-	7,500	10,000
Technical assistance (ICAITI)	-	-	38,275
Administrative expenses	24,899	64,585	88,570
Promotional expenses	625	1,877	4,210
Technical assistance expenses	-	-	291
General expenses	-	15,149	25,467
Total	<u>42,891</u>	<u>154,337</u>	<u>303,937</u>
 Net surplus (deficit)			
for the year	<u>(42,261)</u>	<u>(9,854)</u>	<u>(41,743)</u>

For the first eight months of operation, ended December 31, 1966, the income from credit operations was insufficient to cover administrative expenses, resulting in a loss equivalent to US\$42,261. However, the loss for fiscal 1967 was only US\$9,854. As a result of the fact that by the end of 1967 subloans had reached a sufficient volume so that the interest due on them would exceed the administrative expenses of FIDE, fiscal 1968 showed a net profit of US\$41,743 which reduced the cumulative deficit to only US\$10,372, and improved the current financial position. The projections for the operations under the new program point to progressively improving net earnings in future years.

The following salient factors emerge from analysis of operations to date out of FIDE resources:

- a. FIDE's liquidity position may be described as satisfactory;
- b. the loan portfolio shows a satisfactory degree of collectibility and an absence of repayment arrears;
- c. operating expenses represent 1.3% of outstanding loans, which is a satisfactory ratio;
- d. the net losses suffered from the start of operations in May 1966 to December 31, 1967, are normal in amount and are attributable solely to the low volume of disbursements made to borrowers; and
- e. the training obtained through the technical assistance of ICAITI and the experience acquired have resulted in a substantial improvement in capacity to process loan applications, with a total of 78 operations in 1968.

It should be noted that the net profit of RD\$41,743 in 1968 would be eliminated if the BCRD were to decide to charge the 3% annual interest on its contributions provided for in the January 18, 1967 resolution of the Monetary Board. This resolution specifies that disbursements of contributions to FIDE out of the BCRD's own resources are subject to interest equivalent to 3% per annum, computable from the date on which FIDE actually places the funds. This obligation has not so far been enforced by the BCRD.

7. Loan portfolio: From the start of its lending operations on May 1, 1966, to December 31, 1968, FIDE approved 200 subloans totaling the equivalent of US\$13,054,768 1/ out of the resources of the IDB

1/ This figure does not include the contribution of the sub-borrowers. Actually, 209 subloans for the equivalent of US\$13,501,990 were approved, but 9 of these, for the equivalent of US\$447,222, were canceled.

and AID loan and the BCRD's own contribution. These figures signify an annual average of 75 loans totaling the equivalent of US\$4.9 million. The average monthly value of operations was US\$304,437 for the eight months of 1966, US\$487,739 for the year 1967 and US\$397,200 for the year 1968. The levels thus achieved during the initial period of operations of just over two and a half years indicate an effective administrative and technical capacity of the Department of International Agreements.

The following indicates size-distribution of the 187 subloans approved as of July 31, 1968:

Size of Loan	(Equivalent in US\$)	
	Number of loans	%
Up to US\$50,000	124	66.3
From US\$50,001 to US\$100,000	28	15.0
From US\$100,001 to US\$500,000	35	18.7
Total	<u>187</u>	<u>100.0</u>

8. General Credit Policy of FIDE: To meet the objectives of FIDE, the Department of International Agreements evaluates the economic merits of private-sector projects submitted to FIDE for financing on the basis of the following criteria: (a) replacement of imports, and establishment of new sources of foreign exchange earnings; (b) expansion of the exchange-earning capacity of existing export lines; (c) expansion of domestic production and improvement of productivity, through the establishment of new lines of production that use domestic raw materials and introduce technological advances, and (d) the elimination of bottlenecks in the domestic production of goods and services.

(in millions of dollars)

	1964	1966	1967	1968	1969
Trade balance	-23.0	-42.9	-30.9	-40.9	46.4
Exports	179.4	124.0	143.8	153.4	172.6
Imports	202.4 ^{a/}	-166.9 ^{a/}	-174.7	-194.3	-219.0
Services	-65.6	-51.3	-54.1	-48.4	-50.6
Transfers	2.9	1.4	3.0	3.9	4.0
Current balance	-85.7	-92.8	-82.0	85.4	-93.0
Direct investment	11.5	12.0	15.0	17.0	40.0
External assistance direct import financing	18.1	17.7	23.6	23.5	25.3
AID	--	(3.0)	(2.2)	(3.0)	(5.9)
AID TA & Peace Corps	(8.2)	(5.5)	(8.4)	(5.8)	(5.8)
Eximbank	(2.0)	(3.5)	(6.1)	(5.6)	(5.1)
IDB	(0.6)	(0.1)	(1.9)	(2.3)	(2.5)
PL-480 Volags etc.	(7.3)	(5.6)	(5.0)	(6.8)	(6.0)
Other capital movements	0.5	3.8	0.1	15.2	4.4
Loan amortization	-1.6	-8.2	-7.3	-8.9	-9.9
Errors and omissions	0.2	-3.6	-2.9	-1.5	--
Deficit financed	57.4	71.1	57.6	37.1	(33.2)
External assistance: local cost	13.6	59.6	43.4	35.5	37.3
AID	9.6	30.5	29.4	13.3	18.1
of which: SA	(4.4)	(28.0)	(23.3)	(7.5)	(10.0)
AID Emergency Grant Program	--	13.3	--	--	--
IDB	--	1.5	1.2	2.0	2.5
Special Sugar Allocation	--	14.3	12.8	9.5	6.5
PL-480 Title I	4.0	--	--	10.7	10.2
Monetary institutions (net)	43.8	11.5	14.2	1.6	-14.3
Commercial banks	29.7	-8.4	2.9	9.2	-3.0
Liabilities (decrease (-))	26.0	-9.7	4.6	8.5	-3.0
Assets	3.7	1.3	-1.7	0.7	--
Central Bank	14.1	19.9	11.3	-7.6	-11.3
Liabilities (decrease (-))	19.8	13.0	0.4	-4.0	-11.3
IMF	15.0	6.6	-3.1	-7.0	6.0
Bank consortium	30.0	-7.5	-3.5	0.1	-17.3
U.S. Treasury	3.8	-3.0	-1.5	--	--
Arrears	-29.0	16.9	8.5	2.9	--
Assets	-5.7	6.9	10.9	-3.6	--
Gap	--	--	--	--	-10.2

^{a/} Import figures for these years include an estimate for contraband.

NOTE: Subject to further revision.

NOTE: Other capital movements

	<u>1964</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
La Romana		-6.0	-2.0	8.0	--
CEA		4.0	-4.9	--	--
Camer		1.8	1.4	1.6	--
COINFO		2.6	2.5	0.7	
Perez Bernal Bowery/BNV		--	--	0.2	1.5
UN		0.4	0.4	1.2	0.3
Other		<u>1.0</u>	<u>2.7</u>	<u>3.5</u>	<u>2.0</u>
Total		3.8	0.1	15.2	4.4

ECON:AWwhiting

Summary of Central Bank Reserve
Requirements on Commercial BanksA. Basic Reserve Requirement

	<u>Savings and Time</u>	<u>Sight</u>	<u>Special F/X deposits</u>
Required Res.	30%	50%	100%

B. Incentives Related to Basic Reserve Requirement

1. If 50% of credit to productive sector, ^{a/} total required reserve reduced by 5%
2. If 60% of credit to productive sector, ^{a/} total required reserve reduced by 10%
3. If 70% of credit to productive sector, ^{a/} total required reserve reduced by 15%
4. Up to 45% of required reserves can be held in GODR bonds, but such bonds cannot equal more than 50% of bank's portfolio.

C. Marginal Reserve Requirements

1. Required reserves for increases in domestic liabilities over level of these liabilities on March 3, 1967^{b/}

100%	100%	100%
------	------	------

2. Incentives Related to Marginal Reserve Requirement

- (a) A deficiency of up to 85% of the required reserves on an increase in savings, time and special foreign exchange deposit liabilities over the March 3, 1967 level may be incurred if the deficiency is invested in following manner:

(1) in a special current account in the Central Bank which pays 2% interest	20%
(2) credit to the productive sector	45%
(3) credit to commercial sector	20%
Total	85%

- (b) A deficiency of up to 75% of the required reserves on sight and other obligations (other than those in (a) above) over the March 3, 1967 level may be incurred if the deficiency is invested in the following manner:

(1) in a special current account in the Central Bank which pays 2% interest	55%
(2) credit to the productive sector	20%
Total	75%

D. Alternative/Required Reserve Systems

Commercial banks may apply a single required reserve system to all their liabilities as follows:

- (a) on savings, time and special deposits:
- | |
|--|
| 15% in cash in vaults or deposited in the Central Bank |
| 10% in the special current account in the Central Bank which pays 2% |
| 25% Subtotal |

35% in credit of more than one year to the productive sector
20% other credit of up to one year or payable on demand to the
productive sector
55% Subtotal
20% in credit to the commercial sector
100% Total

(b) on sight and other direct liabilities:

25% in cash in vaults or in the Central Bank
15% in the special current account in the Central Bank that pays 2% interest
40% Subtotal (required reserves)
20% in credits of over one year to the productive sector
20% in other credits of up to one year or payable on demand to the
productive sector
40% Subtotal
20% in credit to the commercial sector
100% Total

(c) A surplus in the Central Bank special current account will cover any deficiency in any investment category.

A surplus of credit of more than one year to the productive sector will cover any deficiency in other investment categories except in the Central Bank special current account.

A surplus of credit of up to one year (or payable on demand) to the productive sector will cover a deficiency in credit to the commercial sector.

Any foreign exchange liability (covering commercial arrears and letters of credit) will have a 100% reserve requirement.

1/ The productive sector is defined as agriculture, cattle raising, fishing, forestry, beekeeping, birdkeeping, manufacturing, construction, mining, exports, the Dominican Government. The accounts of the

2/ Contingent operations set forth in Group 61 of the Catalogue of Accounts and accounts set forth in Note 1 of the First Resolution of the Monetary Board on January 18, 1967. These accounts are listed in the Annex to this paper.

PART THREE

UNCLASSIFIED
ANNEX II, Page 29 of 52
Exhibit G, Page 1 of 6

PRIVATE SECTOR PROJECTS
TO BE FINANCED
WITH FIDE RESOURCES

Submitted by: The Central Bank of the Dominican Republic

May 14, 1969
Santo Domingo, D.R.

UNCLASSIFIED

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
Departamento de Convenios Internacionales
FONDO DE INVERSIONES PARA EL DESARROLLO ECONOMICO
(FIDE)

PROYECTOS DEL SECTOR PRIVADO QUE SERAN FINANCIADOS
CON RECURSOS DEL FIDE PARA EL AÑO EN CURSO Y PRIMER
SEMESTRE DEL AÑO 1970

<u>Detalle</u>	<u>Monto Total a prestar por el FIDE</u>	<u>Costo Total de los Proyectos</u>	<u>Fuentes de fi- nanciamiento</u>
Proyectos en estudio en el De- partamento de Convenios Inter- nacionales	2,728,673.00	7,277,179.00	AID, BID y EC
Estudios de prefactibilidad de -proyectos preparados por el -ICAITI (*) y entregados al Sec- -tor Privado	1,853,135.50	3,706,271.00	AID, BID y EC
Proyectos en poder de las Ins- -tituciones Intermediarias que -serán sometidos al FIDE	3,286,070.00	10,424,740.00	AID, BID y EC
Proyectos en poder del Sector -Privado que serán financiados -con recursos del FIDE	5,154,262.00	11,154,080.00	AID, BID y EC
T O T A L E S	<u>913,022,140.50</u>	<u>332,532,190.00</u>	

(*) Actualmente la Misión del ICAITI está preparando 6 nuevos estudios de prefactibilidad que serán presentados al Departamento de Convenios Internacionales en el mes de julio del presente año.

MAN/rob

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
Departamento de Convenios Internacionales
FONDO DE INVERSIONES PARA EL DESARROLLO ECONOMICO
(FIDE)

PROYECTOS EN ESTUDIO EN EL DEPARTAMENTO DE CONVENIOS INTERNACIONALES

Detalle	Actividad	Préstamo Solicitado al FIDE	Costo Total del Proyecto	Posible Fuentes de Financiamiento del Proyecto
Pastas Dominicanas, S.A. por A.	Fab. Pastas alimenticias	380,000	765,151	AID o BID
Industrias de Tubos y Materiales Plásticos, S.A.	Tubos plásticos	149,436	307,436	AID o BID
Fertilizantes Químicos Dominicanos, S.A. por A.	Fabrica de fertilizantes	450,000	1,498,244	AID o BID
Complejo Industrial de Cerámica, S.A. por A.	Bloques de arcilla	150,000	376,727	AID o BID
Capas y Moldados Quisqueya, S.A. por A.	Fábrica de capas	55,000	172,495	AID o BID
Fertilizantes Santo Domingo, S.A. por A.	Fabrica de fertilizantes	74,344	1,000,905	AID o BID
Tazones Industriales, S.A. por A.	Plantas de hornos	80,000	167,105	AID o BID
Corporación S.A., S.A. por A.	Filtros de acetate de celulosa	200,000	416,314	AID o BID
Dr. Andre Compagnon Rosario	Salubridad	6,414	13,075	BC
Colegio de la Reina de Porres	Educacional	15,755	9,415	BC
Miguel A. Victoria	Educacional	17,750	35,500	BC
Mayobanex S.A.	Turismo	48,675	95,115	AID o BID
Dr. Augusto Ramirez	Salubridad	15,415	2,514	BC
Dr. Blas de los Rios	Salubridad	10,000	25,429	BC
Domingo Antonio Almonte	Turismo	10,000	21,365	AID o BID
Centro Cardiocascular, S.A. por A.	Salubridad	56,145	124,937	BC
Colegio Aurora Tazones Belliard	Educacional	10,000	20,000	BC
Colegio San Pablo	Educacional	95,000	191,000	BC
*) Industrias Lavador, S.A. por A.	Producción Aceite Comestibles, etc	405,000	825,463	AID o BID
*) Abonera y Lancia, S.A. por A.	Fabrica de abonos	15,200	60,374	AID o BID
*) Porcelana Caribe, S.A. por A.	Fábrica de platos de cerámica	178,526	375,526	AID o BID
	TOTAL	<u>2,756,675</u>	<u>7,277,175</u>	

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*) Cerveceros S.A. S.A. por A. para preparar el estudio correspondiente

UNCLASSIFIED
AMERICAN OVERSEAS BANKING CORPORATION
WASHINGTON, D.C. 20005

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
 Departamento de Convenios Internacionales
FONDO DE INVERSIONES PARA EL DESARROLLO ECONOMICO
(FIDE)

ESTUDIOS DE PREFACTIBILIDAD PREPARADOS POR EL INS-
TITUTO CENTRO AMERICANO DE INVESTIGACION Y TECNO-
LOGIA INDUSTRIAL (ICAITI) PUESTO A DISPOSICION DE
INVERSIONISTAS DEL SECTOR PRIVADO

<u>Detalle</u>	<u>Monto del Préstamo a solicitar</u>	<u>Costo Total de cada proyecto</u>	<u>Posibles Fuentes de Financiamiento</u>
Levadura para hornear	162,274.50	324,549.00	AID o BID
Sopas Vegetales enlatadas	253,250.00	506,500.00	AID o BID
Levadura tórula	354,207.00	708,574.00	AID o BID
Glutamato Monosódico	879,327.50	1,758,655.00	AID o BID
Avena Precocida	173,200.00	346,400.00	AID o BID
Salsa Mayonesa	30,796.50	61,593.00	AID o BID
	<u>01,853,135.50</u>	<u>03,706,271.00</u>	

FAV/rcb

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
Departamento de Convenios Internacionales
FONDO DE INVERSIONES PARA EL DESARROLLO ECONOMICO
(FIDE)

PROYECTOS EN PODER DE LAS INSTITUCIONES INTERMEDIARIAS QUE SERAN SOLICITADOS AL FIDE.

<u>Actividad</u>	<u>Monto del Préstamo a Solicitar</u>	<u>Costo Total de cada proyecto</u>	<u>Posible Fuentes de Finanzamiento</u>
Artículos para la construcción (bloques de arcilla)	600,000	1,240,174	AID y BID
Productos Lácteos	1,800,000	6,800,000	AID y BID
Muebles Escolares y Domésticos	300,000	890,416	AID y BID
Fertilizantes (fosforal-nitrogenado)	700,000	2,400,000	AID y BID
Confecioneros	25,000	50,000	AID y BID
Historias primas plantas resacañado	40,000	100,000	AID y EC
Producción alambres de esfilado	193,000	900,000	AID y BID
Efectos del hogar	49,9000	101,000	AID y BID
Educacional	10,000	40,000	EC
Pasteurización y homogenización de leche	125,000	271,550	AID o BID
Clinica médica	79,170	179,189	AID y EC
Confeción de camisas y pantalones	80,000	172,417	AID o BID
TOTALES	<u>83,286,000</u>	<u>282,026,249</u>	

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
Departamento de Convenios Internacionales
FONDO DE INVERSIONES PARA EL DESARROLLO ECONOMICO
(FIDE)

PROYECTOS EN PODER DEL SECTOR PRIVADO QUE SERAN FI-
NCIADOS CON RECURSOS DEL FIDE

<u>Detalle</u>	<u>Monto del</u> <u>Préstamo a</u> <u>Solicitante</u>	<u>Costo Total</u> <u>de cada Pro-</u> <u>yecto</u>	<u>Posibles Recu-</u> <u>tos de Finan-</u> <u>ciamento</u>
Tratamiento de mtales	900,000	2,000,000	AID o BID
Confecciones ropa interior, guajos, etc.	100,000	225,000	AID o BID
Empresa de servicios	25,000	50,000	AID o BID
Salubridad (ampliación)	100,000	200,000	AID o BID
Educacional	50,000	269,000	EC
Elaboración jabones, perfumes	50,000	100,000	AID y BID
Educacional	50,000	120,000	EC
Educacional	50,000	140,000	EC
Cartonera	100,000	200,000	AID o BID
Productos de haterias	70,000	170,000	AID o BID
Granja reproducción de pollos	185,262	373,000	AID o EC
Salubridad	35,000	70,000	AID y EC
Salubridad	80,000	160,000	AID y EC
Industrialización del arroz	500,000	2,000,000	AID o BID
Productos medicinales y cosméticos	150,000	300,000	AID o BID
Productos farmacéuticos	80,000	170,000	AID o BID
Convertidora de azúcar	2,200,000	2,500,000	AID o BID
Productos químicos y envases plásticos	18,000	37,000	AID o BID
Hotel turismo	80,000	175,000	AID o EC
Hotel Turístico	150,000	325,000	AID o EC
Fábrica de zapatos	80,000	160,000	AID o BID
Clinica Médica	50,000	110,000	AID y EC
Fábrica de navajas de afeitarse	250,000	500,000	AID y BID
Centros médicos	400,000	2,000,000	AID y EC
Varios hoteles para turismo	250,000	500,000	AID y EC
Ingressos de Servicios	150,000	300,000	AID o BID
T O T A L E S		\$ 5,154,262	\$ 21,254,000

FAV/lcb

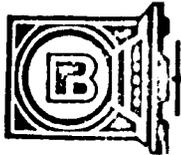
PART THREE

UNCLASSIFIED

**ANNEX II, Page 35 of 52
Exhibit H, Page 1 of 6**

LOAN PROJECTS SUBMITTED
TO PROJECT COMMITTEE
AS ELIGIBLE FOR FIDE FINANCING

UNCLASSIFIED



BANCO POPULAR DOMINICANO

DIRECCION CABLEGRAFICA: BANPODOMI

POSIBLES PROYECTOS CUYOS ESTUDIOS SE ESTAN PREPARANDO Y QUE SON SUCEPTIBLES DE FINANCIARSE CON RECURSOS DEL " F I D E ".

<u>TIPO DE EMPRESA</u>		<u>MONTO DEL -PROYECTO</u>	<u>TOTAL DEL -PRESTAMO</u>
1.- Procesamiento de Minerales (Cobre) (G.D.C.) (Sto. Dgo)		1,800,000.00	900,000.00
2.- Embalaje (T.A.)	"	50,000.00	25,000.00
3.- Salubridad (A.G.)	"	200,000.00	100,000.00
4.- Producción ladrillos (A. D.)	"	1,000,000.00	500,000.00
5.- Educación (C.M.)	"	269,000.00	50,000.00
6.- Producción jabón baño (I.J.)	"	100,000.00	50,000.00
7.- Elaboración piezas metales para industria edificios prefabricados, etc. (I.A.)	"	1,000,000.00	500,000.00
8.- Producción Lácteos (N. CxA)	"	4,000,000.00	400,000.00
9.- Industrialización Tomate (I.P.)	(Santiago)	200,000.00	100,000.00
10.- Educación (C. S.)	(Sto. Dgo)	142,000.00	50,000.00
11.- Cartonera (C. C.)	(Santiago)	250,000.00	100,000.00
12.- Producción de baterías	(Sto. Dgo)	162,000.00	70,000.00
13.- Productora de huevos fértiles (Avícola)	"	340,000.00	186,262.50
14.- Hotel de Rio San Juan	(Nagua)	150,000.00	75,000.00
15.- Salubridad (Inst. Clínica) (Dr. A.)	(Sto. Dgo)	100,000.00	50,000.00
16.- Producción Silicato de Sodio	(Sto. Dgo)	50,000.00	25,000.00
17.- Hotel en Villas del Mar (V. M.)	(San Pedro Macoris)	420,000.00	150,000.00
18.- Perfiles de aluminio (A. D.)	(Sto. Dgo)	754,441.00	500,000.00
19.- Producción de plásticos (L. C.)	(Santiago)	250,000.00	125,000.00
20.- Centro Médico (C.C.)	"	700,000.00	350,000.00
21.- Utensilios para el hogar (M.U.)	(Sto. Dgo)	101,000.00	49,900.00
22.- Educación (I.P.)	"	42,600.00	21,300.00

TOTALES.....RD\$ 12,001,041.00 4,377,462.50

A. G. G. G.

R. P. P.

SANTO DOMINGO, D. N.,
6 DE JUNIO, 1969.

Banco de Reservas de la Republica Dominicana

Fondo de Inversiones para el Desarrollo Económico

Préstamos aprobados no contratados por BRRD

Educación	RD\$ 113,755.47
Salubridad	72,576.57
Turismo	33,552.87
	<u>RD\$ 219,884.91</u>

Préstamos bajo estudio Banco Central

Industria	RD\$ 948,784.84
Salubridad	15,453.33
Turismo	10,000.00
	<u>RD\$ 974,238.17</u>

Préstamo bajo estudio BRRD

Industria	RD\$ 330,000.00
Salubridad	263,905.61
	<u>RD\$ 593,905.61</u>

Anteproyectos bajo estudio

Salubridad	RD\$ 615,000.00
Turismo	500,000.00
Industria	173,000.00
	<u>RD\$ 1,288,000.00</u>

Total general	<u><u>RD\$ 3,076,028.69</u></u>
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31 de mayo de 1969.

COMPANIA FINANCIERA DOMINICANA, S. A.

RELACION DE LAS POSIBILIDADES DE FINANCIAMIENTO
PARA LOS PROXIMOS SEIS (6) MESES

A) PROYECTOS EN ESTUDIO

Actividad	Monto del Préstamo
1.- Extrucción Aluminio	\$500,000.00
2.- Plásticos	250,000.00
3.- Fabricación de Jersey	50,000.00
4.- Ensamblaje Vehículos	20,000.00
4.- Hotel Turismo	100,000.00
	<u>\$920,000.00</u>

B) CONVERSACIONES PRELIMINARES

1.- Acondicionamiento Tabaco	250,000.00
2.- Alimento para Animales	500,000.00
3.- Convertidora de Cartón	500,000.00
	<u>\$1,250,000.00</u>

C) EN ETAPA DE PROMOCION

1.- Cemento	(indeterminado)
2.- Textiles	(")

TOTAL (A+B) \$2,170,000.00

Junio 6, 1969
CR/cf

PROJECTS UNDER STUDY FOR FIDE FINANCING

<u>Intermediary</u>	<u>Amount</u>
Chase Manhattan Bank	\$1,500,000
First National City Bank of New York	300,000
Royal Bank of Canada	400,000
Bank of Nova Scotia	300,000
Banco Agricola	200,000
Bank of America	400,000
	<hr/>
	\$3,100,000

June 5, 1969

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F.I.D.E.
Source and Application of Funds
(000 omitted)

<u>Sources</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Old Loans										
A.I.D. 517-L-007	1,600	-	-	-	-	-	-	-	-	-
I.D.B. 54/SF-DR	1,800	-	-	-	-	-	-	-	-	-
Banco Central	1,400	-	-	-	-	-	-	-	-	-
New Loans	-	-	-	-	-	-	-	-	-	-
A.I.D.	-	2,700	2,700	2,600	-	-	-	-	-	-
I.D.B.	-	2,250	2,250	2,500	-	-	-	-	-	-
Banco Central	1,000	1,500	1,500	1,600	-	-	-	-	-	-
Recoveries	1,600	2,217	3,568	5,103	6,823	8,318	7,898	8,551	8,486	8,293
Interest Received	500	748	1,000	1,240	1,360	1,340	1,320	1,300	1,280	1,270
Decrease in Cash	854	120	-	-	480	-	432	-	546	10
TOTAL	<u>7,754</u>	<u>9,535</u>	<u>11,018</u>	<u>12,443</u>	<u>8,663</u>	<u>9,658</u>	<u>9,650</u>	<u>9,851</u>	<u>10,312</u>	<u>9,573</u>

Applications

Loans Granted	7,400	8,817	9,568	11,103	6,823	7,318	7,898	7,551	8,486	7,793
Interest & Commitment Fee										
A.I.D. 517-L-007 1%	47	50	50	50	50	50	50	50	48	46
A.I.D. New 2%	-	27	81	134	160	160	160	160	160	160
I.D.B. 54/SF-DR 4%	164	200	182	164	146	128	110	92	74	56
IDB new interest 4%	-	45	135	230	268	242	216	190	164	138
IDB new Comm. Fee 3 3/4%	18	44	27	9	-	-	-	-	-	-
Amortization										
I.D.B. 54/SF-DR	-	221	455	455	455	455	455	455	455	455
I.D.B. New	-	-	-	-	636	636	636	636	636	636
A.I.D. 517-L-007	-	-	-	-	-	-	-	82	164	164
Operating Expense	125	125	125	125	125	125	125	125	125	125
Increase in Cash	-	-	395	173	-	544	-	510	-	-
TOTAL	<u>7,754</u>	<u>9,535</u>	<u>11,018</u>	<u>12,443</u>	<u>8,663</u>	<u>9,658</u>	<u>9,650</u>	<u>9,851</u>	<u>10,312</u>	<u>9,573</u>

Yearly Profit (interest received less interest lost and operating expense)	146	257	390	528	611	635	659	683	709	745
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F.I.D.E.
Balance Sheets
Projected as of December 31,-
(000 omitted)

<u>Assets</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Cash	836	716	1,111	1,284	804	1,348	916	1,426	880	870
Loans	15,400	22,000	28,000	34,000	34,000	33,000	33,000	32,000	32,000	31,500
Total Assets	<u>16,236</u>	<u>22,716</u>	<u>29,111</u>	<u>35,284</u>	<u>34,804</u>	<u>34,348</u>	<u>33,916</u>	<u>33,426</u>	<u>32,880</u>	<u>32,370</u>
 <u>Liabilities & Capital</u>										
Current Liabilities	100	100	100	100	100	100	100	100	100	100
Long Term Debt										
A.I.D.	5,000	7,700	10,400	13,000	13,000	13,000	13,000	12,918	12,754	12,590
I.D.B.	5,000	7,023	8,818	10,863	9,772	8,681	7,590	6,499	5,408	4,317
Banco Central	6,000	7,500	9,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total Liabilities	<u>16,100</u>	<u>22,323</u>	<u>28,318</u>	<u>33,963</u>	<u>32,872</u>	<u>31,781</u>	<u>30,690</u>	<u>29,517</u>	<u>28,262</u>	<u>27,007</u>
Accumulated Earnings	136	393	793	1,321	1,932	2,567	3,226	3,909	4,618	5,363
TOTAL	<u>16,236</u>	<u>22,716</u>	<u>29,111</u>	<u>35,284</u>	<u>34,804</u>	<u>34,348</u>	<u>33,916</u>	<u>33,426</u>	<u>32,880</u>	<u>32,370</u>

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AMEX II, Page 42 of 52
Exhibit I, Page 2 of 2

CONTRACT OF ADMINISTRATION
BETWEEN
THE GOVERNMENT OF THE DOMINICAN REPUBLIC
AND
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC

ARTICLE 1. Parties and Terms

This contract sets forth the provisions under which the Central Bank of the Dominican Republic will administer a fund initially of U.S. \$5,000,000 (five million dollars) from an AID loan to the Government of the Dominican Republic for the purpose of establishing an Investment Fund for Economic Development, hereinafter referred to as "the Fund".

ARTICLE 2. Purpose

The purpose of this contract shall be to establish a Fund which will make needed funds available to the private sector of the economy for financing investments which implement economic development policies of the Dominican Republic, within the following priorities.

ARTICLE 3. Priorities

The Central Bank shall direct the resources of the Fund to the financing of projects designed to increase production in agriculture, industry, mining and transportation services in accordance with the following order of priorities:

- a) Diversification and promotion of exports: Investments which tend to provide new sources of foreign exchange or increase the foreign exchange earning potential of current export activities;
- b) Elimination of bottlenecks: Investments which tend to eliminate shortages in domestic production of goods and services necessary to achieve the objective stated in paragraph a); and
- c) Import substitution: The Central Bank shall consider the kinds of goods to be produced, the net impact on the balance of payments, and the time it will take for the impact to be felt.

ARTICLE 4. Changes in Priorities

Changes regarding the activities to be financed or the order of priorities can only be effected if recommended by the Central Bank and approved by the National Economic Council as in keeping with the general economy development policy of the country.

ARTICLE 5. Eligible Investments

The resources of the Fund shall be used principally for the purchase of capital goods (local or foreign equipment or machinery), for construction, assembly and installations necessary to initiate a productive process of economic value and for payment of necessary technical studies for adequate preparation of the investment project. These funds may also be used for requirements of working capital, according to exceptional needs demonstrated in a complete financing plan and with the prior approval of the Agency for International Development.

Furthermore, no part of the resources of the Fund may be used to substitute other available funds.

ARTICLE 6. Intermediaries

The use of the resources of the Fund shall be carried out through commercial banks and development financial institutions, which at the present time are the following:

El Banco Agrícola de la República Dominicana;
The Chase Manhattan Bank;
El Banco de Créditos y Ahorros;
The First National City Bank of New York
El Banco Popular Dominicano;
El Banco de Reservas;
The Royal Bank of Canada;
The Bank of Nova Scotia;
La Corporación de Fomento Industrial
Compañía Financiera Dominicana S. A.

These hereinafter shall be called "intermediaries". Similar public or private institutions which may be created in the future shall be eligible to act as intermediaries.

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ARTICLE 7. Final Borrowers

The final borrowers of the resources of the Fund must be private persons or corporations established according to the laws of the Dominican Republic. The resources of the Fund shall not be loaned to corporations in which the Dominican Government or any other public institution may have direct or indirect control.

ARTICLE 8. Limits of Loans

- a) The minimum sum for loans from this Fund shall be DR\$10,000 and the maximum DR\$500,000.
- b) Normally, the loan shall not represent more than 50% of the total cost of the project. In case any loan application is presented for more than 50% of the total cost of the project, The Central Bank shall communicate this to the Agency for International Development for the approval or not of the additional percentage.

ARTICLE 9. Review and Approval of the Applications for Loans

All applications for loans from the Fund shall be submitted by the intermediaries to the Central Bank which shall notify, with a summary of the project, the General Secretary of the National Board of Planning and Coordination, in his capacity as the Secretary of the National Economic Council, who shall issue a certificate attesting receipt, indicating the date of same and specifying the applications received. Immediately following this the Central Bank shall study and review the loan applications.

If within 10 working days after having referred a loan application to the National Economic Council, the Governor of the Central Bank has not received any communications from said Council objecting to the same, the Central Bank shall proceed according to the result of the evaluation of the project to approve it or not.

If any member of the National Economic Council expressly and officially makes an observation on a loan application during the 10 working days above mentioned, the Central Bank shall not take any final action on said application until the member or members of the Council have indicated formally that their questions have been clarified. However, if within 10 working days after having had answered an observation the National Economic Council makes no objections to the application, the Central Bank shall act in accordance with the result of the evaluation of the project.

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ARTICLE 10. Functions of the Central Bank

In the administration of the resources of the Fund, the Central Bank shall have the following powers and duties:

- a) To publicize the Fund among intermediaries and potential borrowers;
- b) To review loan applications in the manner set forth in this contract and to make available funds under this contract to the intermediaries after the applications have been approved;
- c) To verify that the use of funds under this contract by the borrower is in accordance with the authorized purposes, and to follow the general progress of the borrowers;
- d) To report periodically on the operation and progress of this contract of administration;
- e) To determine whether the final borrower has additional resources apart from the sum required from the Fund to complete the project;
- f) To make payments of interest and fees to any external source which may furnish funds under this contract;
- g) To establish a separate department to administer this contract.

ARTICLE 11. Provision of Funds

The Central Bank shall make resources of the Fund available to the intermediaries for the loans approved. The funds so transferred shall be denominated only in Dominican gold pesos. The foreign exchange component of the loan shall be provided by the Central Bank upon submission of appropriate documentation by the intermediary.

ARTICLE 12. Repayment Period

The intermediaries shall fix the terms of the approved loans on the basis of the economic recovery period of the investment. In any case, the term shall not be less than three (3) nor more than twelve (12) years including any grace period.

ARTICLE 13. Rates of Interest

- a) The rate of interest to be paid by the intermediaries for the use of resources of the Fund May be varied by the Central Bank, taking into consideration the cost of external financing and the prevailing economic conditions. This charge shall be used to cover expenses of the Department mentioned in letter g) of Article 10 of this contract;
- b) On approved loans, the intermediaries may charge to final borrowers the following annual rates of interest;

Up to nine per cent (9%) on loans with a maximum term of eight (8) years.

Up to ten per cent (10%) for loans in excess of eight (8) years.

When the prevailing economic conditions in the Dominican Republic require it and when permissible under Dominican law, the rates of interest may be varied by the Central Bank in consultation with the intermediaries and the Agency for International Development.

ARTICLE 14. Late Disbursement Surcharge

In the event that a final borrower draws down resources of the Fund at a date or dates later than the one set forth in the disbursement plan submitted with the application, he will be assigned a surcharge of one per cent (1%) per annum on the belatedly drawn amount, which surcharge shall be collected by the intermediary and remitted to the Central Bank. In appropriate circumstances, the Central Bank may waive the payment of the late disbursement surcharge.

ARTICLE 15. Loan Agreements

For each approved credit, the intermediaries shall make loan agreements with the final borrowers which shall be in accordance with the models previously approved by the Central Bank and shall deliver to the Central Bank one (1) authenticated copy of each executed loan agreement. Any substantial modification of the terms or conditions of said loan agreements shall be subject to the approval of the Central Bank.

ARTICLE 16. Functions and Obligations of the Intermediaries

- a) To inform the private sector about the availability of the resources of the Fund;
- b) To promote investment plans beneficial to the country;
- c) To evaluate investment applications and projects, in terms of national desirability and not merely commercial criteria with regard to the technical, economic and financial aspects involved;
- d) To appraise applications for credit so that the resources will not be used in projects which could be financed with the applicant's own resources;
- e) To handle applications for use of resources of the Fund in accordance with the procedures established hereunder;
- f) To furnish the guarantees required by the Central Bank to assure satisfactory repayment of the loan and the fulfillment of each and every obligation forming part of this credit system;
- g) To provide to the final borrower resources of the Fund corresponding to the loan granted, in the form previously established by the Central Bank;
- h) To supervise the correct employment of the resources of the Fund by the final borrower and the general progress of the financed undertaking without prejudice to any inspection to be carried out by the Central Bank;
- i) To report periodically to the Central Bank on the development of the projects financed; and
- j) To supply to the Central Bank any additional information it may require.

ARTICLE 17. Information Required for Loans of Up to DR\$100,000

For any request not exceeding the amount of DR\$100,000 (one hundred thousand Dominican Gold Pesos), the intermediaries shall require from the applicants the following:

- a) Name, address and activities of the enterprise as well as the background and the industrial or agricultural experience of the owners, or of the directors and managers if it is a juridical person;
- b) Amount of the requested loan and form of disbursement and amortization;
- c) General nature of the project to be financed and specific aims of the loan;
- d) If any loan has been previously granted to the applicant from funds covered by this contract, an indication of the current status of such indebtedness;
- e) Total investment required to carry out the project and the sources thereof, including working capital;
- f) In the case of established enterprises, consolidated financial statements, including profit and loss statements, for the last three fiscal years. In the case of new enterprises, an authenticated copy of the organization statutes, if it is a juridical person, or a sworn statement of assets, if it is a natural person.
- g) A disbursement schedule setting forth the date or dates on which funds under this contract shall be withdrawn; and
- h) Any additional information considered necessary by the Central Bank.

ARTICLE 18. Information Required for Loans in Excess of DR\$100,000

For any credit request in an amount exceeding RD\$100,000 (one hundred thousand Dominican Gold Pesos), the intermediaries shall require from the final borrowers the following information:

- a) Name, address and activities of the enterprise as well as the background and the industrial or agricultural experience of the owners, or of the directors and managers if it is a juridical person;
- b) Amount of the requested loan and form of disbursement and amortization;
- c) General nature of the project, its advantages for the economic development of the Dominican Republic and its technical, economic and financial feasibility, as well as the specific aims of the loan;
- d) If any loan has been previously granted to the applicant from funds covered by this contract, an indication of the current status of such indebtedness;
- e) Total investment required to carry out this project and the sources thereof, including working capital, specifying the amounts and terms of other contemplated loans;
- f) Operational schedule to be developed, including the following:
 - i) Kind and amount of goods or services to be produced;
 - ii) Potential markets and estimates of the possible volume of sales (indicating basis for estimate);
 - iii) Type of raw materials and sources of supply;
 - iv) Available means of transportation and other necessary services; and
 - v) Plans for administration.
- g) In the case of established enterprises, consolidated financial statements, including profit and loss statements, for the last three fiscal years, as well as the details of same. In the case of new enterprises, an authenticated copy of the organization statutes if it is a juridical person, or a sworn statement of assets if it is a natural person;
- h) Technological studies and other necessary information for determining the feasibility of the project;

- i) A disbursement schedule indicating the date or dates on which funds covered by this contract will be withdrawn; and
- j) Any other information considered necessary by the Central Bank.

ARTICLE 19. Conditions of Loans

For every credit granted with the resources of the Fund, the final borrower must agree explicitly with the intermediaries as follows:

- a) To carry out and execute the project with the proper attention and efficacy, according to efficient financial and technical standards, and to that end the final borrower shall keep all necessary records;
- b) To assume the obligation that the goods and services financed from the resources of the Fund will be used exclusively for the implementation of the respective project;
- c) To permit examination by the Central Bank and the intermediaries financing the credit of the equipment, sites and buildings included in the project, as well as the different operations, records and documents relative to said project;
- d) To provide all the information relative to the development of the project, to its operation and to its financial status;
- e) To report to the intermediary and to the Central Bank, before it is carried out, any modification intended to be introduced into the investment plan.

ARTICLE 20. Documentation for Disbursements

Any disbursement made by the final borrower with funds covered by this contract must be supported by certificates and documents signed by the supplier or on his behalf, attesting the truthfulness of the payment made. Goods or services for which the aforementioned documents are not secured shall not be eligible for financing under this contract, except in the case of minor services of goods, documentation for which would be difficult to secure because of their nature, as the Central Bank may decide.

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ANNEX II, Page 52 of 52
Exhibit J, Page 10 of 10

ARTICLE 21. Amendments

Modifications to this contract may be made on the initiative of the Central Bank with the prior approval of the National Economic Council.

ARTICLE 22. Annulment of the Contract

At any time, the Dominican Government, for reasons of great national necessity, may annul this contract of administration with the express consent of the Agency for International Development.

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June 20, 1969

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer, or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1968.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1969.

COUNTRY PERFORMANCEProgress Towards Country Goals1. FAA §.208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(1) The Dominican Republic at the present time is making a strong effort to increase food production and with AID assistance is constructing new food storage facilities which will also help to speed distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(2) The Dominican Republic has taken numerous steps to improve its climate for private investment as evidenced by its participation in the A.I.D. investment guaranty program and the passage of an Industrial Incentive Law, albeit the latter is weak.

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AID 1240-2 (1-69)

(3) Increasing the public's role in the developmental process.

(3) The Dominican Republic has offered Government held shares of State owned industries to private land owners for land to be used in the land reform program. Encourages private investment.

(4) (a) Allocating available budgetary resources to development.

(4) (a) The Dominican Republic allocates available budgetary resources to development.

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 18.) and intervention in affairs of other free and independent nations. (See also Item No. 17.)

(b) No.

(5) Willing to contribute funds to the project or program.

(5) The Dominican Republic will contribute 5 million pesos to the project (RD \$1.00= U.S.\$ 1.00).

AID 1240-2 (1-69)

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

B. Are above factors taken into account in the furnishing of the subject assistance?

(6) The Dominican Republic permits free political expression; tax collection methods are improved and revenues are up; a land reform program is in effect and the Dominican Republic complies with the other criteria of question 6.

(7) The Dominican Republic adheres to the principles of the Act of Bogotá and the charter of Punta del Este.

(8) Account has been taken of the extent to which the Dominican Republic is making reasonable efforts to encourage repatriation of capital invested in other countries by its own citizens.

(9) The Dominican Republic is encouraging and cooperating in the establishment of Domestic and Foreign investment in mining, tourism, agriculture, and industry.

Yes.

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AID 1240-2 (1-69)

Treatment of U.S. Citizens

2. FAA §.620(c). *If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*
2. The Dominican Republic is not known to be indebted to U.S. citizens in any such matter.
3. FAA §.620(e)(1). *If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*
3. Neither the Government of the Dominican Republic nor any governmental agency or sub-division thereof is known to have taken such steps.
4. App. §.106. *If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U.S. citizens generally, what steps (will be) (have been) taken during loan negotiations to influence elimination of such distinctions?*
4. Such distinctions would not be acceptable.

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AID 1240-2 (1-69)

5. FAA §.620(o); Fishermen's Protective Act. §.5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*

a. has any deduction required by Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by A.I.D. Administrator?

5. The Dominican Republic has not seized or imposed any penalty or sanctions against any US fishing vessel in international waters.

No.

No.

Relations with U.S. Government and Other Nations

6. FAA §.620(d). *If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?*

7. FAA §.620(j). *Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?*

6. It is not anticipated that loan funds will be used to finance any productive enterprise which will compete with US enterprise.

No.

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AID 1240-2 (1-69)

8. FAA §.620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
8. The Dominican Republic has signed and instituted such an agreement.
9. FAA §.620(a). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
9. The Dominican Republic is not in default under any Foreign Assistance Act loan to the country.
10. FAA §.620(t). *Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
10. No.
11. FAA §.620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?*
11. The Dominican Republic is behind in their contribution to the U.N. The Administrator determined, after consultation with the Government of the Dominican Republic, that they will attempt to make such payments so that they are no longer delinquent; and in the light of that the Administrator determined to continue assistance to the Government of the Dominican Republic.
12. FAA §.620(a); App. §.107(a) and (b). *Does recipient country furnish assistance to Cuba, sell strategic material to Cuba, or permit ships or aircraft under its flag to carry cargoes to or from Cuba.*
12. No.

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AID 1240-2 (1-69)

13. FAA §.620(b). *If assistance is to a government, has Secretary of State determined that it is not controlled by the international Communist movement.*
13. The Secretary of State has determined that the Dominican Republic is not controlled by the international communist movement.
14. FAA §.620(f), App §.109. *Does recipient country have a communist government*
- No.
15. FAA §.620(i). *Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression.*
15. It has not been determined that the Dominican Republic is engaging in or preparing for aggressive military efforts.
16. FAA §.620(n); App. 107(b) and 116. *Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?*
16. It has not been determined that Dominican Republic is engaging in any such acts.

Military Expenditures

17. FAA §.620(s). *What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? Is U.S. P.L. 480 or development assistance used for military purposes? Are country's resources devoted to unnecessary military expenditures to a degree which materially interferes with*
17. During 1967 and 1968 expenditures for the military averaged 15.9% of total central government expenditures. No foreign exchange expenditures for military equipment have been reported in the last four years. No PL 480 assistance is used for military purposes. Military expenditures do not materially interfere with developments.

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its development? (Consideration of these points to be coordinated with PPC/MAS.)

18. FAA §.620(v). App. §.119. *How much spent by country during current U.S. fiscal year for sophisticated military equipment purchased since January 1, 1968? Has corresponding amount been deducted from current OYB, or is the weapons purchase determined by the President to be important to U.S. national security? (Responses to these questions to be coordinated with PPC/MAS.)* 18. None.

CONDITIONS OF THE LOAN

General Soundness

19. FAA §.201(d). *Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.* 19. Loan funds are to be loaned at rates of interest which are not unreasonable or illegal for the Borrower and are within the limits established by this Section.
20. FAA §.251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner.* 20. The activity to be financed has been found to be economically and technically sound.

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21. FAA §.251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
21. There appears to be reasonable prospects of repayment of this loan .
22. FAA §.611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
22. Necessary substantive financial planning for the project has been completed and a firm estimate of cost of the project to the U.S. has been obtained.
23. FAA §.611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?
23. No necessary legislative action required.
24. FAA §.611(e). If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
24. Mission Director has certified the country's capability effectively to maintain and utilize the project.
(See Annex I, Exhibit A.)
25. FAA §.251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
25. Other free world sources are not available upon reasonable terms.

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Loan's Relationship to Achievement
of Country and Regional Goals

26. FAA §. 207; §. 251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.
26. a) Extends credit to private sector. b) Increases agro-industrial plant production c) Assisted industries to train new workers. d) gainfully employed have greater buying power. (See Annex II, Exhibit C, for statistics on Socio-Economic effects of project; also to Part Two, Section I, for background information.)
27. FAA §. 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
27. No.
28. FAA §. 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
28. The project is consistent with and is related to other development activities being undertaken or planned and will contribute to realizable long-ranged objectives.

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29. FAA §.251(b)(7). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*
29. Through assisting in the development, expansion and modernization of private enterprises the activity to be financed will contribute to the achievement of self-sustaining growth.
30. FAA §.281(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.*
- 30.. The nature of this activity will assure maximum participation on the part of the people in the economic development of the Dominican Republic
31. FAA §.281(b). *Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.*
31. Provide financing for new and existing industries; encourages entrepreneurship; provides employment; and indirectly provides the Government with funds to carry on other programs e.g. health, education etc.

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32. FAA §.601(a). *Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.*
32. The loan will increase the flow of international trade and foster private initiative . The Loan also will improve technical efficiency of industry, agriculture and commerce.
33. FAA §.619. *If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?*
- 33 Not applicable. The Dominican Republic is not a newly independent country.
34. FAA §.251(n). *Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.*
34. This activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its review of national development activities. (See Page 6.)
35. FAA §.251(a). *Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.*
35. This activity will assist in promoting the cooperative movement in Latin America to the extent that cooperatives will be eligible for financial assistance.

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36. FAA §.209; §.251(b)(8).
Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

Loan's Effect on U.S. and A.I.D Program

37. ⁴
FAA §.251(b)(8); §.102.
Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

38. FAA §.601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

36. To the extent that the project will draw upon the experience and expertise of private investment funds in other Latin American nations and to the extent this project will serve as an example to private investment funds in other Latin American countries.

37. It has been determined that this project shall have no foreseeable adverse effects on any area of the U.S. economy. (See Page 5.)

38. U.S. private trade and investment abroad will be encouraged by the very presence of a development financing institution which contributes substantially to an improved investment climate. U.S. firms and banks will participate in this loan project directly, now and in the future.

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39. FAA §.601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*
39. Professional advisory services of U.S. firms will be utilized to the maximum extent consistent with the needs of the project.
40. FAA §.602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.*
40. Small U.S. business will be invited to participate. (See page 19.)
41. FAA §.620(h). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?*
41. No.
42. FAA §.621. *If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*
42. In providing technical assistance, the loan will utilize the services of private enterprise on a contract basis wherever practicable.

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43. FAA §.252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.
43. The total amount of money under the loan is going directly for use in the creation, expansion, modernization and consolidation of private enterprises.

Loan's Compliance with Specific Requirements

44. FAA §.201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?
44. Yes.
45. FAA §.608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.
45. Such property would not have a place in the Project. (See description Page 1.)
46. FAA §.604(a); App. §.108. Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?
46. Yes.

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47. FAA §.604(b). *What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?*
47. Any commodities financed by the Loan and purchased in bulk will be purchased at prices no higher than prevailing U.S. market prices.
48. FAA §.604(d). *If the host country discriminates against U.S. marine insurance companies, will loan agreements require that marine insurance be placed in the U.S. on commodities financed by the loan?*
48. In the event that the Dominican Republic discriminates against any U.S. marine insurance company, commodities purchased with loan funds will be insured against risks with a U.S. company as required by this section.
49. FAA §.604(e). *If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?*
49. Not applicable . (See project description, page 1.)
50. FAA §.611(b); App. §.101. *If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?*
50. Not applicable . (See project description, page 1.)
51. FAA §.611(c). *If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?*
51. Not applicable. (See project description, page 1.)

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52. FAA §.620(g). *What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?*
52. Assistance provided by this loan will not be used to compensate for expropriated or nationalized property.
53. FAA §.612(b); §.636(h). *Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.*
53. To the maximum extent possible the Dominican Republic is contributing local currencies to meet the cost of services related to this project. No Dominican pesos owned by the U.S. are available for financing this project.
54. App. §.104. *Will any loan funds be used to pay pensions, etc., for military personnel?*
54. No.
55. App. §.111. *Compliance with requirements for security clearance of U.S. citizen contract personnel.*
55. Not applicable. (See project description, page 1.)

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56. App. §.112. *If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?* 56. Not applicable. (See project description page 1.)
57. App. §.114. *Will any loan funds be used to pay U.N. assessments?* 57. No.
58. App. §.115. *Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).* 58. Will be complied with.
59. FAA §.636(i). *Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?* 59. No.
60. App. §.401. *Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?* 60. No.

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61. FAA §.620(k). *If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?*

61. Not applicable . (See project description page 1.)

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LOAN AUTHORIZATION

Provided from : Alliance for Progress Funds

DOMINICAN REPUBLIC : Government of the Dominican Republic
(Private Investment Fund)

"Pursuant to the authority vested in the Deputy US Coordinator, Agency for International Development ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan") pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of the Dominican Republic ("Borrower") of not to exceed eight million United States dollars (US\$8,000,000) to assist in financing the costs of loans by the Central Bank of the Dominican Republic ("Central Bank") acting through the commercial banks, the private finance corporation(s), and the Borrower's industrial and agricultural banks ("Intermediaries") for the creation, expansion and more efficient operation of industrial, agricultural, transportation, mining, medical and service enterprises in the private sector of the Dominican Republic, this Loan to be subject to the following terms and conditions:

1. Interest and Terms of Repayment

The Borrower shall repay the Loan to A.I.D. in United States dollars within forty (40) years from the first disbursement of the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the Loan interest of two percent (2%) per annum during the grace period herein above mentioned and three percent (3%) per annum thereafter.

2. Other Terms and Conditions

- a) Equipment, materials and services financed by the Loan shall be procured from the United States.
- b) Loans by the Intermediaries shall be made in accordance with an agreement, between the Borrower and Central Bank, as

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approved by A.I.D., and as it may from time to time be modified in a manner mutually satisfactory to A.I.D. and Borrower.

- c) Except as A.I.D. may otherwise agree in writing, the Loan will not be used in projects which result in the increased production for export of food or feeds which are in United States or world surplus, nor will the Loan be used in projects resulting in the increased production of non-food or feed agricultural products which are in world or United States surplus and the Loan will not be used to finance new or increase the production of existing cotton textile enterprises.
- d) Except as A.I.D. may otherwise agree in writing, the Loan shall not be used to finance a loan by the Bank to an Intermediary for a project sub-loan:
- i. which is either all or in part for working capital purposes;
 - ii. where private sources of financing are available on reasonable terms and conditions;
 - iii. where the amount of financing from this Loan is more than two hundred fifty thousand dollars (\$250,000);
 - iv. where the amount of financing from this Loan is more than fifty percent (50%) of the total cost of the sub-project; and
 - v. where such financing would cause the Bank's total assistance to any single enterprise to exceed five hundred thousand dollars (\$500,000).
- e) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U.S. Coordinator

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Date