PD-AAL-965/47
ISN 14869

CLASSIFICATION:

PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 517-K-039 2. COUNTRY Dominican Republic 3. CATEGORY Cash Transfer 4. DATE September 17, 1982

5. TO:
M. Peter McPherson, Administrator

6. OYB CHANGE NO.

7. FROM:
Otto J. Reich, AA/LAC

8. OYB INCREASE

TO BE TAKEN FROM:
Economic Support Funds (ESF)

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$ 41,000,000

10. APPROPRIATION - ALLOTMENT

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
[X] LOAN [ ] GRANT	[ ] INFORMAL [X] FORMAL [ ] NONE	FY 83	Date of approval

15. COMMODITIES FINANCED

N/A

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: $41,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $41,000,000	Other:

18. SUMMARY DESCRIPTION

The program proposes to: a) provide immediate balance-of-payment relief to the Dominican economy by provision of a $41 million cash transfer to the Central Bank; b) utilize these funds to pay for imported inputs of necessary U.S. goods and services for the private sector; c) provide, as counterpart funding, the peso equivalent of $41 million to be held in special accounts and aimed, with U.S. concurrence, at high priority private sector development needs in three areas: (i) $25 million for financing private sector export promotion and agribusiness projects; (ii) $6 million for training programs and institutional strengthening of organizations involved in private sector development; and (iii) $10 million to assist GODR investment in productive infrastructure necessary for expansion of private sector activities.

The GODR will agree to allocate foreign exchange to the private sector for the importation of spare parts, capital goods and industrial and agricultural inputs from the U.S. in an amount at least equivalent to the loan over a one-year period. Covenants will be included in the loan agreement which will require, inter alia, (1) use of A.I.D. assistance in a manner which will not cause injury, or the threat thereof, to the production, marketing, or pricing of U.S. agricultural commodities or products; and (2) the implementation of the provisions of Section 203(a) of the draft authorization markup for the FY 1982 supplemental which prescribes requirements relating to the use of funds. Details regarding the

(see continuation on next sheet

19. CLEARANCES

		DATE
[illegible]	[illegible]	9/27
[illegible]	[illegible]	9-27
AA/PPC	[illegible]	[illegible]
M/FM	[illegible]	[illegible]
[illegible]	[illegible]	28 Sep 82
[illegible]	[illegible]	9-27

20. ACTION

X APPROVED [illegible] DISAPPROVED

[signature] 9/29/82

AUTHORIZED SIGNATURE DATE

Counselor to the Agency

CLASSIFICATION

implementation of these covenants will be spelled out in a separate side letter.

The dollar loan will be repaid in 25 years with a 10-year grace period. The interest will be 2% during the grace period and 3% thereafter.

ACTION MEMORANDUM FOR THE ADMINISTRATOR

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THRU : ES

THRU : AA/PPC, John Bolton

FROM : AA/LAC, Otto J. Reich

SUBJECT: Program Assistance Approval Document (PAAD) - Dominican Republic

Problem: To authorize a $41.0 million loan from the Economic Support Fund (ESF) Supplemental to the Government of the Dominican Republic (GODR).

Background: In recent years the Dominican economy has been adversely affected by three major events which have precipitated the current severe foreign exchange and fiscal crisis. They are: (1) Hurricane David in late 1979 that caused extensive damage to the country's infrastructure; (2) the 1979 doubling of world oil prices that raised the import bill of petroleum products from 29 percent of total export earnings in 1978 to 42 percent in 1981; and (3) the world economic recession of 1981-1982 that has caused serious deterioration in the Dominican economy primarily due to depressed international prices for its major exports.

In response to a desperate economic situation, the newly-elected government of President Jorge Blanco, who assumed office in August 1982, immediately formulated both short- and long-term strategies aimed at economic recovery. These strategies are consistent with recommendations presented to the GODR by the World Bank in June 1982 calling for a narrowing of the central government's fiscal deficit, a spurring of the sagging Dominican private sector, and promotion of non-traditional exports to improve the country's foreign exchange position. Nevertheless, it will take time for these remedial actions to have a significant positive impact and, in the short run, there is concern that current difficulties could steadily impose worsening economic hardships on the Dominican people and cause severe structural damages to the economy.

The new administration will not only have to face the country's economic difficulties and undertake a series of difficult and far-reaching measures, but will also have to convince the Dominicans that its economic problems are being addressed effectively, that short-term austerity measures will pay off in the longer term, and that sacrifices will be shared equitably within the society. This is an extremely difficult task for the new government, and the reaction of the country is unknown. Nevertheless, the GODR has demonstrated that it is determined to confront the current economic crisis. In addition to its announcement and implementation of a series of economic reforms, the GODR is in the process of negotiating an IMF agreement. It is anticipated that this agreement will be reached by the end of the calendar year. It is against this backdrop that the U.S. offers assistance to ease the strain of the austerity measures the GODR is committed to take and to provide immediate balance-of-payments support.

Discussion: The attached PAAD proposes to provide a $41.0 million loan from ESF to the GODR through a cash transfer to the Dominican Central Bank. The cash transfer approach is considered the most appropriate because of the

immediate need for disbursement of dollars to provide balance-of-payments support and, specifically, to respond to demands for foreign exchange by the private sector. Foreign exchange will be made available from the loan subject to a covenant that in the succeeding twelve months the GODR will allocate at least an equivalent amount of foreign exchange to the private sector for the importation of raw materials, and intermediate and capital goods from the United States.

Within approximately a month of disbursement of the loan, the local currency generated from the program will be deposited in a special account in the Central Bank for uses agreed to by the GODR and the U.S. under the assistance program. The GODR has identified three areas of financing which respond to high priority private sector development needs. Although specific allocations of local currency generations will be subject to further negotiations between the GODR and the Mission, and subsequent presentation to A.I.D./W for approval, GODR plans and priorities include the following: (1) capitalization of a credit facility within the Central Bank to increase the volume of credit to the private sector for expansion of agribusinesses and export activities ($25.0 million); (2) capitalization of a productive infrastructure fund to accelerate on-going GODR investments financed by AID, the IDB and the IBRD where lack of local currency counterpart has resulted in work stoppage of projects deemed critical to expanded private sector productivity ($10.0 million); and (3) private sector training and technical assistance, and financial support for private voluntary organizations ($6.0 million).

The LAC Bureau's Development Assistance Executive Committee (DAEC) reviewed the PAAD and recommended approval on September 24, 1982, subject to certain revisions. Principal revisions are: (1) the inclusion of a covenant and side letter indicating that the CBI funds, including local currency generated, should not be used in a manner which will cause serious injury to the production, marketing or pricing of U.S. agricultural commodities or products; (2) the inclusion of a requirement that a least 80 percent of the credit funds be directed at small and medium export and agribusiness activities; (3) institutionalization of measures within the GODR to ensure that special emphasis be placed upon lending to cooperatives, including setting aside a portion of funds for feasibility studies which will identify cooperative projects for financing under this program; (4) an increase in assistance for private voluntary organizations; and (5) the inclusion of a general covenant that mutual agreement between the GODR and A.I.D. is to be reached on the programming of all local currency generated under the cash transfer.

Justification to Congress: Since funds were appropriated by the U.S. Congress for the Dominican Republic in the Caribbean Basin Initiative FY 1982 Supplemental, no further notification of Congress is required.

Recommendation: That you sign the attached PAAD facesheet authorizing $41.0 million for the Dominican Republic.

Attachment: Dominican Republic PAAD

LAC/DR:KSpake:rjv:9/27/82:X29484

Clearances:

PPC:PDPR:JEriksson
PC:GivanOrman