PDAAX-704

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number:

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Dominican Republic

3. PROJECT NUMBER: 517-0237

4. BUREAU/OFFICE: LATIN AMERICAN AND THE CARIBBEAN — 05

5. PROJECT TITLE (maximum 40 characters): DEBT CONVERSION

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 31 YY 92

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 88 B. Quarter 4 C. Final FY 90

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(2,900)	(0)	(2,900)	(3,090)	(410)	(3,500)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)		0			100,000	100,000
TOTALS	2,900	0	2,900	3,090	100,410	103,500

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) SDA	730-B	810							
(2)						3,500		3,500	
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 840 | 720

11. SECONDARY PURPOSE CODE:

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	BL				
B. Amount	50%	50%				

13. PROJECT PURPOSE (maximum 480 characters)

The purpose of the Project is to establish a well functioning debt conversion mechanism in the Dominican Republic.

14. SCHEDULED EVALUATIONS

Interim MM YY | MM 05 YY 90 — Final MM 11 YY 92

15. SOURCE/ORIGIN OF GOODS AND SERVICES: XX 000 — 941 — Local — Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ___ page PP Amendment.)

Approval of Methods of Implementation and Financing Richard A. Lawrence
T. Bebout, CONT

17. APPROVED BY

Signature: Thomas W. Stukel

Title: Thomas W. Stukel
Mission Director

Date Signed: MM 08 DD 24 YY 88

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

PROJECT AUTHORIZATION

NAME OF ENTITY	:	CENTRAL BANK OF THE DOMINICAN REPUBLIC
NAME OF PROJECT	:	DEBT CONVERSION
NUMBER OF PROJECT	:	517-0237

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Debt Conversion Project for the Dominican Republic involving planned obligations not to exceed Three Million Five Hundred Thousand United States Dollars (US$3,500,000) in grant funds over four (4) years from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The Planned life of the Project is four (4) years and five (5) months from the date of initial obligation.

2. The Project consists of technical assistance, commodities, and training to strengthen the Debt Conversion Unit of the Central Bank of the Dominican Republic to establish, implement and sustain a program of debt conversion in the Dominican Republic.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authorization is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following additional terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality Services -- Grant Funded

Except for ocean shipping, procurement of commodities and services financed by A.I.D. for this Project shall have their source and origin in Selected Free World countries (AID Geographic Code 941) and the Dominican Republic, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be only on flag vessels of the United States.

b. Conditions Precedent to Disbursement

1. First Disbursement under the Grant. Prior to the first disbursement under the Grant, or the issuance of any commitment documents under the Project Agreement, except for disbursements for the Financial/Banking Advisor, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish A.I.D. in form and substance satisfactory to A.I.D.:

a. an opinion of the Legal Advisor to the Grantee that this Agreement has been duly authorized and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

b. a statement of the name of the person who will represent the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statement; and

c. a copy of the Debt Conversion Program duly authorized by the Junta Monetaria giving authority to the Governor of the Central Bank to set conversion discounts on a case by case basis;

d. evidence from the Central bank that professional positions have been formally established for the Debt Conversion Unit and that operating budget allocations have been made to support those positions.

2. Disbursement for IPC Agreement. Prior to disbursement under the Grant, or to issuance by A.I.D. of documentation pursuant to which disubursement will be made for funds for the Central Bank agreement with the Investment Promotion Council, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish A.I.D. in form and substance satisfactory to A.I.D., a copy of the executed agreement, which shall contain the activities to be funded, the budget, and appropriate requirements for workplans.

3. Third Year Disbursements. Prior to disbursement under the Grant to finance any activities or procurements taking place after August 1, 1990, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., documentation indicating that satisfactory project outputs against established project workplans have been made as determined by a formal evaluation to be held in May, 1990.

c. <u>Covenants</u>

i. The Grantee covenants to modify the draft conversion mechanism to incorporate technically appropriate changes which increase the debt conversion mechanism's effectiveness in achieving the goal of attracting investment. Specifically, the Grantee covenants to review, amend and/or modify, as may be appropriate, the terms and conditions to the conversion regulations.

ii. The Grantee covenants to continue to use full faith and effort to reach an agreement with the creditor banks on a Multiyear Rescheduling Agreement (MYRA) under which debt obligations subjected to the MYRA will be available for conversion under the Program.

iii. The Grantee covenants to continue to convert debt not subjected to the terms and conditions of the MYRA.

iv. During times of discrepancies between the official exchange rate and parallel rates, the Central Bank will take appropriate measures to assure that the discount incentives provided for converted debt remain attractive to potential investors.

Thomas W. Stukel

Thomas W. Stukel
Mission Director

8/24/88
Date

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PRIVATIZATION/DEBT CONVERSION
PROJECT (517-0237)

TABLE OF CONTENTS

- 5 -

ND ABBREVIATIONS

ana de Exportadcres

r International Development

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Intermediary

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Secretary of the Presidency

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I. SUMMARY

The purpose of the Debt Conversion Project is to establish a well functioning debt conversion mechanism within the Central Bank as a vehicle for increasing foreign and domestic investment in the Dominican Republic. Under the Project, a $3.5 million grant will be made to the Central Bank to help initiate the Dominican Republic's debt conversion program. The role of the Central Bank will be as the implementor of the debt conversion program; administering, analyzing, evaluating and recommending the authorization of conversion projects. The Project will focus on assisting the Debt Conversion Unit (D.C.U.) of the Department of External Debt.

The main area of assistance will be support for the development of the debt conversion mechanism through institutional strengthening of the Central Bank's Debt Conversion Division.

AID resources will be used to provide technical advice, training, and the procurement of computer hardware/software to the Central Bank to establish and operate the D.C.U. Resources will also be extended to the Investment Promotion Council, IPC, under a subgrant from the Central Bank to design and implement a promotional and marketing campaign to inform and instruct potential investors in the use of the debt conversion mechanism and to promote its use. Lastly, local currency counterpart resources, supplied by the GODR will be used to finance transactions.

AID's contribution to the Project will be $3.5 million for 66 p.m. technical assistance, 15 p.m. training, commodities and promotional program support. The GODR will contribute the equivalent of at least $100 million for transaction financing and in-kind contributions in the form of Central Bank salaries.

Issues identified in the PID which were examined during the intensive review are discussed below.

Technical Assistance Level

The PID review questioned the need for the levels of technical assistance initially proposed. The Mission contracted the Center for Privatization to review the proposed technical assistance levels and reduced the level to that necessary to provide assistance in specific areas in which the Central Bank is deficient.

Local Currency Availability

The PID review questioned the extent to which the Project would require local currency financing given its uncertain availability in future years.

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The Project, as designed, does not require AID contributed ESF generated local currency to meet its primary objectives. However, it was concluded that to the extent to which local currency financing could be provided, the Project would be enhanced by increasing the amounts of debt which could be converted without increasing inflationary pressures.

GODR Institutional Involvement

The PID review raised the issue of involvement by other GODR institutions in the conversion process and questioned whether training or technical assistance should be provided to those institutions under the Project.

The debt conversion mechanism is structured so that implementation authority lies entirely within the Central Bank. Therefore, it has been determined that there is no need to provide technical assistance to other GODR institutions under the Project. However, expedient implementation will require the involvement of other government institutions. Therefore, a program will be carried out by the Central Bank to advise, promote and inform other important government entities which deal with foreign investment issues.

Capacity of the Investment Promotion Council (IPC)

The extent to which the IPC could absorb the funding to be provided under the Project in view of its limited staffing and own program objectives, was brought up during the PID review. Intensive review analyses concluded that a promotional program is necessary and that the IPC was capable and willing to undertake the work because it complements what the IPC is already doing and does not involve significantly more effort. Annex F discusses this issue in more detail.

Debt Conversion and the Commercial Banks

There is currently US$83 million of commercial arrearages available for debt conversion. However, before the Debt Conversion Program can be fully implemented, the commercial banks which hold most of the D.R.'s debt must agree to a Multiyear Rescheduling Agreement (MYRA) which provides their consent to allow debt to be converted. Once their consent is obtained US$812 million will be made available from the commercial banks to the program. Although this issue remains in the foreground as a potential delay to full implementation of the Debt Conversion Program, the GODR is committed to negotiating the necessary change in the MYRA as soon as possible, and the Program can begin using the debt which is not subjected to the MYRA. Furthermore, GODR commitment to proceed with the Program as soon as possible, will be required before the Project is authorized. This issue is examined in detail in the Section VI B.

Privatization

The Project will focus on the development and institutionalization of the mechanism for debt conversion with the expectation that access to the mechanism will, itself, encourage requests for privatization activities. The Mission has received a request from CORDE State Enterprise to begin an investigation of the involvement of the private sector in State Enterprises. To the extent that the GODR wishes to privatize state owned assets, this Project will support and facilitate such efforts. A more complete analysis is available in Annex (F).

Investor Incentives and Exchange Rate Policy

An additional, and major, concern was examined during the intensive review. As the GODR began to move away from its policy of a freely determined unified exchange rate, there was the need for the GODR to ensure that the Debt Conversion Program will provide incentives to potential investors regardless of the exchange rate policy the GODR adopts in the future. If exchange rate controls are applied, or the GODR attempts to maintain one or more "official" exchange rates for governmental transactions, the financial incentives for investors inherent in the Debt Conversion Program could be eliminated. This issue has been discussed in detail with GODR officials, and they have agreed that if exchange controls are imposed at any time during the life of the Conversion Program discounts will be adjusted as necessary to continue to provide investors with real incentives to exchange debt for equity investments in the D.R.

The GODR is committed to a strategy of export development promotion and has established legislative incentives to encourage foreign investment in the areas of tourism, free trade development, manufacturing for export and agribusiness development. These laws, in large part, have been responsible for the positive attitudes among investors in those sectors despite fluxuating exchange rate regimes. The Mission, the Investment Promotion

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Council and the Joint Agricultural Consultative Committee (JACC/RD) have undertaken separately, studies examining the investment climate in the Dominican Republic. The most recent study (July, 1988) sponsored by the Mission, examined private sector development in the country and studied, inter alia, attitudes regarding the investment environment. The conclusions indicate that the perceptions regarding the Dominican Republic as an investment location continue to be strong and are evidenced by the following data: 1) level of foreign investment in US Dollars increased from approximately US$39 million in 1985 to over US$100 million estimated for 1988, 2) foreign exchange generated by free trade zones increased from under US$40 million in 1985 to over US$100 million at end of 1987, 3) remittances from Dominicans working abroad climbed, nearly 50% over 1987 and, 4) tourism foreign exchange earnings climbed to a US$600 million level in 1987 from US$100 million in 1977.

Although it is difficult to predict GODR economic policies, the GODR is committed to actively promoting investment in the D.R. and to implementing the Debt Conversion Program. Their strategy has been successful so far and they seek to continue their effort through the implementation of a debt conversion program. Therefore, the Mission has determined that the Debt Conversion Project is an appropriate and effective way to provide assistance and support for the investment promotion effort.

The Project Paper was prepared by:

Lynnette Asselin	- Acting Deputy Controller
Kenneth Beasley	- Program Economist
Joseph Borgatti	- Consultant, Center for Privatization
Edward Gordon	- Consultant, Center for Privatization
Kenneth A. Lanza	- Deputy, Private Enterprise Office
Debra McFarland	- Deputy Project Development Officer
Julio Ortega	- Director, Debt Conversion Unit, Central Bank, D.R.

The Project Paper was reviewed by:

Mary Beth Allen	- Acting Project Development Officer
Peter Amato	- Project Development and Support
Robert J. Asselin	- Private Enterprise Officer
Thomas Bebout	- Controller
Raymond Rifenberg	- Deputy Director
Frank Guerrero P.	- Director, Division of Foreign Debt, Central Bank, D.R.

II. BACKGROUND AND PROJECT RATIONALE

A. The Debt Conversion Concept

Debt Conversion Programs represent an approach that offers debtor countries a means of attracting new investment and gradually lower debt service payments. Essentially, the mechanism involves a transaction whereby a foreign holder of a debt sells that debt at a discount to an investor who has identified an investment project in the debtor country. The investor who now owns the debt converts it at the Central Bank of the debtor country at a discount from its face value, into local currency or state-owned fixed assets for use in an investment project. The Central Bank discount is designed to share with the GODR some of the profit realized as a result of the original sale of the debt to the investors at a deeper discount. Transactions are carried out utilizing a procedure established and controlled by the debtor country's Central Bank. The debtor country benefits from debt conversions by reducing its foreign debt exposure, securing new equity investment in the country and (when applicable) converting non-productive public assets into productive assets. The investor benefits from debt conversions by receiving a substantial savings on the purchase of the debt instrument and, subsequently, a bargain price, in hard currency terms, for the assets purchased (or exchanged) for that debt in the debtor country.

1. Debt Conversion Process

The process of the Dominican Republic's conversion program begins with a preliminary screening of projects by the Debt Conversion Unit. The results of the review indicate to the potential investor the likelihood that his project will be approved. If the findings are favorable, the investor then submits a formal solicitation for debt conversion along with an application, a project pre-feasibility study, legal documentation and a bank certification indicating that the investor had obtained the foreign exchange to purchase the debt at least two years prior to the transaction request. (See Annex C, pages 18-20). A US$1.00 fee per US$1,000 of debt to be converted will be charged by the Central Bank to the investor up to a maximum fee of US$25,000. Financial and economic analyses will be conducted by the Central Bank's Debt Conversion Unit to assess the financial and economic impact of the project on the country. At this stage the discount applicable to the project will be determined based upon factors including foreign exchange generation, creation of employment, geographic location and transfer of technology. (See Annex C, pages 15 and 16).

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After the analyses have been completed and the discounts determined the project information and application are presented to the Monetary Board of the Central Bank with a recommendation for approval or denial of the transaction. If the Monetary Board accepts the recommendation of the Debt Conversion Unit to approve the transaction, the investor presents his corporate documentation to the Legal Department of the Central Bank which prepares the contract for signature. The investor has ninety days in which to conclude any outstanding obligations set forth in the contract. During that ninety day period the Central Bank notifies the coordinating bank of its commercial bank consortium to receive consortium concurrence to the conversion of syndicated funds before proceeding (See Annex C, page 21).

Once the investor has completed any outstanding obligations under the contract, the Debt Conversion Unit arranges for the disbursement of funds by sending the authorization to the Exchange Department for payment against the disbursement schedule detailed in the contract. The funds are disbursed to a local commercial bank which was designated by the investor in accordance with the disbursement schedule.

The Exchange Department then notifies the Debt Conversion Unit of each transaction. The Debt Conversion Unit will maintain an information system which controls, analyzes and tracks the process of receipt, evaluation approval and disbursement.

B. Need for Debt Conversion Program in the D.R.

Private sector investment in the Dominican Republic has been growing over the last several years, but since 1986 not as rapidly as public sector investment. Public sector investment spending in the Dominican Republic increased from 3.3% of GDP in 1983 to approximately 8.9% in 1987 while private sector investment fell over the same period from 17.9% to 17.8%. This reflects an emphasis by the current Government of the Dominican Republic (GODR) on public sector investment, but also points to the need for the provision of adequate financing to support consistent and rapid growth in private sector investment, both foreign and domestic. Foreign investment since 1984 has been mainly in the development and expansion of free trade zones (FTZs), and in tourism and agribusiness. Interest in investing in these sectors remains high despite the economic difficulties currently existing in the Dominican Republic. The Debt Conversion Program would encourage these investments and would provide an inducement to other investors to consider the Dominican Republic as a potential investment site. In fact, the demand for the Program is high, as evidenced by the forty-five (45) proposals currently registered in the Central Bank with a total value of approximately US$600 million (See Section VI for discussion of specific investment proposals).

(12

There is currently no debt conversion apparatus within the country. The Debt Conversion Program will address that problem by developing such an apparatus which will help both foreign and domestic investors mobilize local currency resources for investment in high priority, private sector activities in the Dominican Republic. Development of such an apparatus will also help the country stay competitive with neighboring countries which already are sponsoring debt conversions.

In addition to providing an attractive vehicle for the financing of additional private investment, the Debt Conversion Program will help address the problem of servicing the GODR's outstanding external commercial debt, which currently amounts to about $812 Million. Of the $812 million in external private debt to private institutions, over $800 million is held by commercial banks, of which approximately $700 million is owed to private, U.S. commercial banks. The average cost of commercial bank funds in 1987 was 8.25% (1 3/8% above LIBOR), accounting for an interest expense outflow of approximately $55 million to private U.S. commercial banks. The cost of the service on the total commercial debt in 1987 was approximately $61 million.

The GODR has insufficient resources to liquidate this debt and strains itself even to service it. Additional lending by US commercial banks dried up several years ago. The country's access to concessional credit is now more limited, and foreign exchange earnings from exports have been severely affected by cuts in the U.S. sugar quota.

The Debt Conversion Program will help alleviate the D.R.'s balance of payments problem by lowering the level of debt outstanding and resultant debt service payments. Under the MYRA signed for the period 1984 - 1986 with the creditor commercial banks, the Central Bank restructured US$327 Million of debt. Total unstructured debt of US$448 Million remains which is not subjected to terms of the MYRA and could be made available for debt conversion. However, the Central Bank is currently negotiating the conditions for a new MYRA and has decided therefore, to initiate their conversion program with debt available from commercial arrearages which totaled US$83 million rather than the unscheduled debt which is subject to negotiation. It is expected that once a new MYRA is signed, the clauses restricting the use of rescheduled debt for debt conversion transactions will be modified, thereby permitting an additional US$775 million to be made available for conversion under the program. Over the longer run, some of the new investments financed under the Debt Conversion Program also will increase the country's foreign exchange earnings.

Experience with the debt conversion process is strong in Latin America and the Philippines. Chile, for example, has used the mechanism to complete conversions valued at $1.2 billion, saving $190 million in interest payments during 1986 and 1987. Mexico expects to reduce its outstanding foreign debt by $1.8 billion through private investment generated by conversions. In the Philippines, estimates range from $200 to $500 million in new investment by mid-1988 generated through their recently established conversion mechanism. In general, the experiences of these countries have been positive, and their assessment is that the program is meeting the objectives of reducing external debt, and generating new investments and employment. (See Annex F Exhibit I for a comparative overview of debt conversion programs).

The debt conversion mechanism developed for the Dominican Republic has taken into account the experiences of other countries in Central and South America, in an attempt to avoid design mistakes which were included in those programs. Consequently, the Dominican Republic's draft program incorporates most of the attractive features of the other conversion mechanisms while avoiding many of the problems faced by other countries in the implementation of their conversion programs. The program of conversion designed for the Dominican Republic is particularly attractive to investors as evidenced by the U.S.$600 million worth of proposals currently under consideration by the Central Bank. For example, the restrictions on remittances for profits is three (3) years, the shortest period of any other regional program. Likewise, the restriction on the repatriation of capital is eight (8) years which is mid-way between the 5 and 12 years required by other programs in Latin America and the Caribbean. Finally, the Dominican schedule of discount from the face value converted debt for eligible projects ranges from a maximum of 45% to a minimum 9.5%. In effect, this means that at the current rate of sale for Dominican Debt, an investor receives a return on his transaction of a minimum of 120% to a maximum of 262%, an attractive opportunity by any standard.

The potential exists, therefore, to address a number of the D.R's development problems by establishing and supporting a Debt Conversion Program. It can assist the GODR to lower its debt service level, increase foreign investment (and generate employment), and encourage privatization of state-owned assets.

C. Constraints to Development of Debt Conversion Program which the Project will Address

There are several factors that could inhibit or constrain the development of a viable Debt Conversion Program in the Dominican Republic which the Project will address. The most important ones are: (i) the ability of the Central Bank to implement an efficient Conversion Program; (ii) whether potential investors are well enough informed regarding investment opportunities in the D.R. and how the Debt Conversion Program will work, and (iii) the need to balance macro-economic stabilization objectives (through controlling growth in the money supply) with the volume of annual conversions necessary to make the Program viable.

The Central Bank is one of the GODR's best-run institutions. Its professional staff is generally well-trained academically, apolitical, better paid than other GODR employees, and less subject to widespread turn-over when administrations or Bank leadership change. Nevertheless, the Debt Conversion Program will be a new activity for the Bank. At present, only two staff members (the Chief of the Division of External Debt and the Chief of the Debt Conversion Unit) are fully familiar with the concept of debt conversions and with practices being followed in countries which already have programs. Those individuals will have overall responsibility for the Program but not be able to manage it day-to-day. Additional Central Bank personnel must be hired (or transferred) and trained. Training will need to take place on-the-job, while the Program is being implemented.

Although the D.R. is attractive for foreign investment relative to neighboring countries, investment promotion programs provide necessary support to potential and actual investors. The Investment Promotion Council (IPC) of the Dominican Republic - an independent institution whose Board includes both private and public sector representatives - is currently implementing a multi-faceted promotion program focused on attracting specific types of industries to the D.R., mainly to the country's free trade zones (FTZs). In addition to continuation of promotion of investment in FTZs and in other sectors, it will be necessary for potential investors - both foreign and Dominican - and representatives of banks holding D.R. debt to be made familiar with the D.R.'s Debt Conversion Program and how it runs in order for them to be induced to using the Conversion mechanism to invest in the D.R. The Project will provide funding to the IPC for seminars, materials and workshops to assist the marketing and information segments of the conversion program.

15

The easiest way of financing a debt conversion transaction is new monetary emissions by the Central Bank. Since extensive use of Central Bank monetary emissions is incompatible with the need to stabilize macroeconomic financial structures, various ways of financing the required pesos without increasing the net money supply must be employed, and limits on new monetary emissions will be enforced. To the extent that conversions involve the transfer of state-owned assets, monetization of the conversions will not be required. These transfer transactions will be limited only by GODR willingness to privatize and the availability of public assets that can be profitably privatized. However, most conversions will require the Central Bank to make available Dominican pesos for the debt converted.

D. Project Strategy

The proposed Project will address the three constraints outlined above and should enable the D.R.'s Debt Conversion Program to be carried out successfully. The Project will finance technical assistance, training, and limited commodities to strengthen the institutional capacity of the Central Bank to implement the Program and to improve technical aspects of the Program over time. Funds will also be made available to finance promotional activities to be undertaken by the Investment Promotion Council to make potential investors and their bankers familiar with opportunities in the D.R. and the procedures employed under the Debt Conversion Program. Lastly, if available, local currency funds generated under future ESF programs will be made available to enable the GODR to have a marginally larger Conversion Program than would otherwise be the case, while staying within self-prescribed limits on monetary emissions. Also, technical assistance to be provided under the Project will help the Central Bank develop bond issues to raise peso funds internally for use in the Program.

E. Conformance with Host Country and AID Policies

1. Host Country Policy Environment

The GODR has traditionally attracted foreign investment and encouraged economic growth through promoting an open-market system and a strong private sector. Conditions have been especially attractive since the unification and floating of the exchange rate which took place in February 1985, at which time greater emphasis began to be given to export promotion rather than import substitution. Evidence of the GODR's commitment to an open economy and the promotion of private sector investment is found, in part, in legislation which provides favorable conditions for foreign investment. Laws, such as Nos. 861, 299, 69 and 153 which deal with general conditions for foreign investment, industrial free trade zones, and domestic industries for export and tourism respectively, have been enacted and implemented. These laws are showing success in attracting and maintaining foreign investment. (See Annexes B, C and D for greater detail). The implementation of a Debt Conversion Program as an additional measure to promote foreign and domestic private investment is consistent with the GODR's traditional policy of promoting an open economy with a strong private sector. The USAID anticipates that this Project will also provide additional inducements to move toward a privatization policy with specific targets.

2. Relationship to AID Policies and USAID Country Strategy

It is AID policy to support debt conversion in order to encourage basic structural reforms leading to rapid and sustained economic growth, and to increase private sector participation in key productive sectors (See State 186002). Debt Conversion programs are also encouraged by Policy Determination 14, dated June 16, 1986 which discusses privatization. The "Financial Markets Policy Paper", dated September 11, 1986, and the cable entitled "Debt/Equity Swaps", dated June 17 1987, (State 186002) outlines specific considerations to be taken into account in the design of debt conversion activities. The parameters for AID involvement in debt conversion programs can be broad and include policy dialogue, AID-sponsored Development Assistance (DA) projects and use of local currency generations. To date, AID has supported a debt conversion mechanism in Honduras, although there are presently no DA-funded projects underway in any country.

USAID/DR's interest in assisting the GODR's efforts to establish and implement a debt conversion mechanism is consistent with the policies outlined above and the Mission's approved CDSS which outlines plans for AID support through:

a. Continued progress in implementing the ongoing economic stabilization program.

b. Expanded private investment in the industrial and agricultural sectors and the development of a broader base of non-traditional exports.

17

c. Rapid diversification of the agricultural sector into non-traditional crops with foreign exchange earning potential.

d. Improved access to needed health care and family planning services by reinforcing the private sector's capacity to meet these needs.

The Project will assist the Central Bank of the Dominican Republic to reduce foreign debt, attract investment, generate employment and encourage the privatization of GODR-owned assets. The Project will have positive impact on the country's economy and will build on the achievements of the Private Sector Expansion Project (517-0171), the Export and Investment Promotion Project (517-0190), and the Agribusiness Promotion Project (517-0186).

III. PROJECT DESPRIPTION

A. Goal and Purpose

The Project's goal is to assist the GODR to increase foreign and domestic private sector equity investment in the Dominican Republic. The purpose of the Project is to establish a well functioning debt conversion mechanism in the Dominican Republic.

Resources required to support this project are estimated at $3.5 million in A.I.D. grant funds and up to $100 million in counterpart resources. The chief executing agency will be the Central Bank of the Dominican Republic.

B. Host Country Contribution

The Grantee will contribute the local currency equivalent of $460,000 over the LOP for salaries for the five additional professional staff positions that will be added to the Debt Conversion Unit of the Central Bank under the Project. In addition, as noted above, the Grantee will provide the local currency equivalent of approximately $100,000,000 face value during the life of the project to finance the conversions of debt. Thus the host government contribution will greatly exceed the 25 percent of total project costs required by Section 110(a) of the Foreign Assistance Act.

C. Project Outputs

1. Outputs

The major output of the Project will be the establishment of an operating debt conversion mechanism in the Dominican Republic. The Central Bank will have a qualified staff of analysts to operate the system including five trained and experienced professional counterparts working in the Central Bank's Department of External Debt, Debt Conversion Unit, who will be thoroughly familiar with the conversion system. This will result in the institutionalization of a conversion mechanism as a means of encouraging investment and reducing the GODR debt. Additionally, 2,000 private businesses and eight public institutions will have received comprehensive information and assistance. At least six seminars and workshops will have been carried-out, training 150-180 individuals.

2. EOPS

It is expected that at the end of this four year project the following will have been obtained:

- New investment in the Dominican economy totaling up to US$500 million by foreign and local investors;
- Up to thirty (30) conversion projects;
- Reduction in external GODR debt to foreign commercial banks by US$172 million with US$32 million in cumulative debt service savings, and US$89 million of new foreign exchange generated through conversion projects;
- Identification of specific targets for the privatization of government assets and services to decrease the recurrent cost burden of the GODR; and
- Generation of an estimated 36,800 new jobs directly attributed to conversion projects.

D. Project Components

The Project has three components. These are 1) Institutional Strengthening of the Debt Conversion Unit of the Central Bank, 2) Promotional Campaign, and 3) Transaction Financing. The "Institutional Strengthening" component involves three types of inputs: (a) technical assistance, (b) training, and (c) equipment, operational costs and materials. The "Promotional Campaign" component will include financing of technical assistance and promotional program operating costs. While the Central Bank will be the main executing agency, the Investment Promotion Council will be granted funds to implement the promotional campaign component. The third component, "Transaction Financing" will provide local currency financing for debt conversions. The project will provide a "Financial/Banking Advisor" under a personal service contractor to monitor the Project and to advise USAID management on issues relating to Project implementation. The Project will finance two evaluations of the Project's implementation.

1. Institutional Strengthening

The objective of this component is to provide the Central Bank's Division of External Debt with the capability necessary to support the development and implementation of the debt conversion mechanism on a permanent basis. A.I.D. grant funds will be used to finance technical assistance, operational expenses, training and selected equipment and materials purchases to strengthen the Debt Conversion Unit in the areas indicated in the Institutional Analyses (Section VI.A).

a. Technical Assistance

The Division of External Debt, Debt Conversion Unit will require assistance in a variety of tasks to successfully implement the debt conversion mechanism . A Central Bank Advisor, financed under the Project, will be housed in the Central Bank and will assist the Director of the DCU in the technical administration and management of assistance and training provided during the Project's life. Specifically, the advisor will assist in the planning and acquisition of the specific technical expertise required for the various tasks to be performed in the debt conversion process. The advisor will also plan and administer the training, orientation and observational visits program and will be responsible for coordinating the implementation of those activities. Included in the advisor's responsibilities are assisting the Chief of the DCU in staffing, promotion, screening and analysis of projects, procedures, disbursement and TA contract monitoring. The advisor will provide 18 person-months of service to the Central Bank during the three-year life of the Project. A total of eighty-one person-months of short-term technical services in the following areas are required.

i. Asset Valuation and Assessment

The GODR has decided to consider the sale or lease of state-owned lands for tourism development as part of the conversion program. However, it is a difficult task to accurately appraise the value of assets held by governments for sale to the private sector. Consequently, an equitable system of valuation and appraisal must be developed which meets the expectations of the GODR while satisfying the requirements of the investors. Therefore, a system of valuation will be established to prevent an arbitrary assignment of value and to provide a reasonable basis for the asset conversion. Technical assistance is required to establish and implement an asset valuation system. The advisor(s) will work directly with the staff of the Office of Debt Conversion, Division of External Debt. At present, 4 person months of short-term technical assistance (pm) are scheduled for this task.

ii. <u>Program Accounting, Financial Services and Regulatory Assistance</u>

A system for approving and disbursing local currency funds and transferring state-owned assets to new investors in exchange for debt must be developed, implemented and incorporated into the standardized reporting and accounting mechanisms of the Central Bank. Technical assistance is required to implement this task and to assist in the establishment of a system to govern the process of the review and approval of individual transactions. The advisors will assist the Debt Conversion Unit, the Accounting Division and the Legal Advisor to the Central Bank in these tasks. An additional 4 (pm) of short-term assistance are scheduled.

iii. <u>Management Information Systems Development</u>

Transaction analysis, asset valuation and accounting records will require the use of an integrated management information system. A system to generate reports and analyses will be developed to assist in assessing project value and impact within a macro-economic framework. The system will be installed and maintained by the Office of Debt Conversion. An estimated 4 months of technical assistance will be required to analyze, design, develop and implement an integrated management information system for use in the project.

iv. <u>Banking Liaison and Institutional Coordination</u>

In order to assist the successful initiation and completion of debt conversion transactions, accurate and timely information must be generated within the Central Bank and disseminated to commercial banks and potential investors as well as to other government institutions. In addition, effective liaison between the Central Bank and commercial banks in both the U.S. and Dominican Republic will assist in the identification of potential investors. Other local private institutions such as the Joint Agricultural Consultative Committee (JACC), the Investment Promotion Council (IPC), the Consejo Nacional de Hombres de Empresa (CNHE), and the American Chamber of Commerce (AMCHAM) will be involved in identifying and attracting potential investors. Working directly with the Office of Debt Conversion the commercial banks and the IPC an estimated 4 (pm) of short-term technical assistance is required to create this liaison function.

22

Specialized Technical Assistance is also required in addition to the assistance detailed in i - iv below. This specialized additional short-term assistance, which will require 32 person-months, includes industry specific specialists and experts who will appraise the market for the sale or lease of assets for individual projects as distinct from the T.A. described below whose tasks are defined as designing and implementing a system within the DCU. Under this specialized T.A., experts in bond issues will also be utilized to assist in the design of a bond offering as one way of generating the funds to be utilized by the Central Bank. Other uses of these technical specialists will include project analysis specialists, promotion experts, rules and procedure review experts and economic consultants. The nature and extent of short-term technical assistance required for the Project has been analyzed.

b. Training

Training is an essential element to successful institutionalization of the debt conversion mechanism. Training will mainly be carried out locally, on an informal, on-the-job basis. Specifically, staff training in the Debt Conversion Unit will be undertaken by the technical advisors to develop a level of expertise which will assure program continuity. Also, where required, formal workshops and seminars will be conducted for appropriate in-house officials and their staffs. Funding is reserved to sponsor observational trips to other Latin American countries where conversion programs are being implemented and to the United States to establish relationships with creditor institutions. The two subcomponents under the "Training" component are valued at US$700,000 for the life of the Project.

b.1 Training programs and seminars

Specialty trainers will be provided for a total of 15 person-months to organize and conduct sessions for Central Bank personnel involved in the conversion transactions. During the life of the Project, training and seminars for Central Bank officials, staff and analysts will be carried out in the areas of project screening, economic analyses, financial analyses, asset valuation techniques, disbursement processes, management information system and controls. Training will also be provided in marketing, promotion and project identification to the staff members designated as the banking liaison officials. Officials from the Debt Conversion Unit, INFRATUR, FIDE and INDOTEC will benefit from this component which will be conducted through a minimum of eight separate workshops and seminars dealing in the topics described above.

b.2 Observational Program

In order to orient staff and to provide additional exposure to the processes of debt conversion, observational travel will be scheduled. One trip of two weeks in duration is programmed for the four professionals of the Debt Conversion Division to observe procedures being utilized in the Central Bank of Chile. Another one week excursion for the staff is planned to Washington, D.C. where they may observe the debt conversion procedures used by the International Finance Corporation of the World Bank.

Observational travel is also scheduled for the Debt Conversion Chief. Four trips of one week each will be provided to this official for first-hand observation of the successful programs in Chile and Mexico, and to assist in establishing contact with counterparts in private investment banks in Boston and Washington, D.C.

Observational travel of two weeks each to Washington, Boston, Chile and Mexico are scheduled for bank officials with the responsibility for legal decisions, disbursement control, and the banking liaison staff member to engage in a product interchange of the technical problems facing each specialized area.

c. Equipment, Operational Costs and Materials

To support the development and institutionalization of the debt conversion mechanism in the Central Banks, the Debt Conversion Unit will require the purchase of a limited amount of supplies, materials and equipment under the Project. It is estimated that this procurement will mainly consist of hard-disk personal computers (PCs) with printers along with the necessary software and accessories. Four PCs and four printers will be procured as well as a Telefax machine and reproduction equipment.

In addition to the purchase of equipment, certain materials and other operational expenses will be funded under the grant. Operational costs and materials include the purchase of specialized software, computer accessories, furniture, and program literature. The funding provided under the Project for this component is US$400,000.

2. Promotional Activities

In order to establish an understanding of the conversion mechanism nationally and internationally, a promotional campaign will be sponsored to explain the requirements of the program and to highlight priority opportunities.

The debt conversion program's financial concepts are difficult to grasp and its procedures complex. Moreover, its functioning will often involve other organizations and institutions which deal with foreign investment. Those organizations will be the beneficiaries of promotional and informational efforts conducted by the Investment Promotion Council (IPC) acting through the Central Bank liaison. Targeted activities to promote the conversion program will be undertaken in the U.S. and in the Dominican Republic to identify potential investors and creditor banks. The promotional activities will be also designed to assist potential investors and others in understanding the program and in making applications to participate in conversions.

The program carried out by the IPC will explain the terms and promote the benefits of debt conversion and will provide information on the procedures required to access the mechanism . This institutional approach will be designed to reach organizations and institutions, both public and private, domestic and foreign, which deal with investment services, investment promotion and financing within the country. The following private institutions will be targetted, inter alia, in the IPC's campaign:

- National Council of Businessmen. Increasing locally held investment in the country is an equally important target of the conversion program as the attraction of foreign capital to the country. The National Council of Businessmen (CNHE) is the largest private-sector association of businesses in the country. Through their membership, the benefits of the debt conversion program for the domestic investor can be promoted and the mechanism described.

- Joint Agricultural Consultative Committee/RD, (JACC/RD). This private sector agribusiness association consists of 220 members of that sector, many of which represent potential future investors. The promotional program for debt conversion will utilize JACC/RD and its membership to inform and promote the benefits of the program for the domestic and foreign agribusiness investor.

- American Chamber of Commerce and Dominican Chamber of Commerce. Access to a large number of domestic and international businessmen with interests in a variety of investment opportunities will be reached through these two organizations. Their membership consist of over 2,000 businesses in many of the priority development sectors of the Dominican Republic.

Association of Dominican Exporters (ADOEXPO). This private sector association of exporters represents a membership with a high potential interest in the conversion mechanism. A specially tailored information program promoting the use of debt conversion for exporters will be developed for this group.

- Association of Foreign Investors (ASIEX). Foreign private sector companies already established in the Dominican Republic represent a potentially important source of investment through the expansion of existing businesses. The members of ASIEX represent a significant portion of foreign business in the D.R. and will be able to provide their membership with information and promotion material regarding application of the program for the expansion of businesses.

In addition to the proactive campaign targetted for the private sector organizations above, the IPC's program will encourage the involvement of public sector institutions which share responsibility in either attracting or servicing foreign and domestic investors by soliciting their participation in workshops and seminars on debt conversion and by providing them with promotional and informational material for their sectors. The IPC's contact with those organizations will be channeled and coordinated through the DCU's liaison staff member and will be assisted by the specialized technical assistance contractors provided by the Central Bank. This segment is designed to react to the information requirements of public agencies and will be structured in a way that permits the DCU to control the linkages with other government agencies. The following institutions will be involved in receiving benefits which range from specialized brochures for their specific sector to participation in seminars designed to inform or promote the debt conversion mechanism as a means for financing those sectors.

- Ministry of Tourism. Tourism is the sector in the Dominican Republic that is currently experiencing the fastest rate of growth and generating the most interest in foreign investment. Many of the proposed conversion projects are tourism construction for hotels or land for resort development.

- Secretariat of Agriculture. A number of conversion projects are proposed in the agricultural area. The Secretariat will participate in seminars designed to promote the benefits of the conversion process for agricultural development.

- The Ministry of Industry and Commerce. This institution is a fundamental link to investment in the Dominican Republic. Foreign investment must be registered with the Ministry and applications for benefits under special investment incentive legislation are in their domain. Therefore, Ministry representatives will be an important link to a successful investment and will be encouraged to participate in seminars and workshops which advocate debt conversion.

- Technical Secretary of the President. This institution is responsible for planning the country's economic development and, as such, represents an important link in the debt conversion process. This institution is also responsible for the approval of the GODR local currency contribution to be utilized under the financial transaction component of the Project. Its involvement as a program advocate will help to assure smooth operations and transfer of funds for the transaction financing component of the Project.

The IPC's campaign will be carried out through a series of two specialized workshops, two specialized seminars, lectures and by providing a tailor-made package to highlight the advantages of debt conversion for special interest areas such as free trade zones, local exporters, agribusiness, tourism and others. The Project will provide US$150,000 to undertake the campaign.

3. Transaction Financing

A few transactions carried out under the auspices of the Project will involve transfer of fixed-assets to investors. However, most of the conversions are likely to involve acquisition of local currency by an investor in exchange for a foreign currency denominated debt. The GODR will contribute the local currency equivalent of at least US$100 million face value over the four year life of the project to finance the conversions of the debt. The funds to convert this debt will come from bond sales proceeds, the sale or lease of GODR assets, the creation of new pesos, the peso funds generated under balance payment assistance programs or other sources.

IV. Financial Plan and Analysis

A. Summary Cost Estimates.

The Project will provide US$3.5 million in grant funds to the Central Bank of the Dominican Republic. The equivalent of up to US$100 million in local currency for transaction financing will be contributed by the GODR. The duration of the project will be four (4) years and four (4) months. The "Summary Budget Plan" and "Costs by Fiscal Year" table presents these sources and uses of funds by component.

1. Technical Assistance: Approximately US$2,300,000 will be used to procure an Institutional Contractor (IC) to assist the Debt Conversion Unit of the Central Bank to develop, implement, monitor and manage the process of debt conversion, of which US$1,500,000 will be for technical assistance.

2. Training: The subcomponents, "Training Programs" and "Observational Program will be financed under the IC contract. A total of US$700,00 has been budgeted for that purpose.

3. Equipment, Operational Costs and Materials: The hardware and software requirements for the Project as well as related materials and operational costs of the Debt Conversion Unit will be financed under this component. A total of US$400,000 has been reserved for these costs of which US$100,000 will be placed under the IC contract for the purchase of computer equipment software, related accessories and other office equipment. The balance will be used for local cost financing of operational expenses, materials and supplies.

4. Promotional Campaign: This component will be implemented under an agreement between the Central Bank and the IPC for the design and implementation of a promotional campaign for the debt conversion program of the Dominican Republic. A total of US$150,000 will be utilized for this effort of which US$110,000 will be local cost financing.

5. Banking/Financial Advisor Services: An AID-direct contract with an individual will be executed for the provision of a technical advisor with expertise in international financial markets. The cost of this procurement will be US$500,000 over the life of the Project. The person will serve as Project Coordinator for this Project and as USAID's Chief Credit and Banking Advisor.

6. Evaluation/Audits: The cost of the evaluation and audits planned for the Project will be US$250,000 and will be implemented through AID-direct contracts. Specifically, US$100,000 will be reserved for audits of the Project.

B. Budget Tables

1. Summary Budget Plan

(US$000)

	AID GRANT US$	AID GRANT LC	GODR LC	AID TOTAL	GODR TOTAL
1. INSTITUTIONAL STRENGTHENING				2,600	
a. Technical Assistance	1,500				
b. Training					
1. Training Pgm. and Seminars	500				
2. Observational Pgm.	200				
c. Equipment, Operational Costs and Materials	100	300	460		460
2. PROMOTIONAL CAMPAIGN	40	110		150	
3. FINANCIAL TRANSACTION			99,540		99,540
4. BANKING/FINANCIAL ADVISOR	500			500	
5. EVALUATION AND AUDITS	250			250	
TOTALS AID:	3,090	410		3,500	
GODR:			100,000		100,000

2. <u>Disbursements by Fiscal Year</u>
(US$ 000)

<u>Project Components</u>	Year 1		Year 2		Year 3		Year 4		TOTAL	
	AID	GODR	AID	GODR	AID	GODR	AID	GODR	AID	GODR
1. Institutional Strengthening									2,600	
a. Technical Assistance	100	-	650	-	400	-	350	-		
b. Training										
1. Training Pgm. & Seminars	100	-	200	-	200		-	-		
2. Observational Program	50		100		50		-	-		
c. Equipment, Operational Costs and Materials	50	115	200	115	100	115	50	115		460
2. Promotional Campaign	-	-	50	-	50	-	50	-	150	-
3. Financial Transactions	-	-	-	33,180	-	33,180	-	33,180	-	99,540
4. Debt Conversion/Financial Advisor	200	-	150	-	150	-	-	-	500	-
5. Evaluation and Audit	-	-	125	-	125	-	-	-	250	
TOTALS AID:	500		1,475		1,075		450		3,500	
GODR:	-	115	-	33,295		33,295	-	33,295	-	100,000

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3. Methods of Implementation and Finance

METHOD OF IMPLEMENTATION	METHOD OF FINANCING	APPROX. AMOUNT (US$000's)
SERVICES		
Host Country Contract (non-profit or profit)	L/Com.	US$1,500
Host Country Agreement with IPC	L/Com.	US$ 40
	Direct Reimbursement	US$ 110
AID DIRECT CONTRACT (PSC)	Direct Pay	US$ 500
TRAINING		
Host Country Contract (non-profit or profit)	Direct Pay	US$ 700
EQUIPMENT, MATERIALS AND OPERATING EXPENSES		
Host Country Contract (non-profit or profit)	L/Com.	US$ 100
	Direct Reimbursement	US$ 300
EVALUATION/AUDITS		
AID Direct Contract	Direct Pay	US$ 250

The proposed methods of financing are the preferred methods of financing under the Administrator's Payment Verification Policy Statements and represent no deviation from the Mission's general assessment of financing policy and procedures. Therefore no further justification of the financing methods is required.

. 31'

C. Analysis

The financial analyses for the Project concluded that the costs for the procurement of technical assistance and commodities was reasonable based upon the Project's requirements. A Mission assessment of the methods of implementation and finance indicated that the methods selected represent the most effective combination of procedures for accomplishing the Project's objectives. The implementation and financing plan conforms to the "Payment Verification Policy Implementation Guidance" which requires that provisions for audit be included as part of the Project planning process.

The Central Bank is periodically audited by outside, independent auditors. Under the Project audits will be initiated by the Mission according to the "USAID Monitoring and Audit Plan" and will be undertaken by independent auditors acceptable to the Mission. The Controller's Office of USAID will have the responsibility for initiating, scheduling, monitoring and evaluating all activities dealing with the Project's audits.

D. Sources of Funds

This Project will be fully funded from the Special Development Account (Section 106). This decision is based upon the institutional strengthening nature of the Project, the policy changes which we expect will be encouraged and the type of program which the Central Bank will sponsor to stimulate investments and exports.

During the period of implementation the Central Bank will concentrate on establishing and strengthening the Debt Conversion Unit in order to successfully undertake debt conversion projects. That support will be provided through technical assistance, training and an observation program. Numerous seminars and observational trips will be carried-out in support of this objective to ensure that the staff is fully equipped to operate the conversion mechanism. Funding under the Project will also be used for a comprehensive awareness and information program to be undertaken by the Investment Promotion Council. That program will provide information locally and internationally regarding the benefits of the conversion program. Therefore, the use of Project funding is consistent with and conforms to the permissible uses of funds under Section 106 of the FAA of 1961 as amended.

V. Implementation Arrangements

A. Institutional Roles and Responsibilities

There are three organizations involved in the successful implementation of the Project. The main implementing institution is the Central Bank of the Dominican Republic. The second organization with responsibility for Project implementation is the Investment Promotion Council of the Dominican Republic. Finally, USAID will be involved in the monitoring and oversight of the Project.

1. Central Bank

The Central Bank of the Dominican Republic will be the institution with the primary responsibility for Project management. Through their Debt Conversion Unit, currently a Unit of the External Debt Division, the Central Bank will be responsible for hiring the staff defined under the Project, issuing host country contracts, providing office space and clerical support for the technical assistant advisor, implementing the conversion mechanism and the general management and oversight of the Project. The Central Bank will hire 5 professionals and two secretaries to staff the DCU. The professional positions will consist of the Division Chief, a Deputy (Aide), two analysts with quaiifications in finance and economics and an accountant. In addition to the team of five professionals, two secretaries will be hired to support the DCU clerical and correspondence needs. The Central Bank agrees to staffing the DCU as part of the Project's conditions precedent to disbursement. The Central Bank will, with the assistance of the Advisor under the Project, select and hire professionals for the positions by August, 1989.

The Central Bank has considerable experience in contracting. It regularly contracts for technical assistance and has experience in USAID contracting procedures under the Rural Savings Mobilization Project. USAID has reviewed the institutional capability of the Central Bank to contract and has concluded that it is fully capable of meeting USAID requirements under this Project. In order to further assure that all USAID direct hire contract advisor will work closely with the Central Bank on all contracting procedures monitoring the process and providing guidance as required.

2. Investment Promotion Council

The Investment Promotion Council (IPC) is a private, non-profit corporation with a mixed government/private board of directors charged with the responsibility of promoting foreign and domestic investment in the Dominican Republic. The IPC will design and implement a tailor-made information and awareness program to encourage the use of the conversion mechanism and will coordinate their activities with the DCU liaison staff member.

3. Agency for International Development (AID)

The Mission's role is to monitor the implementation, advise on the procedures for host country contracting, and contract periodic non-federal audits and evaluations regarding the success of the Project in meeting its objectives. A Debt Conversion Financial Advisor will be responsible to the Mission for monitoring the Project and for providing advice on Project management issues.

B. Summary Implementation Plans

The following implementation plans explain the procedures to be used to implement the Project and contains a schedule for carrying out specific Project activities.

1. Procurement and Training Plan

Primarily, the procurement under the Project will involve the solicitation, evaluation and selection of an institutional contractor, through host country contracting procedures, who will be charged with providing all the technical assistance under the project, the planning and coordination of training activities, seminars and observation programs, and procuring the Project's commodities. The current plan is for the GODR to issue a Request for Technical Proposals (RFTP) by November 30, 1988. The anticipated award date would be April 30, 1989 with expected arrival of the institutional contractor representative on May 30, 1989.

The contract is expected to be awarded to a U.S. firm, or a group of firms which will provide specialized long and short-term assistance directly to the Central Bank as outlined in Section C.1. (a-c). The RFTP will also allow for a wide variety of assistance to be provided during the Project's life as the need or special circumstances warrant. In effect, the contract will be structured to permit access to technical assistance similar to an IQC arrangement.

In authorizing this project, the Mission Director hereby certifies (as required by 85 State 348103) that the procurement plan was developed with full consideration of maximally involving minority or Gray Amendment individuals or organizations in the provision of goods and services. A search of eligible 8(a) firms conducted by OSDBU/MRC in AID/W, at the request of the LAC/PRE, revealed no firms with the specialized expertise required for the one institutional contract that will be let for this project. Thus, the Mission concluded that the procurement was not appropriate for an 8(a) set-aside. Instead, the contract will be fully competed using host country contracting procedures. There is a possibility that some subcontracting may be required by the prime contractor, however, and the RFTP for the main contract will strongly encourage firms to make use of socially and economically disadvantaged firms in any subcontracting plans. The Mission will contract directly for a Banking/Financial Advisor and will carefully consider any minority applicants. To ensure the broadest possible pool of candidates, the Mission advertised the position widely (Wall Street Journal and the CBD).

The "Institutional Strengthening" and "Training" component of the project will be managed by the institutional contractor which will be responsible for assuring adherence to AID regulations governing the implementation of in-country training and observational trips to the U.S. and third countries. The level of activity under the "Training" component has been described in Section C.1.b and will be fully elaborated in the RFTP.

The "Promotion and Awareness" component will be managed by the Investment Promotion Council (IPC) through an agreement with the Central Bank. The IPC will utilize the funds to contract technical assistance to implement the promotional aspect of the program. The agreement and subsequent IPC contracts will follow A.I.D. procedures and AID will approve both documents before committment of funds.

The procurement of commodities will be undertaken by the Institutional Contractor. The following hardware, software and accessories will be purchased under the contract.

4 Computers with os/2 compatibility and Workstations
4 Printers (one laser)
1 Reproduction Machine
1 Tele FAX
2 Uninterrupted Power Supply Units

Software and Accessories:

2 Word-processing programs
2 Lotus Spreadsheet programs
1 Set of Miscellaneous support programs
1 Custom designed program for MIS/control
1 Custom designed program for evaluation

The procurement of the hardware and software will be completed during the second year of the Project.

2. Evaluation, Monitoring and Audit Plan

a. Evaluation Plan

The evaluation plan envisioned for the Project is constructed to provide maximum information regarding achievements, direction, and the ability of project management to meet the stated objectives by the PACD. Working with the GODR, the Project has established objectives to achieve national goals for investment and employment generation. As part of the DCU's planning process and under the guidance of USAID and a technical consultant, monitoring of the Project's progress will be a daily activity with the responsibility resting directly upon the Director of the DCU. Evaluations will be conducted periodically; informally by AID Project Management and formally by outside, independent evaluators contracted by AID. Periodic scheduled and unscheduled non-federal audits of DCU and the sub-grantee will also be conducted. All scheduled and unscheduled evaluations will include sex disaggregated data collection and analysis.

1. Timing of the Evaluations

The Project is scheduled to initiate disbursements beginning January 30, 1989 and to be fully expended by PACD of December 31, 1992. During the four project years, two evaluations will be conducted. USAID project management will initiate the process (RFP or IQC) with funding from the Evaluations/Audit budget of the Project.

In addition to the two scheduled evaluations and the two non-federal audits, it is anticipated that spot audits will be conducted by USAID project management if deemed necessary. USAID project management will condition funds to Grantee and the Sub-Grantee on the right to audit use of funds.

2. Criteria for Evaluations

Evaluation 1: (May, 1990) - Debt Conversion Unit

The first, formal evaluation (mid-term evaluation) will be conducted by an outside contractor and include, but not be limited to the following: (a) an evaluation of the progress towards attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; (d) assessment of DDU's management effectiveness in the 1) development of short term goals, and management by objectives, 2) analyzing proposals; and 3) monitoring transaction approval/disbursement processes; (e) assess the technical assistance contractor's role and contribution through evaluation of scope-of-work objectives and accomplishments, and technical contributions (i.e. number of seminars, workshops, installation of MIS and training program, etc.) and; (f) assess progress towards second year objectives (operational review of management) as established in the project workplans.

The contractors conducting the evaluation will access the following sources, inter alia, in reaching their conclusions; a) files, records, logs, etc.; b) sub-grantee (IPC) project plans, logs, records, reports; c) consultant's reports; d) GODR statistics (Subsecretariat for Economic Policy, Central Bank data and Ministry of Industry); e) AID project management reports and records; f) participant surveys.

Evaluation 2: (November, 1991) - DCU:

The second and final evaluation conducted by an outside contractor will identify the success or failure of the DCU and the Debt Conversion Program in accomplishing its objectives. This final evaluation will recommend long-term alterations, if required, and offer analyses on the ability of the DCU to sustain its role. This final evaluation is expected to be both an examination of the Unit's success in meeting past objectives as well as an evaluation of the ability of the conversion mechanism to sustain itself.

Projects and programs of the Sub-Grantee will also be evaluated. These evaluations will be included in the formal evaluation and audit process listed above. It is further expected that the DCU will conduct informal monitoring and evaluations of their Sub-Grantee's promotional program and will evaluate the progress of each activity.

b. USAID Monitoring and Audit Plan

The USAID Project Manager in the Private Enterprise Division (PED) will have the responsibility for monitoring all project activities, and evaluations. The Controller's office will be charged with the monitoring of all quarterly disbursements to the Institutional Contractor and the audits undertaken in the Project.

The implementation and evaluation plans two formal, non-federal audits. The first audit will be scheduled for November 1990 and will include a review of the financial practices of the DCU in regard to Program Management. The objectives of the audit are two fold. They are to, a) evaluate the financial mechanism utilized by the Central Bank in effecting disbursement under the Debt Conversion Program, and b) identify and confirm the appropriate uses of project funds by the DCU, the IPC and the institutional contractor.

The auditors will access various different sources including, but not limited to, a) evaluations, b) USAID Project Management Quarterly Reports, c) USAID/Controller's Office, d) IPC Financial Records (receipt, contracts, accounts), and e) Central Bank data.

The end-of-project audit will evaluate the implementation of Audit 1 suggestions.

3. Initial Implementation Plan

The list of the critical events during the Project's life is presented below. The schedule is a guide to target dates and will be subject to change according to the shifting requirements of the Project and the ability to meet previously scheduled events. As suggested by the title, the list refers to those events deemed pivotal to successful Project implementation and does not include the numerous other routine activities required for Project management.

	Event	Target Date
1.	Signing of the PROAG	August, 1988
2.	Initial C.P. met	September, 1988
3.	Completion of a Contractual Agreement with Banking/Financial Advisor	November, 1988
4.	Request for Technical Proposal issued	November, 1988
5.	Draft Mechanism formally adopted by the Junta Monetaria	(by) January 30, 1989
6.	Central Bank Agreement with IPC Signed	February, 1989
7.	Institutional Contract Awarded	April, 1989
8.	Contractor Arrives	May, 1989
9.	Working Plan Completed	July, 1989
10.	Training Organizers Arrive	August, 1989
11.	DCU fully staffed	August, 1989
12.	Specialized T.A. for Systems Development Arrives	September, 1989
13.	Observational Tours initiated	October, 1989
14.	Computer Hardware Procured	December, 1989
15.	Evaluation 1 Begun	May 30, 1990
16.	Audit 1 Begun	November, 1990
17.	Evaluation 2 Begun	November, 1991
18.	Audit 2 Begun	December 30, 1991

VI. SUMMARY OF ANALYSES

A. Institutional Analyses

The two main implementating institutions involved with this Project are the Central Bank of the Dominican Republic and the Investment Promotion Council of the Dominican Republic.

1. Central Bank

The Central Bank of the Dominican Republic was established by Law No. 1529, October, 1947 which provided it with the responsibility and authority to formulate and regulate the monetary policies of the country. The Central Bank will administer the Debt Conversion Program under the authority of the Monetary Board provided to the Governor by the fifth resolution of the Monetary Board, April 9, 1987, (Annex H). The Debt Conversion Unit of the Central Bank's Division of External Debt will manage the Program directly. An analysis of the Central Bank's assistance requirements ascertained that the following functions were required for approving debt conversions.

a. DCU Duties and Staff Requirements

The tasks for which the DCU needs to be equipped are:

Screening & Orienting
Evaluation
Developing Recommendations
Liaison & Follow-Through
Recording, Controlling and Informing

(1) Screening & Orienting Potential Investors

The initial DCU function is to provide orientation to potential investors concerning the objectives and workings of the Program. Secondly, the DCU must screen out currency speculators and other speculative projects, and help make approvable the projects that best fit the program's objectives. The DCU will need to be able to understand, explain and apply the Government guidelines, investigate references, and generally ask the discerning questions that provide the basis for reaching a judgement about the relative benefits of a proposal.

(2) Project Evaluation

There are three types of analysis to be performed:

(a) Project Analysis - Analysis leading to judgements of project eligibility, discount(s) to be applied, project feasibility, economic and social costs and benefits (with the help of the appropriate technical departments of the Central Bank).

(b) Financial Analysis - A financial analysis will be performed to evaluate the overall financial attractiveness of the project. It will consider proposed financing, estimated profits and rates of return, cash flows, projected costs and benefits, etc.

(c) Asset Valuation - Where state-owned assets are to be divested, assets will be valued, in conjunction with professional appraisers, in order to establish recommended sales prices, on a fair market basis.

(3) Developing Recommendations

The DCU will have the responsibility of preparing a package of evaluation of a project together with a recommendation approving or disapproving and, if approved, the discount applicable and any other conditions under which it should be approved and/or negotiated and implemented.

(4) Liaison & Follow-Through

There are two aspects, pre-implementation and post-implementation. In the pre-implementation phase, the task will be to inform and explain to investors how the Program works. The information will be imparted to applicants on an individual basis, and in addition, disseminated in a general way to the local and international financial establishment, business organizations and other appropriate agencies.

In the post-implementation period, there will be a need to see to it that all the other registrations and permissions are effected so that the projects approved are not blocked.

(5) Record, Control and Inform

The Unit will have to develop a capability to develop and maintain an information system that provides for periodic reporting on applications and inquiries received, rejected, approved, etc.; and which permits regular analysis to guide activities so that the Program stays on course. It will be responsible for issuing disbursement instructions to the Exchange Department based on receipt of satisfactory data from the investor justifying the request for disbursement.

The DCU's staff should be a lean one: a few well trained people, flexible enough to switch assignments, change course, respond to important deals. The staff should include:

* A Division Chief (plus secretary)

This person, who is well equipped for the position, has already been selected.

* An Aide to the Division Chief - who looks after contacts, dissemination of information, etc. This person would not only be a point of contact with potential investors but would deal with other departments of the bank, other agencies, and the business and financial communities.

* Two Analysts - who may later specialize as to function, but in the beginning will be interchangeable. They should have degrees in economics or finance.

* A Controller/Accountant - to handle the disbursement procedures, and the recording, control and information side. This person would have prior experience within the Central Bank and hold a CPA certificate.

b. Assistance Required

The Central Bank, through its technical departments, has long years of experience in analyzing projects. FIDE and INFRATUR channel funds to the tourism and industrial sectors, while INDOTEC deals with technology transfer. These departments possess the expertise to

-41-

appraise projects not only technically but in financial and economic terms as well. But these capabilities are thin and are fully required in the respective departments.

The placement of the DCU within the External Debt Division is reasonable, since its activities are consistent with those of the External Debt Division. Experience will demonstrate if the Unit needs to stand alone as INDOTEC does.

Currently, the new unit has only a Director, and no staff. The DCU needs to be staffed, provided with specialized technical assistance, trained and adquately backed with material resources to do its job. The Central Bank will pay salaries but is not prepared to handle the non recurring costs associated with the establishment of this unit which include the cost of T.A., training staff, acquiring the hard and software, design of the MIS, developing reports, and installing the system.

Three types of assistance are required by the DCU: TA, training and commodity support. The technical assistance program is outlined in Section III.C.1. The idea of having the advisor on permanent assignment for all of part of the three year period was considered and discarded in favor of having one who would spend decreasing amounts of time on hand, as needed, and who would remain on call for short term consultations by telephone or in person because:

a. the work load is heavily concentrated in the early period of the project;

b. External Debt and DCU did not see the need for one and were concerned that there would a political reaction to having a foreigner in a sensitive area.

Short-term T.A. will be flexible and broad in scope, as indicated in Section III C.1. Training will be practical and informal. The training plan calls for on-the-job training and observational visits. This will be the most effective way of improving the capacity of DCU staff members as the Program proceeds.

Commodity support consists of information handing equipment (computer hardware and software, FAX and copier machine) needed to run the DCU efficiently. Efforts to begin strengthening the DCU should begin as soon as possible due to the lead times involved in contracting for TA and commodities. Implementation of the assistance program for the DCU should not await the signing of an amended MYRA. In fact, time available now can be used to begin hiring staff and installing systems. TA can commence with the processing of conversion requests outside of the MYRA.

The tasks to be performed under the Debt Conversion Program are within the Central Bank's area of experience, and the location of the unit in the External Debt Department is consistent with that Department's area of activities. The DCU, with increased staff, initial budgetary support and technical assistance provided by the grant will be in an excellent position to help establish and effectively implement the conversion mechanism.

2. Investment Promotion Council (IPC)

The IPC is charged with designing and implementing an awareness and information campaign for the Debt Conversion Program. This institution is eminently well qualified to provide the necessary service. The IPC was created by the President in 1982. In January 1986, with AID support, the organization was incorporated as an independent, non-profit organization with a mixed (government/private sector) Board of Directors. Its mandate is to mobilize the resources of the private and public sectors to seek new foreign and domestic investment in the areas of agro-industry, mining, industrial free zones and tourism.

The IPC has established itself as the lead promotion agency for the Dominican Republic and had the key role in attracting and assisting new investment into the country totalling US$25 million in 1987. The IPC has contracted with S.R.I. International which provides marketing and institutional development services through a network of institutional contacts worldwide. Currently, the IPC has nine (9) professionals and sixteen (16) support staff members.

The work of the IPC is to attract, inform and promote investors and assist them in expediting the flow of required documentation through government channels. Its basic staff management systems and contract capacity is now in place, and it has ready access to all the governmental institutions which are involved in investment promotion. Since the Debt are on the books to provide incentives to both foreign and domestic investors. The country is basically politically stable and has maintained cooperative, friendly relations with the US and its allies. Geographically, the D.R. is very close to key US markets (Gulf and East Coast), and transport and communication lines are excellent. The Dominican Labor force is abundant (un-employment is in fact a problem), and has proven itself to be resourceful and dependable. The country also possess natural resources and climatic conditions which make investment in certain sectors (agriculture and mining) attractive, although recently most investment growth has been experienced in free trade zone processing activities and tourism.

In short, the D.R. compares very favorably with its Caribbean and Central American neighbors as a recipient of direct foreign investment (and an economy in which its own citizens continue to wish to invest).

During the past 18 months, the Government's economic objectives, strategy and "the rules of the game" have tended to fluctuate. A large public sector fiscal deficit -- attributable to growing losses by the countries three main state enterprises (the electric company, the sugar corporation and the Price Stabilization Board), combined with a greatly expanded public works program (which has eliminated Central Government supplies which used to be available to help cover the deficits of state enterprises) -- has been financed with domestic credit creation, and led to accelerating inflation (currently over 50% p.a.), crowding out of internal financing available for private sector expansion, a devaluing peso and the importion of a variety of exchange rate regimes.

Despite the prevailing, economic conditions, the Dominican private sector has reacted with its traditional pragmatism. Constant dialogue with the Government has taken place regarding the proper economic policy steps for the GODR to take. Foreigners remain interested in investing in the D.R. as indicated by the fourteen new proposals for debt conversion were received by the Central Bank between December 1987 and May 1988. Although concern for the future clearly exists, the Dominican private sector and potential foreign investors appear to have confidence in the country's basic economic development potential and the ability of the GODR to adopt the corrective measures necessary to begin stabilizing the economy.

Conversion Program will provide an alternative way of financing the direct investment the IPC is promoting, the IPC is the logical entity to implement the Project's promotion program. This will be done in conjunction with already established and planned, activities, and through specialized seminars, conferences and preparation of promotional materials. With the assistance to be provided under this Project, the IPC will be able to undertake the marginally increased efforts necessary to promote the Debt Conversion Program. The organization is also well-positioned to administer the sub-grant funds under the Project. It has received a US$6 million grant from AID in 1985 and has negotiated and issued a series of host country contracts, including one valued at US$2.3 million.

B. Technical Analyses

This section examines the necessary preconditions to the implementation of a successful Debt Conversion Program and analyses the technical aspects of the conversion mechanism itself, as currently drafted.

1. Preconditions to Program

The key factors which must exist for any debt conversion program to operate are:

- o the existence of a receptive, market-oriented investment environment and relatively stable economic conditions;
- o adequate interest in direct investment through the conversion mechanism;
- o an adequate supply of convertible debt instruments; and
- o maintenance of real financial incentives under the conversion program (by maintaining a realistic unified exchange rate or adjusting discounts applied in the investors favor as necessary.

a. Investment Environment/Economic Conditions

Since the death of Trujillo, the D.R. has benefitted from an open economy with a very active private sector. The GODR has traditionally maintained a receptive attitude toward foreign investment, and several laws

45

are on the books to provide incentives to both foreign and domestic investors. The country is basically politically stable and has maintained cooperative, friendly relations with the US and its allies. Geographically, the D.R. is very close to key US markets (Gulf and East Coast), and transport and communication lines are excellent. The Dominican Labor force is abundant (un-employment is in fact a problem), and has proven itself to be resourceful and dependable. The country also possess natural resources and climatic conditions which make investment in certain sectors (agriculture and mining) attractive, although recently most investment growth has been experienced in free trade zone processing activities and tourism.

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Given the basically favorable investment environment in the D.R. and the general conclusion that the Government will take the necessary measures to stabilize the economy, there is no reason why the Debt Conversion Program with the support of this Project should not proceed at this time, if the GODR wishes it to do so. The time needed to set up the Program and negotiate needed modifications in the MYRA will coincide with that required to implement needed stabilization measures, so that the Program can proceed apace with investor interest and the ability of the economy to absorb more investment financed under the Program.

b. Interest in Debt Conversion

The Central Bank has received forty-five individual debt conversion proposals, of which forty-one were within the last eleven months, and including sixteen since the beginning of this year. There were no cost estimates for sixteen projects. Those that contained cost estimates totaled $644 million, a sum far in excess of the $50 million per year contemplated for the initial program. In terms of format, there were thirteen formal requests, twenty-six letters of intent, three project outlines, and three recently submitted projects already completed.

A categorization of the forty-five proposals by sector of interest, reveals that half, twenty three (23) were for tourism, specifically hotels, six (6) were for free zone activities, six (6) in agro-industry, six (6) in industry (three in electricity generation, three in mining) and the other four in financial and educational activities.

One of the proposals contemplated the use or acquisition of state-owned assets, specifically beach land belonging to the Central Bank. That project, which was advanced by a Canadian group, proposes a $16 million conversion for a hotel in the Montillano lands plus a free zone activity in another area. A successful divestiture of these government-owned assets could p ve the way for a program to privatize the CORDE owned companies, provided the political climate for such measures improves.

By national origin, thirty (30) came from the U.S. and/or Puerto Rico, six (6) from Spain, six (6) from local investors and three from other places. Over half of the proponents were financial institutions, led by Chase Manhattan with eighteen (18), followed by Banco de Bilbao with three (3) and Bankers Trust with two (2). Chase's total is an indication of the dynamism which a major financial institution can bring to the program. The fact that other such entities have not presented formal proposals is not an indication to the contrary, but a different perception, if not strategy. Both CITIBANK and Grupo Popular say that while they have not submitted proposals to the Central Bank, they do have projects, both joint ventures and others where they are acting as intermediaries, which they will submit, once they see that there is a Program.

A sampling of the proposals, suggests that they are serious, and within the Government's guidelines. It was also evident that the conversions would be accompanied by fresh dollar inputs for machinery and equipment.

Many of these projects represented large investments. One cement project was for a conversion of $163 million. A number of other non-hotel proposals covered a range of activities from a mineral/processing plant to produce marble, 80% for export, to the planting and processing of rami for apparel. One proposal was for the installation of three apparel plants in the free zones outside the capital city to produce shirts, pants and jackets with U.S. manufactured cloth.

U.S. banks have a special interest in the DR's debt conversion mechanism, especially after the Federal Reserve's liberalization of Regulation K so that U.S. banks are freer to invest in non-financial enterprises. This change encourages banks to use their own outstanding credits as an investment instrument to improve the value of difficult-to-collect loans. The list of proposed projects, in which about half the sponsors are banks in partnership with others, is conclusive evidence that a new source of investor interest is being tapped by the debt conversion mechanism.

Talks with bankers and others provided further evidence to support the conclusion that there is varied interest in the Program in the Dominican Republic. Comments were hedged with expressions about the need for stabilization of the economy and a ready supply of external debt convertible at attractive discounts. But with these premises, they indicated a real interest in investing. Among options mentioned were investments in existing agro-industrial firms for expansion programs. Bankers liked expecially the bricks and mortar aspect of hotels and free zones. The financial sector thought that additional investment opportunities would develop if the debt conversion program were broadened to include debt capitalizations to strengthen balance sheets and to augment the capacities of development banks to make medium-term loans and investments in smaller local companies. At this point it is reasonable to conclude that there is a healthy stream of investment projects at hand, and this is the key issue.

c. Supply of Convertible Debt

The raw material of any debt/equity program is a good supply of foreign currency denominated debt that the original lenders are prepared to sell at a substantial discount from face value. The table below indicates how Dominican debt is distributed by lender in part A; the status of debt restructured in the Multi-Year Rescheduling Agreement (MYRA) in part B; and, in part C., a breakdown of commercial bank lending by category of bank. The purpose is to ascertain what part of the debt is most readily available as a vehicle for investment.

THE EXTERNAL DEBT OF THE DOMINICAN REPUBLIC
A.
Total Debt by Lender
(as of 12/31/87)
millions of dollars

International Organizations	1,046
Governments	1,641
Commercial Banks	812
Other	46*
TOTAL	3,545

*includes non debt arrears

B.
MYRA
millions of dollars

		1986	1987	1988	1989
TOTAL	775				
Central Bank	548				
Others	227				
Restructured o/w to:	327				
Central Bank	160				
Others	167				
To be Restruc. o/w to:	448	161	137	119	31
Central Bank		120	119	119	31
Others		41	19	0	0

C.
Commercial Bank Loans by Lender
(in percent of MYRA)

		To Central Bank
Chase	13	11
Citibank	10	8
Other U.S. Money Center	15	12
Total " " "	38	31
Other U.S.	6	4
Royal Bank	19	15
Bank of Nova Scotia	8	6
Other	31	15
TOTAL	100	71

Since governments and international organizations have taken the position that they must be repaid in full, the debt that can serve as a vehicle for conversion is that owed to the commercial banks. At the end of 1987, commercial bank debt outstanding was $812 million, of which $775 million was subject to the terms of a new MYRA. On signature of the existing MYRA in 1986, $327 million representing arrears and amortization due

.50

in 1985 was consolidated. The consolidations that were to take place each year on February fifteenth from 1986-88, amounting cumulatively to $417 million, if the agreement had been put into effect as intended, have not taken place. The signature of a new IMF standby which would remove one obstacle and allow a renegotiation, in the Paris Club, of the forty five percent of the Republic's external debt, held by foreign governments has also not taken place to date. Nevertheless, the GODR is current on interest payments due under the Agreement.

The consolidated debt cannot be converted without amendment of the MYRA. This restriction is included in all MYRA's to ensure equal treatment of all debtor banks signing the MYRA. The commercial banks are in favor of modifying the MYRA to allow debt conversions, but they still want a standby agreement with the IMF and progress towards a Paris Club rescheduling of official bilateral debt. The Dominican authorities also want the terms - thirteen years maturity and 1.375% over LIBOR to be brought in line with the more recent and liberal Mexican and Argentine agreements. A negotiation this complex may take time to resolve unless the GODR moves quickly to negotiate with the IMF. Alternatively, since many consortium banks are interested in the Debt Conversion Program, and the D.R.'s standing with consortium banks is relatively good, it might still be possible to negotiate a change in the MYRA provision preventing conversion of debt consolidated under the MYRA without full renegotiation of the MYRA itself. At present, however, this does not look probable.

Once the MYRA is amended, the Central Bank would prefer to use its debts, amounting to $548 million after 2/15/89, for conversion because it is the only local borrower that has the pesos to buy back its paper. Of the Central Bank debt, about 60%, or $325 million, is held by non U.S. banks or non U.S. money center banks. These banks are either prepared to write down their entire portfolio of Dominican debt or have more flexible accounting systems that permit losses on specific transactions without affecting the rest of their holdings. The U.S. money center banks are more cautious. They do not want to "mark to market" all of their Dominican paper when the going price is currently so low. If, however a bank invests a portion of its loans, the losses could be substantially less. This is an accounting "grey area" which remains to be worked out. Until it is, or unless the price were to rise significantly, some of this debt is probably not available for conversion. But the $300-400 million dollars that can be used should be quite enough to produce a thriving market.

Apart from the consolidated commercial bank debt, there is thirty-seven million dollars ($37 million) of non-consolidated bank debt and a similar amount of commercial arrears that date from several years ago. In the latter case, pesos were deposited at the Central Bank, but the foreign exchange was never transferred. The Bank's administration has never decided whether to transfer the foreign exchange and take a substantial accounting loss because pesos were deposited at exchange rates in some cases as low as 1/1; or to release the pesos to the creditor at a negotiated exchange rate which will involve not only an accounting loss but the creation of money. To use the pesos for the conversion program would require a three-way negotiation between the original creditor, the Central Bank and the investor. Many of these amounts are quite small and would not be worth the effort. Nevertheless, non-consolidated debt is trading and available to get the Program started if necessary.

d. Financial Incentives to Investors to Use the Program

Because debt conversion provides a premium exchange rate to the investor (in effect), the attractiveness of this incentive depends, in part, on how realistic the official exchange rate is. If it is overvalued vis-a-vis the "parallel" rate for the Dominican peso, much of the benefit available applying the Program's standard discounts can be eliminated. Ideally, debt conversion programs should be operated under exchange rate regimes which provide for establishment of a free market-based, unified exchange rate. When this is the case, a debt conversion program's normal discounts can be applied. To the extent the full benefit to the investor left after application of established discounts is not present, due to use of over-valued official exchange rates, sponsoring governments must adjust the discounts they apply to ensure that investors' financial incentives to participate in debt conversions remain. This has been done when necessary in other countries (e.g. Honduras), and GODR authorities have indicated their willingness to do so if necessary as the D.R.'s Debt Conversion Program proceeds. At present, it appears to be the GODR's desire to maintain any official exchange rate established at realistic levels.

2. The Conversion Mechanism as Proposed

The proposed debt conversion mechanism was developed with the assistance of AID-funded exports in the area, and has been submitted to consortium and national banks a number of times for comment while being elaborated. When it was completed in its present form last fall, it was universally recognized that the D.R. mechanism, as drafted, took good account of the shortfalls other country programs had run into, and represented a sort of "state-of-the-art" mechanism.

52

During the intensive review, the financial sector experts contracted by AID, who had not yet been exposed to the D.R. mechanism, reviewed it. They agreed it was well done, but also identified a number of issues which they felt Central Bank officials should keep in mind as the mechanism is developed. The GODR has agreed to make necessary modifications in the conversion mechanism as the Program proceeds (see covenant).

The AID consultants' observations were as follows:

a. Chapter XI of the mechanism requires registry in local currency of the investments being converted. The obvious concern, in the Dominican situation, is that the pesos obtained through conversion will be worth less and less in relation to the dollar as the years pass, and the investor would soon find himself with an eroded base both to repatriate capital and to transfer dividends. If allowed to stand, this requirement would have the investor registering in local currency the part of his capital which was used to buy external debt, while registering in foreign currency, under the Foreign Investment Law (861), the part of his capital used to buy imported inputs. The solution should be to register both parts of the investment in foreign currency with the converted portion, valued at its face value, net of the Central Bank discount.

b. Chapter VII requires the investor to obtain a bank certification that the investor had the funds for two years prior to acquiring debt for conversion. While this may be a useful safeguard in the case of Dominican investors, to avoid "round tripping" or strictly financial transactions, it may be impractical, if not meaningless for the foreign corporation. In the first place, if the multinational works on bank credit, his net position at his bank is probably negative, precluding his banker from issuing such a certificate. Secondly, in any case, the amount being converted may represent a sum that is not really meaningful in relation to the investor's assets.

The Central Bank officials argue that the problem can be avoided by applying the requirement only to the Dominican investor. They reason that Dominicans will not object to this discrimination because they are already treated differently than foreign investors under Law (861), where the latter have the right to remit while the Dominican investor must obtain approval from the Central Bank. It should, therefore, be made clear in the regulations that this stipulation is not applicable to the foreign investor.

c. Chapter X provides for the Central Bank to pay 10% on undisbursed balances of the converted debt. This would not be acceptable to an investor who has converted from a dollar asset yielding ten or more percent on a face value for which he has probably paid less than half price. The alternative of keeping the debt unconverted in dollars until required for disbursement should be explored.

d. The requirement that conversion be only for new investments, basically in fixed assets or shares in companies that acquire new assets may not be wise. While a prime reason for converting debt is to invest it in the capital or physical assets of new enterprises, there exists another important reason which is not contemplated by the regulations: to use debt to capitalize the balance sheets of subsidiaries or affiliates, principally in the financial field.

e. Chap. IV, Para 3, Eligible Investments, contains some restrictions, the ramifications of which may not have been fully appreciated in the drafting. For example, (i) the requirement that leases be for not less than 20 years may be too restrictive; it may not fit the norms of the users, and (ii) the permission to use proceeds for infrastructure may need to be clarified to permit the building of just one building; i.e. that the investor does not have to build a whole park. (This possibly unintended limitation also appears in paragraph 4.)

f. Chapter VIII gives the investor ninety days from date of approval by the Monetary Board to close the transaction. The ninety day period may be too short. If the investor has to incorporate a new company, or obtain approvals from other agencies, such as the Secretariat of Tourism, or complete arrangements to line up the various pieces of debt, he may need more time.

Some mechanism will have to be designed which gives the investor an extension of time upon presentation of reasonable cause. It might be useful to consider requiring a deposit in return for the extension of time. At any rate, given the limitation expected to be imposed on the amount of conversions per year, it is reasonable to require the investor to proceed without delay, once approval is given.

g. Chapter IV on Eligible Investments and Activities, as discussed earlier, limits the permissible conversion areas to investments. In the light of future experience, it may prove useful to consider debt-export conversions and conversion for the expansion of existing facilities.

C. Economic and Financial Analyses

1. Economic Management of the Program

Two issues are discussed below: offsetting monetary expansion inherent in the Conversion Program, and avoiding depreciation of the peso by speculators seeking to recycle funds through the foreign exchange market.

a. Offsetting Monetary Expansion

Foreign investment through debt equity conversion has a different effect on resource availability than the conventional method of exchanging foreign currency for local currency. Dollars used to buy pesos are available immediately for imports, while the cancellation of an external liability frees resources slowly over a number of years. Except where debt is swapped for equity or another asset provided by the same borrower, the effect is to increase demand for domestic resources by an amount which depends on how the conversion is financed. At one end of the spectrum is the Central Bank purchase which increases the money supply and the monetary base. At the other, is the least inflationary method: the sale of Central Bank securities to households or non-bank business. However the problem is handled, the solution chosen must be consistent with overall monetary policy. Given the increase of money supply over the past two years and the ensuing inflation, this is the most serious operational concern the Project faces. Nonetheless, there are three ways in which the monetary impact can be minimized are:

- Limiting the size of the Program and phasing local currency disbursements by limiting the dollar value of debt to be converted, freezing converted funds in Central Bank accounts until needed for disbursement, or dividing external debt instruments into small traunches to be converted in accordance with a disbursement schedule,

- Exchanging physical assets instead of pesos for part of the conversions.

- Offsetting the monetary impact wholly or partly by the sale of securities to entities outside the Central Bank.

(1) Limiting Program Size and Phasing

The $300-400 million available when the initial conditions are met is equal to all of the money supply(M1) at the present time. Obviously, all of it could not be converted under the Conversion Program in a short period of time without disasterous effects on the price level. On the other hand, the Program must be prepared to convert, in the first few years, sums large enough to accomodate a number of projects each year and to create enough interest among banks and brokers to make a market. Given those two considerations, fifty million dollars a year for the first three years is the minimum necessary to establish a flow of investment. Many tourist projects, for example, are quite large, up to sixty million dollars.

The whole annual quota should not be used for a single project or for one sector, but at the same time there must be a way of accomodating the bigger projects. One method of achieving balance, especially in view of the large initial interest, is to plan for the first three years as a block. In that way some of the larger projects could be phased, leaving more room for others. Some of the cumulative quota should be left unallocated so that later proposals can be considered.

In order to phase local currency disbursements, the current draft regulations provide for a system that freezes the peso proceeds of conversion in the central bank until needed for disbursement. This procedure requires the central bank to either pay a very high interest rate adding to the eventual monetary impact; or pay, as it has already tentatively decided, the inadequate return of 10% while the project is being constructed, a disencentive to investors.

The alternative would be to not convert dollar denominated debt until required by the disbursement schedule. The funds would simply pass through the Central Bank to the local commercial banker servicing the investor. As in the present draft regulations, the amounts converted would largely be restricted to those required to pay current bills. Since the interval between conversion and pay out would be brief, the Central Bank would not have to pay interest, reducing the monetary impact. (It is technically feasible to divide the external debt into small segments to make this a practical procedure). On the other hand, the procedure is more attractive to the investor because he is protected by receiving a high effective interest rate in dollars on the discounted value at which he bought the debt.

Additionally, by keeping the debt denominated in dollars for a longer period, the investor protects himself from any subsequent depreciation of the peso. The disadvantage to the Central Bank is that the slower the conversion of debt, the slower the dollar savings from reduced debt service will materialize. Nevertheless, this alternative disbursement system will often be more advisable than paying interest on pesos not yet disbursed.

(2) <u>Exchanging Assets Instead of Pesos for Converted Debt</u>

The program, as currently drafted, permits the exchange of state land for debt which involves no creation of money in principle. These lands now belong either to the Central Bank or to other state enterprises such as CEA or CORDE. For the Central Bank, there would be a simple exchange of a reduced liability against a reduction of assets. In the case of state enterprises, the land transferred to the investor will be (or has been) offset against a reduction of enterprise debts to the Central Bank. To the extent that no monetary creation is involved, the discount taken by the Central Bank can be cut to zero.

(3) <u>Offsetting the Monetary Effects of Central Bank Purchases of Debt</u>

As a conceptual device and as an accounting procedure, the conversion process should be regarded as funds moving through an account. The peso equivalent of each debt conversion is deposited in the account. To the extent feasible to moderate the inflationary impact of the Conversion Program, the pesos should be derived from the issue of securities on the local capital market, and possible contributions from import-generated local currency under the AID Program. Central Bank monetary creation should be the residual source when other resources are not available. Annex, E Section V.A. contains a full discussion of the optional types of securities which could be offered, types of interest they could pay and effects on future money supply. Although conceptually feasible, the issuance of securities should probably wait until D.R. economic conditions begin to stabilize. AID-financed local currency generations will most likely not be available in appreciable amounts unless ESF levels are augmented significantly for the D.R. (Even the $10 million equivalent programmed is not certain to be available and is relatively insignificant for the Conversion Program). Therefore, until such time as Central Bank bond offerings become more feasible (an initial program has just been authorized), and economic conditions improve, a Conversion Program with a limit of $50 million per year in peso equivalent disbursements is recommended.

b. Offsetting Pressure on the Exchange Rate from Recyling

In an open economy like that of the D.R., the more attractive the exchange rate inherent in debt conversion the stronger the incentive to carry out arbitrage between it and the existing market. An investor can buy foreign exchange with pesos; then buy Dominican debt paper with the dollars which he converts back into pesos at the more favorable exchange rate; or he may begin the transaction with foreign exchange. To avoid the initial conversion of pesos, the draft regulations have required certification of foreign exchange assets, but as a practical matter, it is difficult to fully prevent round-tripping. This is one reason careful examination of conversion proposals and project monitoring is always necessary.

The objective should be to prevent the Program from being a vehicle for speculative profits by preventing the peso proceeds of conversions from being recycled back into dollars. The three major safeguards are:

1. a limit on the dollar face value of conversions;
2. effective project analysis; and
3. efficient monitoring of disbursements in pesos.

The first point is obvious. Just as the monetary impact is limited by a dollar ceiling, the potential for recycling is restricted. Second, the most important objective of examining a project prior to its approval is to determine that the investor is serious and has the experience to carry out the plans stated in the proposal. Investors of that kind are unlikely to spend time recycling pesos instead of using them in their projects. Finally the project monitoring provisions prior to disbursements present in the draft regulations should reduce leakages to a minimum.

2. Recurrent Costs of the Debt Conversion Unit

One of the issues to be examined in more detail during project implementation is the source of additional revenue for the DCU. Establishing the Debt Conversion Unit will increase costs of the Central Bank. However, expenses associated with the Unit will be absorbed by the Central Bank's operating budget. While operational expenses will initially be paid by the Project, once the program is fully operational, the fees charged to the applicants will be used to offset the expenses incurred by the DCU. The program is expected to generate a minimum of US$50,000 in revenue for the Central Bank each year in fees alone. Additionally, a portion of the discount applied to purchase the debt instrument can be used to pay additional operating costs.

Recurrent Local Currency Costs
(RD$000)

	Year 1	Year 2	Year 3	Year 4
Salaries	300 (US$55)	400 (US$73)	400 (US$73)	400 (US$ 73)
Operating Expenses	400 (US$73)	400 (US$73)	400 (US$73)	400 (US$ 73)
Overhead	258 (US$50)	258 (US$50)	258 (US$50)	258 (US$ 50)
TOTAL	958 (US$186)	1058 (US$205)	1058 (US$205)	1058 (US$205)

Operating expenses include materials, supplies and fixed asset purchases such as furniture to be used in the Central Bank's DCU. AID resources will contribute RD$1.64 million (US$300,000) for those expenditures required to establish and maintain the conversion program during the life of the Project excluding salaries of individuals within the Unit. The anticipated costs for salaries which the Central Bank will bear is RD$1.1 million (US$200,000) for 3 years.

Beyond year three, it is expected that the program will require RD$800,000 - 900,000 (US$145 - 164,000) per year to operate, or approximately .3% of the amount applied to the total conversions to be undertaken each year.

3. Economic Impact of the Program

Estimates of the economic effects of the operation of a debt conversion mechanism are rather less precise than those for a single project. To project, a basket or sample of investments of a predetermined sectoral composition is used, which may or may not correspond to the investments approved, eventually, by the Dominican authorities. The composition is based in part on the list of investment proposals and in part what seems reasonable from the point of view of maximizing economic returns. We cannot assume, for example, that sectors like tourism can go on growing at quite as rapid a pace as in the past few years.

The broad nature of the Program and the relatively small A.I.D. allocation of resources would make the calculation of a cost/benefit ratio unusually difficult and not necessarily very meaningful. That there will be substantial benefits is clear. A.I.D.'s role lies not in the massive contribution of resources but in the strategic application of technical assistance and other inputs to help the Central Bank organize and put into working order the debt conversion mechanism.

The projections of the economic impact on the Dominican economy assumes a program of debt conversion of fifty million dollars per year for five years. The two variables are:

1) foreign exchange savings and earnings and
2) employment.

The debt conversion process saves foreign exchange by reducing debt outstanding. The table which follows uses the same disbursement schedule and assumptions as those in Annex E, Section V, and assumes that the debt is converted and disbursed almost simultaneously. The calculation further assumes no amortization in this period, and that interest, i.e., LIBOR plus average spread, equals 10% per annum. The results indicate a total savings from debt reduction and servicing of US$186.7 by the end of 1993.

	1989	1990	1991	1992	1993
	(in millions of dollars)				
Cumulative Reduction of Debt outstanding	8	32	72	122	172
Debt Service Savings	0.4	2.0	5.2	9.7	14.7
Cumulative Savings	0.4	2.4	7.6	17.3	32.0

Earnings of foreign exchange depend on how the authorized fifty million dollars of investment is distributed between sectors. It is assumed that 60% is invested in tourist projects, 30% in expanding the free zones and 10% in other sectors. Foreign exchange earnings can occur only after the three-year disbursement period is completed. Before that, local currency needs are met by debt conversion. In the table that follows, it is assumed that:

1. the first enterprises begin earning income in the second half of 1992, three years after construction begins;

2. investment in the tourism sector of $30,000,000 per year, will, at $40,000 per room, produce 750 hotel rooms a year;

3. a $15,000,000 investment in free-zone buildings will expand space available about one million square feet; and

4. the foreign exchange earnings of "other" projects will bear the same relation to other projects as its share of investment.

	1989	1990	1991	1992	1993
		(millions of dollars)			
Tourism	-	-	-	6.8	27.2
Free Zones	-	-	-	8.9	35.6
Other	-	-	-	1.9	7.5
Total	-	-	-	17.6	70.3

The tourism projection is based on 65% occupancy at an annual average of $75 per day. The free zone estimate assumes that employment resulting from this investment increases by 10,000 per year and that wages constitute 75% of local costs. These estimates indicate that each million dollars of investment in hotels produce $450,000 of direct earnings while each million in the free zones earns $1,200,000. There are indirect tourist earnings which are not calculated but, on the other hand, the tourism industry uses a great deal of foreign exchange in its operations, so that this series may be a better approximation of net earnings. For the free zones, these numbers represent only local costs and so would not have to be adjusted.

The table below indicates the foreign exchange savings and increased earnings together to identify the foreign exchange availability directly attributable to the Project.

	1989	1990	1991	1992	1993
		(in millions of dollars)			
Savings	0.4	2.0	5.2	9.7	14.7
Earnings	-	-	-	17.6	70.3
Total	0.4	2.0	5.2	27.3	85.0

Substantial employment will be generated as a direct result of the investments made through the conversion process. The following chart projects the levels of employment generated.

	1989	1990	1991	1992	1993
Tourism				1,900	7,500
Free Trade Zones				5,000	20,000
Construction	4,600	13,800	24,600	29,200	29,200
Other				700	2,800
Total	4,600	13,800	24,600	36,800	59,500

The construction period begins in the second half of 1989 and reaches a peak in the second half of 1992. The estimates thereafter are a combination of employment in the new enterprises and construction. The tourism projection is based on estimates of five direct and indirect employees per hotel room. The free zone assumes one employee per each 100 sq. ft. of space in buildings.

The results are significant. By the end of 1993, the Program will be producing seventy million dollars a year of foreign earnings and thirty thousand jobs (excluding temporary construction jobs). Assuming the conversion program is terminated in 1993, employment in on-going enterprises will continue to rise by fifteen thousand jobs per year, generating foreign exchange earnings of $35 million per year through 1997. Employment in construction will begin to decline by about five thousand per year after 1993, disappearing in 1998. Savings of foreign exchange, which reaches fifteen million dollars per annum in 1993 will continue to rise to a peak of twenty-five million dollars and remain at that level.

The analysts ascertained that this is an economically worthwhile Project if even an approximation of these results are obtained. (See Annex E, Section VII.)

D. Environmental Analysis

A determination was made at the time of PID approval that a Categorial Exclusion was applicable to this project under Sec. 216.2 (c)(i) of 22 CFR.

E. Social Soundness Analysis

The analysis examines three areas concerned with the social soundness of the Project, to the extent applicable. Basically, it addresses the likelihood that new practices or institutions introduced by the Project will be diffused among other groups and the social impact or distribution of benefits among different groups.

Over its life, the Project will affect nearly 58,000 Dominican poor in urban and rural areas in a direct way and nearly double that amount, indirectly. The process of debt conversion, which this Project will support, is a generic procedure to encourage investment which differentiates among those investments by rate of discount provided to the investors. The investments themselves however, are demand driven and therefore will affect a wide range of geographical regions and economic sectors. Therefore, what the Project introduces in a social context to the Dominican beneficiary is an opportunity to increase the standard of living through the creation of employment and an increase in personal income. This Project's initial intervention is largely macro-economic although its impact will directly benefit the poor. Consequently, the social soundness analysis which follows is concerned more with the distribution of benefits issues than with socio-cultural feasibility and the diffusion of innovation.

1. Sociocultural Feasibility and the Diffusion of Innovation

The sociocultural level of society upon which the Project will have an immediate impact is at the institutional level of the Central Bank, where the innovation introduced by the Project will be received. The "social landscape" of the Central Bank is such that innovation is readily and easily accepted and adaptations to new technologies can be absorbed quickly.

The ultimate beneficiaries of the Project, the Dominican unemployed poor, will deal with innovations and new technologies brought into the country by investors transferring new processes which the new worker must learn. The extent to which the Dominican worker adapts to the new technologies introduced by debt conversion projects can be estimated to be good given the history of industrial and agricultural growth in the country during the past decade.

Therefore, the sociocultural factors which deal with values, social structure and organization will not be affected by the Project in a negative way. The innovation introduced by the investments utilizing the conversion mechanism will bring new technologies which recent history and current trends indicate are easily introduced and accepted into a Dominican social environment.

2. Distribution of Benefits

A more appropriate analysis concerns the distribution of benefits among the Dominican unemployed who will be affected by the Project. The Project establishes a mechanism, which by design, will attract demand-driven investment into three major economic subsectors. Those subsectors are free trade zones, tourism and agriculture.

The Project will generate 58,000 jobs in four years which will be distributed among the economic subsectors. The new employment created in free trade zones will be 25,000 by 1993. In terms of the distribution of benefits it is estimated from historical trends that 80% of those new jobs will be held by women. Studies in the D.R. of the uses of disposible income generated by women indicates that the predominant share of those funds are spent on purchases of better quality of food, education for children and housing, thereby effecting a substantial and substantive improvement on quality of life indicators. Additionally, recent analyses of secondary benefits of free trade zone employment calculated that for every 10 new full-time, direct jobs created there are 8 indirect jobs generated predominantly in the transportation and food service sectors.

Tourism development will also affect the distribution of benefits. Many of the investments which will be encouraged under the debt conversion mechanism will be for tourism development. Nearly 9,5000 new jobs will be generated providing employment for many of the urban and rural unemployed in tourist centers along the northern and eastern coasts of the country.

Finally, construction jobs and jobs in agriculture will be produced providing additional income to previously disenfranchised Dominican poor.

The conclusion regarding the social soundness of the Project is that, as a result of the Project, a wider and more equitable distribution of resources will occur across the country which will encourage the participation of women in many of the benefits of growth. The introduction of the conversion mechanism will not negatively impact social or cultural norms but rather provide opportunities for growth within the existant sociocultural framework.

VII. Conditions, Covenants and Negotiating Status

A. Negotiating Status

During the design of the Project, many Dominican and U.S. organizations and banks were contacted. Executives, GODR officials and staff members of public and private organizations had the opportunity to meet and discuss the Conversion Program with Project Committee members and AID consultants. The Project is understood and the proposed approach has been accepted by these individuals. Given adequate movement on the underlying economic issues discussed above, no difficulties are anticipated in executing the Project Agreement.

B. Conditions Precedent

1. The Standard Provisions for Non-U.S. Grantees shall be attached and form part of this Agreement.

2. Initial Disbursement under the Grant. Prior to the first disbursement under the Grant, except for disbursements for the Financial/Banking Advisor, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish A.I.D. in form and substance satisfactory to A.I.D.:

a. an opinion of the Legal Advisor to the Grantee that this Agreement has been duly authorized and executed on behalf of the Grantee, and that it consitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

b. a statement of the name of the person who will represent the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statement.

c. a copy of the Debt Conversion Program duly authorized by the Junta Monetaria giving authority to the Governor of the Central Bank to set conversion discounts on a case by case basis.

d. evidence from the Central Bank that professional positions have been formally established for the Debt Conversion Unit and that operating budget allocations have been made to support those positions.

2. Disbursement for IPC Agreement. Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for costs of the Central Bank agreement with the Investment Promotion Council, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish A.I.D. in form and substance satisfactory to A.I.D., a copy of the executed agreement which shall contain the activities to be undertaken, the budget, and appropriate requirements for workplans.

3. Third Year Disbursements. Prior to disbursement under the Grant to finance any activities or procurements taking place after August 1, 1990, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., documentation indicating that satisfactory project outputs against established project workplans have been made as determined by a formal evaluation to be held in May, 1990.

C. Covenants

i. The Grantee covenants to modify, as necessary, the regulations of the Program for The Conversion of External Debt to incorporate technically appropriate changes which increase the debt conversion mechanism's effectiveness in achieving the goal of attracting investment. Specifically, the Grantee covenants to review and modify, as may be appropriate, the terms and conditions of the conversion regulations.

ii. The Grantee covenants to continue to use full faith and effort to reach an agreement with its creditor banks on a Multiyear Rescheduling Agreement (MYRA) under which debt obligations subjected to the MYRA will be available for conversion under the Program.

iii. The Grantee covenants to continue to convert debt not subjected to the terms and conditions of the MYRA.

iv. During times of discrepancies between the official exchange rate and parallel rates, the Central Bank will take appropriate measures to assure that the discount incentives provided for converted debt remain attractive to potential investors.

Annex A

Project Identification Document
Logical Framework

Debt Conversion Project
No. 517-0237

Total Project : $13.5million
Total U.S. Funding : $ 3.5 million
Total GODR Funding : $10 million equivalent
Date Prepared : May 4, 1988

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
A.1 Goal To assist the GODR to increase foreign and domestic private sector equity investment in the D.R.	A.2 - Value of new investments - Number of new jobs generated	A.3 - Data from the Central Bank - National Economic Data - Data from Investors utilizing the mechanism	A.4 - Maintenance of the floating exchange rate - Consistant policies which favor investment - GODR maintained support for the Project - GODR willingness to release fixed assets for conversion
B.2 Purpose To establish a well-functioning debt/equity conversion mechanism in the Dominican Republic	B.2 End of Project Status - New investment in the Dominican Economy totalling US$500 million by foreign and local investors - Reduction in external GODR debt to foreign commercial banks by US$172 million with a proportionate reduction in debt service to save scarce foreign exchange - Identification of specific targets for privatization of state-owned enterprises assets and government services; and - Generation of 58,000 new jobs.	B.3 - Project reviews and evaluations - GODR and Banco Central statistics - Ministry of Industry and Commerce registration of foreign investment	B.4 - Current investment climate is maintained or improved - Commercial Creditor Banks agree to terms of the conversion mechanism
C. 1 Outputs - Technically capable and fully staffed Debt Conversion unit with system in place and operating - Fully operational conversion mechanism - Credit being provided to investors - Technical Seminars - Promotional Program	C.2 Output Indicators - 5 fully trained professionals of the Debt Conversion Unit of the Central Bank - 25 Conversion processed US$10 million in Local Currency credit extended to investor participants - 5 Technical seminars with 100 individuals familiar with the technical operations of the mechanism - 2,000 foreign and domestic business made aware of the opportunity under the mechanism	C.3 - Project evaluations - Project records - Central Bank Dept of Debt Conversion records - Participant Survey - Consultant Report - Project Managers reports - Reports on Seminars from TA Contractors - Report by IPC on Promotional Program	C.4 - Conversion mechanism is acceptable to investors - Level of inflation is maintained or reduced - Program is maintained and not suspended - CBI advantages are maintained - Political stability in the GODR continues
D.1 Inputs 1. Institutional Strengthening (a) Technical Assistance (b) Training (c) Equipment, Materials + Operating Expenses 2. Promotional Campaign 3. Finance Transaction 4. Debt Conversion Advisor 5. Evaluations/Audit: TOTAL:	D.2 Budgets AID (US$000) / GODR 1,200 / - 700 / - 400 / 210 450 / / 9,790 500 / - 250 / - ------- / ------ 3,500 / 10,000	D.3 - Institutional T.A. on-board and working - Central Bank staff trained - Subgrant for promotion provided to IPC - Central Bank conversions taking place - AID advisor hired and assuming responsibilities	- Central Bank approves draft mechanism - Level of demand for conversion is as high or higher than anticipated - Law 861 provisions are maintained for investors utilizing the mechanism - Central Bank identifies capable personnel for training - Local currency credit lines are opened with minimal delay in disbursements

67

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ANNEX B
Page 1 of 2

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SUBJECT: REVIEW OF USAID/DOMINICAN REPUBLIC'S FY 88/89 ACTION PLAN

CHRON COPY

.. THE REVIEW OF USAID/DOMINICAN REPUBLIC'S FY 88/89 CTION PLAN WAS CHAIRED BY DAA/LAC MALCOLM BUTLER ON PRIL 14-15. MISSION DIRECTOR HENRY BASSFORD AND RCGRAM OFFICER JIMMY PHILPOTT REPRESENTED THE MISSION. HE CHAIRMAN CONGRATULATED THE MISSION ON THE QUALITY OF TS PLAN, A WELL DEFINED, FOCUSED PRESENTATION.

SULTS OF THE REVIEW, AND ACTIONS AGREED WITH THE SSION DURING PROGRAM WEEK ARE SUMMARIZED BELOW:

WAS AGREED THAT THE MISSION WOULD BE GUIDED, IN EPARING THE FY 89 ABS, BY THE FOLLOWING PLANNING VELS FOR FY 88 AND FY 89.

	FY 88	FY 89
	20,000	20,000
LE I	35,000	35000
LE II	30,000	30,000
	3,000	3,000

8 LEVELS (EXCEPT FOR TITLES I AND II) ARE THE SAME THOSE IN THE FY 88 CONGRESSIONAL PRESENTATION. FY 88 ED AND FY 89 FIGURES ARE LAC PLANNING LEVELS, AND DO YET HAVE FVA, PPC OR INTER-AGENCY AGREEMENT.

SUMMARY OF PROJECT DECISIONS..

MISSION TO APPROVE PIDS FOR: THE FY 88 -FINANCING HEALTH CARE PROJECT (AS AGREED IN LAST 'S ACTION PLAN REVIEW), AND THE DEBT ERSION/PRIVATIZATION PID, SUBJECT TO THE GUIDANCE IN CABLE.

HE MISSION WILL APPROVE A PP SUBSTITUTE DOCUMENT

80

CENTRAL BANK OF THE DOMINICAN REPUBLIC

DOMINICAN REPUBLIC: REGULATIONS OF THE PROGRAM FOR THE CONVERSION OF EXTERNAL DEBT INTO INVESTMENTS

(PRELIMINARY VERSION)

JANUARY 1988

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REGULATIONS OF THE PROGRAM FOR THE CONVERSION OF EXTERNAL DEBT INTO INVESTMENTS OF THE DOMINICAN REPUBLIC

CHAPTER I: OBJECTIVES

The Program for the Conversion of External Debt into Investments of the Dominican Republic has the following principal objectives:

a) To stimulate national and foreign investment in areas of high national interest;

b) To increase the export of goods and services, and

c) To reduce the cost of the servicing of the external debt.

CHAPTER II: LEGAL BASIS

The legal basis for the regulations for the conversion of external debt into investments is based primarily on the following:

a. Decree of the Executive Power No. ____________ dated ________________________ which authorizes the Monetary Board to regulate the Debt Conversion operations.

b. The ____________ Resolution of the Monetary Board dated __________ which approves the Debt Conversion Program and its Regulations.

c. Article 25 of the Organic Law of the Central Bank of the Dominican Republic, No. 6142 of December 29, 1962, and its amendments, which authorizes the Monetary Board to

70

establish regulations governing the monetary, credit and foreign-exchange policies of the nation.

d. Foreign Investment Law No. 861 of July 22, 1978 and its amendments.

e. The Contract of Renegotiation of the External Debt with International Private Banking, dated February 25, 1986 and its amendments.

CHAPTER III: REGULATORY AGENCY

The regulatory agency for the Program for the Conversion of Debt into Investments will be the Monetary Board, which will act through the department or departments of the Central Bank of the Dominican Republic which the latter designates as executor or executors thereof.

CHAPTER IV: COVERAGE OF THE PROGRAM

1. Debts Eligible for Conversion

The bonds eligible for conversion will be the external debt of the Dominican Republic renegotiated with commercial banks and other external debts in foreign currency as the Monetary Board may determine. Under this program there will be preferably be accepted the debt converted into Initial and Annual Term Loans as defined in the Contract of Negotiation with International Private Banking of February 25, 1986.

2. Eligible Investors

Participation in the program will be open to any

TRANSLATION

from:

physical or juridical person, national or foreign, residing or not residing in the Dominican Republic, who has the funds outside this country to acquire the debt certificates and complete the performance of the investment project. In the case of resident investors, they shall have access to the program provided that they are not in violation of Law 251 of May 11, 1964 and its amendments which governs internationals transfers of funds.

3. Qualifiable Investments

Investments capable of qualification in the Debt Conversion Program will be new investments programmed to be carried out by companies already formed, in the process of formation, or to be formed under the laws of the Dominican Republic.

These investments will have to be used for all or some of the following items:

-purchase of state fixed assets

-purchase of private lands

-leasing of state fixed assets or private lands for a term of not less than 20 years

-construction of infrastructure, excluding generation of electric power

-acquisition of goods produced locally and of services rendered by residents, and

-generation of electric power through non-conventional sources.

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a) Conversion for purchase and/or leasing of fixed assets

The program only permits investment in the purchase and/or leasing of assets which are to be used in the business itself of the company concerned. The development of the investment projects must be carried out within a reasonable time schedule in line with the scope of the projects.

When state assets are concerned, the decision to rent or sell to any private investor is vested in the state entity which is the owner of the asset and/or in the Executive Power and/or in the National Congress. Said operations can be carried out through this program provided that the corresponding authorizations have been granted before the conversion operation is formalized.

In the case of transactions which involve state assets, the Reserve Bank of the Dominican Republic will act as sole agent of the transaction for the transfer of the assets sold or for the payment of rents by the Central Bank to the original owner entity, as long as there is a balance of the converted certificate to be disbursed.

In the case of privately owned assets, the receiving company will designate a local commercial bank as intermediary for the carrying out of said function.

b) Conversion for construction, equipment of local origin and generation of electric power

Conversion for purposes of investment in construction, equipment and generation of electric power may be used only for expenses in goods produced within the country which have national added value and in services rendered by resident nationals, whether physical or juridical persons.

The imported component and other external expenses related to the investment must be paid with foreign exchange coming from abroad. The imported component of the project financed with fresh money must be registered in the manner stipulated in Law 861 on Foreign Investment and its amendments, in the form of direct foreign investment, when the investor is a foreigner or non-resident national.

4. Qualifiable Activities

The companies which receive the investment under conversion of debt must be engaged in activities considered to be of national priority such as those enumerated below:

a) Tourism

b) Construction of Parks for Industrial Free Zones

c) Agricultural Industry and Export Stockbreeding

d) Fishing

e) Forest exploitation directed at the development of energy lands and reforestation projects

f) Hospitals

74

g) Housing projects for medium- and lower-income levels

h) Education

i) Transporation

j) Other activities considered of high national priority.

In the event of investments of foreigners, the activities of the company must be among those defined in Law 861 on Foreign Investment and its amendments.

CHAPTER V: DETERMINATION OF THE DISCOUNT ON THE FACE VALUE OF THE CERTIFICATE

The Monetary Board will establish variable discouny percentages for the certificates presented and for the determination thereof it will use a Discount Table (Annex I). This table contains the elements of evaluation with respect to the relative benefits of the investment for the Dominican Republic with respect to the export capacity, creation of jobs, region of location, transfer of technology and other pertinent criteria.

CHAPTER VI: REPATRIATION OF CAPITAL AND REMITTANCE OF PROFITS

1. Repatriation of Capital

The capital registered by non-resident investors under the provisions of this Program cannot be repatriated during the period between the closing date of the conversion operation and the following eight (8) years, which time will be known as the "Restricted Period" for purposes of the program. In all cases, the repatriation of capital must be authorized by the Central Bank through the competent department.

The property registered under the Debt Conversion Program cannot be sold of leased to third parties without the knowledge of the Monetary Board during the Restricted Period, as well as the sale or leasing of the assets retained by the investor in case of bankruptcy.

The Central Bank of the Dominican Republic will take all the steps necessary to avoid that foreign investors can repatriate capital before the periods of time stipulated under the program by the sale or transfer of their investments.

2. Remittance of Profits

The capital registered under debt conversion cannot remit dividends abroad during the first three years from the closing date of the conversion operation, and then only against actual profits or retained earnings, it may remit dividends under the conditions established at the minimum rate stipulated in Law 861 and its ammendments. In all cases, the remittance of profits must be authorized by the Central Bank thorugh the competent department.

CHAPTER VII: PROCEDURE FOR APPLICATIONS

In all cases, the investor must request in writing from the Monetary Board its approval for a debt-conversion operation, after orientation in the corresponding department of the Central Bank, to which it will report the nature and origin of the certificate which it is desired to redenominate. Said application must be accompanied by the following documents:

-- A pre-feasibility study of the study.

-- Application form (Appendix III), duly filled out

-- Documents of formation of the company when the investor is a juridical person. These documents must be duly legalized before the Dominical Consul of its place of origin in the case of foreigh or non-resident national investors.

-- Certification of one or more banks or other approved entity or entities abroad in which it is shown that the funds or other assets to be used for the purchase of the elegible debt certificate and the carrying out of the project have been obtained at least two years before the conversion application was submitted.

77

-- Any other documents considered necessary.

Each application to be submitted must pay non-reimbursable fees amounting to one per mil of the amount to be converted, up to a maximum of US$ 25,000.00. Said payment must be made in the corresponding Department of the Central Bank.

CHAPTER VIII: PROCEDURE FOR APPROVALS

Once the evaluation of the project has been effected, it will be made known by the Monetary Board which, at its full discretion, will accept, make objection to, or reject the application.

Any application which is amended in accordance with the remarks made by the Monetary Board, if such be the case, can be resubmitted to said body within a period of time stipulated by it, without it being necessary to pay additional submission fees.

After a preliminay program of investment under conversion of debt as approved by the Monetary Board, the investor will have 90 calendar days from the date of the notice to close the transaction. If the investor does not effect the operation of conversion of the certificate of indebtedness within the period indicated, said approval will be automatically revoked, unless an extension of the above-indicated period of time is granted upon the prior request of the investor.

Furthermore, within the period of at most 90 days stipulated to complete the documents required for the closing, the Receiving Company of the Investment must submit its instruments of formation which reflect the fact that its shares can only be registered shares and both it and the investor must submit the resolutions which show their respective willingness to receive and effect the investment.

CHAPTER IX: CONVERSION MECHANISM

1. Formalizing of the Conversion

The operation of conversion of indebtedness into investment will be formalized by a contract (Appendix II) to be signed between the Central Bank of the Dominican Republic in its capacity as state entity in charge of the carrying out of the program, the original debtor when the latter is another institution in the public sector other than the Central Bank, the investor and the company receiving the investment. The value date for the conversion will be established in said contract.

2. Notice to the Creditor and/or to the Agent Bank and/or to the Coordinator Bank

The Central Bank and the investor will send a notice (Appendix IV) to the creditor and/or to the agent bank and/or to the coordinator bank in which the operation to be carried out is described. This notice must be sent 10 business days prior to the value date stipulated and it must specify the amount of the conversion, the origin of the certificate to be transferred and the value date of the operation.

3. <u>Closing of the Conversion Operation</u>

The closing of a conversion operation will occur on the value date agreed once the conversion contract has been signed between the parties and the creditor and/or the agent bank and/or the coordinator bank notify their lack of objection to the value date proposed for the transaction and that their rights to the certificate will terminate on said date, freeing the certificate negotiated from the financing instrument to which it was subordinated.

On the value date, there were will be created an obligation in national currency in favor of the company receiving the investment in an account which will be opened for this purpose with the Central Bank of the Dominican Republic. The conversion will be made at the U.S. dollar purchase rate by the Central Bank which is in effect on the closing date of the operation. The initial balance of said account shall be result of applying the rate of exchange to the value of the certificate converted, after applying the approved discount on its face value.

CHAPTER X: MECHANISM FOR DISBURSEMENTS

Prior to the first disbursement, the receiving company must select as intermediary a bank authorized to do business in the Dominican Republic and notify the Central Bank of the number of the account opened with said bank in order to carry out the transactions which are the product of the conversion. In the event that an intermediation commision is established, it will be mutually agreed upon between the Intermediary Bank and the investor and covered by the latter, within the limits established by this purpose by the Monetary Board.

The Central Bank, upon request of the receiving company and after receiving and evaluating the documents which support a use of funds in accordance with the previously approved investment schedule will pay out the funds through the intermediary bank which must transfer the amounts directly to their destinees (contractors, suppliers, lessors, etc.).

The Company may receive in advance at the start of the project in an amount to be agreed upon in accordance with the investment time schedule. The use of said funds must be proven to the Central Bank before the second disbursement is effected.

The Central Bank will pay interest on the balance to be disbursed of the converted debt at a rate of 10% per annum payable quarterly, calculated on the number of days actually elapsed and based on 365 days.

The interest received will be deposited in favor of the receiving company in its account in the intermediary

96

bank, they to be used by the Company within the scope of the investment program.

In the event that at the end of the carrying out of the project there is a balance disbursable in the Central Bank, it may be used by the receiving company as working capital.

If there is an interruption in the project for a reason other than an act of God, the balance disburasable shall remain in a blocked account in the Central Bank until the end of the restricted period, without interest being collected during said period of time.

CHAPTER XI: REGISTER OF THE INVESTMENTS UNDER CONVERSION

The capital invested in local currency though the debt-conversion operation by foreign investors or non-resident national investors will be entered in a special register of investment under conversion of debt which will be created for this purpose in the Central Bank of the Dominican Republic. Said registration will be effected for the total amount invested in local currency and said value will constitute the basis for purposes of remittances of dividends and repatriation of capital, in accordance with the provisions established in the present Regulations.

82'

APPENDIX I
TABLE OF DISCOUNTS ON THE FACE VALUE OF THE EXTERNAL DEBT CERTIFICATE

QUALIFIABLE INVESTMENTS	% DISCOUNT
Purchase and/or Leasing of Fixed Assets	
State Asseets	7.50 %
Private Lands	12.50 %
Purchase of locally produced goods with national added value and of services rendered by residents for investment in companies whose activities directly generate:	
Permanent exports and/or generation of foreign exchange/ production and/or total income (%)	
More than 75	
50 - 75	1.25 %
30 - 50	1.75 %
Less than 30	2.50 %
	6.00 %
Creation of permanent jobs (see Appendix I.1.A):	
High	
Medium	0.00 %
Low	4.00 %
	7.00 %
Geographic location (see Appendix I.1.B):	
Priority I	
Priority II	0.00 %
Priority III	7.00 %
	9.50 %
Transfer of technology:	
Appropriate technology	1.00 %
High technology not available locally......	5.00 %
Technology not available locally...........	7.00 %
Technology available locally	10.00 %

93

APPENDIX I.1

A. CRITERIA FOR THE CREATION OF JOBS BY INVESTED CAPITAL

HIGH: Projects which have an investment ratio of up to Dominican Pesos 50,000.00 per job generated.

MEDIUM: Projects which have an investment ratio of Dominican Pesos 50,001.00 to Dominican Pesos 100,000.00 per job generated.

LOW: Projects which have an investment ratio of Dominican Pesos 100,001.00 and more, per job generated.

B. PRIORITY REGIONS

PRIORITY I: Provinces of Montecristi, Dajabón, Santiago Rodriguez, Estrelleta, Independencia, Pedernales and Bahoruco.

PRIORITY II: All the Provinces except those described in Regions 1 and 3 of these Regulations.

PRIORITY III: Provinces of Santiago, Puerto Plata, La Romane and the National District.

APPENDIX II

SPECIMEN CONTRACT

PURCHASE AND CAPITALIZATION OF DEBT

(NOW BEING DRAWN UP)

APPENDIX III

APPLICATION FORM FOR DEBT CONVERSION OPERATIONS

Number:

Date:

I. DETAILS AS TO THE INVESTOR

1. Name or Firm Name:
   Telephone Number:
   Telex and/or Telefax:
   Person in Charge:
   Position held:
   Position in the investor company:

II. DETAILS AS TO THE PROPOSED RECEIVING ENTITY OR COMPANY

1. Name:
   Address:
   Telephone:
   Telex/Telefax:
   Person in Charge:

2. Briefly describe the main areas of economic activity in which the receiving entity would effect the investment.

III. DETAILS OF THE INVESTMENTS OWNED BY THE INVESTOR COMPANY

1. Total amount of existing investment expressed in US dollars: US$ ______________________

2. Three (3) areas of economic activity in which it has been engaged. Country of origin of the investor company (give full general information as to the investor company)

IV. DETAILS AS TO THE INVESTMENT PROPOSED

1. Briefly describe the project in which it is proposed to effect the investment.

2. Total amount of investment expressed in Dominican pesos, including the funds requested through the Debt Conversion Program and the proportion in foreign exchange required by the investment: RD$____________.

3. Time schedule for the performance of the project.

4. Amount of investment expressed in US dollars which will be effected with fresh money and registered as such: US$ ____________________

5. Time schedule for the use of the amount of the investment expressed in US dollars which will be effected with fresh money

6. Amount of investment expressed in Dominican pesos which will be effected under conversion of debt and registered as such: RD$________________.

7. Time schedule for the use of the funds obtained by conversion

8. Estimated starting date for the proposed investment under conversion of debt: ____________ of 198____

9. Estimated date on which the investment with fresh money will be effected; if different from the starting date indicated in Item 8: __________ 19____

10. Geographical localization of the investment project.

11. Investment items for which the amount obtained by conversion will be used

87

VI. DETAILS OF THE RELATIVE BENEFITS OF THE INVESTMENT PROPOSED

1. Percentage of the production of the company which will be exported or the generation of foreign exchange which the company will produce, as percentage of its total income when export of services is concerned. services

   Percentage of production of the company exported ____________________

   Income in foreign exchange relatrive to the total income: ____________________

2. Number of permanent jobs which the company will create once the investment project is concluded ____________________

3. Describe the type of technology to be used in the production, once the investment program is finalized.

4. Add any other information concerning the investment project which you consider useful for the evaluation of this application

We desire of course that the Central Bank of the Dominican Republic advise us within a reasonable period of time if it requires further information, documentation or clarification in order to complete this application.

Name of the party filing the application: ____________________

____

Relationship to the investor:

____

Identification document:

____

Authorization document:

____

Signature of the filer:

APPENDIX IV

SPECIJMEN OF FORM OF NOTICE TO COORDINATOR BANK WHEN THE TRANSACTION IS COVERED UNDER THE RESTRUCTURING CONTRACT OF FEBRUARY 25, 1986

TO: The Royal Bank of Canada, as coordinator bank

FROM: The Central Bank of the Dominican Republic as debtor

DATE:

REFERENCE: Restructuring agreement of February 25, 1986

This communication constitutes a notice of exchange of certificates of Dominican external debt included under the terms of the above-captioned contract for their redenomination in currency of the Dominican Republic in accordance with what is stipulated in Section 5.14 of said agreement.

The exchange has received all the approvals required by the Dominican State, including the authorization by the Monetary Board, as stipulated in Chapter VIII of the Regulations for Conversion of External Debt into Investments.

The details corresponding to the transaction are as follows:

Original debtor of the certificate transferred:

Creditor bank:

Agent Bank:

Amount to be Converted: US$ ______________

Date of expiration in accordance with the above-captioned contract: ______________

Value date proposed for the conversion: ______________

Please confirm to us that you have no objection to the value date proposed and that as from said date, inclusive, there will cease the earning of interest corresponding to the amount converted, in accordance with the provisions of the above-captioned contract.

Please adjust your records so that they reflect the transaction involved in this notice after you have confirmed to us by telex that the proposed exchange has been registered.

90

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
SANTO DOMINGO, R.D.

ACTION: PED
DATE DUE 8-22-88
DIR
DD
CON
MCI
MCO
ADP
CRD
PRG
ARG
PED
HPD
HRD
CHRON
RF

17920 10 AGO. 1988

Señor
Thomas H. Stukel, Director,
Agencia para el Desarrollo Internacional(AID),
Ciudad

Ref.: Su Proyecto No. 517-0237 sobre Conversión de Deuda.

Estimado Señor Stukel:

Como es de su conocimiento, nuestro país necesita imperativamente poder au-
mentar sus exportaciones de bienes y servicios y atraer nuevas inversiones
extranjeras para de esta forma sostener las metas de crecimiento económico
fijadas por el Gobierno Nacional. Nuestro futuro crecimiento se fundamenta
en gran medida en el desarrollo e incentivo de estas importantes áreas.

Por tal motivo necesitamos formular y coordinar iniciativas efectivas para
aumentar las inversiones tanto del sector privado como del sector público,
y poder desarrollar nuevos mercados y exportaciones para lo cual el Banco
Central de la República Dominicana se ha propuesto formular un programa de
capitalización de pasivos externos que permita dar incentivos adecuados a
los inversionistas locales y foráneos, incrementar las exportaciones de bie-
nes y servicios del país y reducir el monto de la deuda externa permitiendo
un alivio de la pesada carga que esta representa.

Para implementar el propuesto Programa de Conversión de Deuda Externa en In-
versiones se considera necesario fortalecer el área técnica y promocional
que se dedicaría a la ejecución del mismo. Es decir, necesitamos recibir la
adecuada asistencia técnica, entrenamiento y cooperación para atraer a los
inversionistas a utilizar este mecanismo.

En tal sentido, estamos solicitando por medio de la presente la cooperación
económica de esa institución para la implementación de dicho Programa, a tra-
vés de una donación de US$3.5 millones que contribuiría decisivamente a lo-
grar los objetivos antes indicados, así como también estudiar la posibilidad
de contribuir en la mayor proporción posible con los pesos dominicanos de los
"proceeds" de los futuros programas ESF o PL-480 para, de esta forma neutrali-
zar en parte los efectos negativos y perniciosos que se derivarían de una mo-
netización excesiva como resultado de la conversión.

.../

91

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B) (1) Development Assistance funds only; or (B) (2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1988 Continuing Resolution Sec. 526. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States unlawfully?

NO

2. FAA Sec. 481 (h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs

YES

Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided dirctly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification?

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? NO

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? NO

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fisherman's Protective Act been made? N/A

10. FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more that six months on interst or principal of any loan to the country under the FAA? (b) Has the country been in default for more that one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds? NO

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year circumstances occur.)	N/A
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	NO
13. What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)	GODR is current on U.N. obligations
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?	NO
15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currenctly Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?	NO

16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer affective security measures? NO

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? NO

18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive divice to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) NO

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? NO

20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981 and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) — NO

21. FY 1988 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? — NO

22. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? — NO

23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? — YES

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally — NO recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

<u>FY 1988 Continuing Resolution Sec. 538.</u> Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning. — NO

2. <u>Economic Support Fund Country Criteria</u>

<u>FAA Sec. 502B.</u> Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement furnishing such assistance is in the U.S. national interest? — NO

<u>FY 1988 Continuing Resolution Sec. 549.</u> Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? — YES

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to project funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES:	IS COUNTRY CHECKLIST UP TO DATE?	YES
	HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	YES

A. GENERAL CRITERIA FOR PROJECT

1.	FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, has Congress been properly notified?	The CN expired, without objection on August 10, 1988.
2.	FAA Sec. 611(a)(1). Prior to an obligation in excess of $500,000 will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	(a) YES (b) YES
3.	FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	N/A
4.	FAA Sec. 611 (b); FY 1988 Continuing Resolution Sec. 501. If project is for water or water-related land resource contruction, have benefits and costs been computed to the excent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et Seq.)? (See A.I.D. Handbook 3 for guidelines.)	N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

   N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

   The Project cannot be executed as part of a regional project.

7. FAA Sec. 601(a). Information and conclusions on whether projects 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.

   This Project is directly concerned with fostering investment that will encourage (a) and (b). The Project will have no direct effect on items (c) through (f).

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

   The Project will provide U.S. investors and creditors with a debt conversion mechanism to facilitate and encourage their investments in the host country.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet

   The host country will cover local currency costs the cost of contractual and other sevices, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

of the office for the Financial advisor and salaries of the additional employees needed for the Central Bank Debt Conversion Unit.

10. <u>FAA Sec. 612(d).</u> Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

There is no excess of US owned local currency available for this program.

11. <u>FY 1988 Continuing Resolution Sec. 521.</u> If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

12. <u>FY 1988 Continuing Resolution Sec. 553.</u> Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S. -made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

NO

13. FAA Sec. 119(g)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey acosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

(a) NO
(b) NO
(c) NO
(d) NO

14. FAA 121(d). If a Sahel project, has determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A

15. FY 1988 Continuing Resolution. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

16. FY Continuing Resolution Sec. 541. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

17. FY 1988 Continuing Resolution Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriation Committees of Congress been obtained? N/A

18. FY Continuing Resolution Sec. 515. If deob/reob authority is sought to be exercised in the provision of assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? N/A

19. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1988 Continuing Resolution Sec. 552. (as interpreted by conference report). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

(a) N/A

(b) N/A

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c)support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

The Project is directed toward increasing access into the formal economy of the country's poor. This will be accomplished through the development of an operational mechanism for expanding investment in the country. These investments will stimulate and increase the manufacture of goods and services and improve the distributional equity among segments of the national population. This Project will promote the participation of women in productive employment as laborers, administrators and managers.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Does the project fit the criteria for the source of funds (functional account) being used?

YES

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

YES

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

The recipient country is providing in excess of 25% of the costs of the Project.

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

The Project is designed so that the final impact will result in benefits to the poor majority.

g. FAA Sec. 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 civil education and training in skills required for effective participation in governmental processes essential to self-government.

The Project supports development and promotes skills of both administrators and personnel through seminars and workshops.

h. FY 1988 Continuing Resolution Sec. 538. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? — NO

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? — NO

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? — NO

i. FY 1988 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization? — NO

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services? — N/A

j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — YES

k. FY 1988 Continuing Resolution. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more that 20 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

There will not be an 8a set-aside. However, economically and socially disadvantaged firms will be eligible to compete for all contracts.

1. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate

YES

(a) - (k) are N/A.

those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity? — N/A

n. FAA Sec. 118 (c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless and environmental assessment indicates — NO that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

o. <u>FAA Sec. 118(c)(15).</u> Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? — NO

p. <u>FY 1988 Continuing Resolution.</u> If assistance will come from the sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA; — N/A

(c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal education system and to improve primary education, and to develop income-generating opportunities for the unemployed in urban and rural areas?

2. <u>Development Assistance Project Criteria (Loans Only)</u>

a. <u>FAA Sec. 122 (b)</u>. Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

N/A

b. <u>FAA Sec. 620 (d).</u> If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

c. <u>FY 1988 Continuing Resolution.</u> If for a loan to a private sector institution from funds made available to carry out the provisions of FAA Sections 103 through 106, will loan be provided, to the maximum extent practicable, at or near the prevailing interest rate paid on Treasury obligations of similar maturity at the time of obligating such funds?

N/A

d. <u>FAA Sec. 122 (b).</u> Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

3. <u>Economic Support Fund Project Criteria</u>

a. <u>FAA Sec. 531 (a).</u> Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

N/A

b. <u>FAA Sec. 531 (e).</u> Will this assistance be used for military or paramilitary purposes? N/A

c. <u>FAA Sec. 609.</u> If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

ANNEX G

Estimated Budget

(US$000)	Year 1	Year 2	Year 3	Year 4	Total
Total	622	1,488	907	483	3,500 (rounded
1. Institutional Strengthening					
a. Technical Assistance					
Advisor (18 person months) 1/	19	38	22	19	98
Asset Valuation (4 person months)	6	11	5	-	22
Financial Services (4 p.m.)	6	11	5	-	22
MIS (4 p.m.)	6	11	5	-	22
Liaison (4 p.m.)	6	11	5	-	22
Other Specialized Assitance (32 p.m.)	22	55	55	44	176
1. Industry Specialist					
2. Project Appraisers					
3. Bond Issue Specialists					
4. Financial Marketing					
5. Economic Analysts					
b.1 Training Program					
Trainers and Organizers (15 p.m.) 1/	10	45	27	-	82
Workshops 4/	-	18	9	-	27
Seminars 4/	-	18	9	-	27
b.2 Observational Program 5/					
i. Debt Conversion Unit					
4 persons x 2 weeks - DR/Chile	-	8	8	-	16
4 persons x 1 week - DR/Washington	-	4	4	-	8
1 person x 1 week - DR/Chile	-	2	-	-	2
1 person x 1 week - DR/Washington	-	2	-	-	2
1 person x 1 week - DR/Mexico	-	2	-	-	2
1 person x 1 week - DR/Boston	-	2	-	-	2
ii. Central Bank Support Offices					
1 person x 2 weeks DR/Chile (Legal)	-	2	-	-	2
1 person x 2 weeks DR/Chile (Disbursement)	-	2	-	-	2
1 person x 2 weeks DR/Washington (Liaison)	-	2	-	-	2
c. Equipment, Operational Costs and Materials					
c.1 Equipment:					
4 (512K) P.C. and Printers	-	35	-	-	35
1 Copy Machine					
1 Telefax Machine					
4 Database Software Packages					
4 Spreadsheet Packages					
2 Economic Packages					
Cables, Connector and Accessories					
Operational Costs 7/	46	110	75	35	266
Total (a-b) Overhead 2/	181	583	343	147	1254
Total (a-b) Fixed Fee 3/	30	97	57	25	209
SUBTOTAL (Institutional Contract)	332	1069	629	270	2300

112

(US$000)	Year 1	Year 2	Year 3	Year 4	Total
c.2 DCU Operational Costs 6/					
Materials	5	5	5	4	19
Supplies	8	10	10	6	34
Fixed Assets (Furniture)	10	-	-	-	10
Miscel. Operating Expenses (Tel. Telex)	26	23	21	20	90
Operating Overhead	40	37	35	35	147
2.a Promotional Campaign					
Materials	-	10	10	7	27
Travel US & D.R.	-	20	15	5	40
Workshops & Seminars	-	20	15	5	40
Overhead (at 40%)	-	20	16	7	43
3. Financial Advisor (USAID) 8/	200	150	150	-	500
4. Evaluations and Audit		125	-	125	250

Summarized Budget

	Total 9/
Institutional Strengthening (Under Institutional Contract, IC)	$1,500
Training and observation (Under IC)	700
Equipment (under IC)	100
DCU Operating Expenses	300
Promotional Campaign	150
Financial Advisor	500
Evaluations and Audits	250
	3,500

1. Salaries are calculated at US$272/day x 20 days/mo.

2. Overhead is calculated at 150% of costs excluding fixed fee.

3. Fixed Fee is calculated at AID maximum of 10% of all costs.

4. An estimated 15-30 persons trained per workshop or seminars at material and logistical cost of US$200 per person.

5. Cost for the observational program were calculated utilizing estimated airfare between Santo Domingo and destination points and standard per diems of US$112 for U.S. location and US$80 for others.

6. Operational Costs include materials required by the DCU to initiate and maintain operations including manuals, procedure literature , and professional references. Supplies include all office requirements for writing instruments, typewriters paper files, etc. Miscellaneous expenses include the cost of operating and repairing the telephone, telex copy machines.

7. Operational Costs under this Technical Assistance component included estimated travel of 2 roundtrip per person month Santo Domingo/Washington, D.C. at US$550, per diem utilizing an average of high+low reason and telephones and miscellaneous of US$20 per day.

8. Mission's Standard Cost Guide was used to determined estimate.

9. Includes allocation of overhead, fees and operating expenses when applicable.

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
SANTO DOMINGO, R.D.

Señor
Kenneth A. Lanza. M.B.A.
Sub-jefe
Oficina del Sector Privado
Agencia para el Desarrollo Internacional
Embajada de los Estados Unidos de América
Ciudad.-

Estimado Ken:

Adjunto a la presente y de acuerdo a lo conversado, tengo a bien remitirle copia de las Resoluciones de la Junta Monetaria en torno al Programa de Conversión de fecha 22 de enero y 9 de abril de 1987 próximos pasados, donde se consigna la aprobación en principio de un programa de conversión de deuda externa en inversiones.

Sin otro particular queda de usted.

Muy atentamente,

Lic. Julio Ortega-Tous
Subdirector Dpto. Deuda Externa

TEXTO DE LA DECIMOSEXTA RESOLUCION ADOPTADA POR LA JUNTA MONETARIA EN FECHA 22 DE ENERO DE 1987.

23410

6 DECIMOSEXTA RESOLUCION: OIDA la exposición verbal del Gobernador del Banco Central informando que como recordarían los señores Miembros, en el mes de febrero de 1986 se había formalizado el contrato de reestructuración de la deuda externa del país con un grupo de bancos comerciales, ocasión en la cual quedó prohibida de manera expresa la posibilidad de que las entidades acreedoras pudieran convertir sus respectivas acreencias en inversiones de capital en la República Dominicana.

En ese sentido, el Gobernador expresó que frente a la imposibilidad en que se encuentra el país de cubrir en tiempo oportuno las obligaciones asumidas con el mencionado grupo de bancos extranjeros, en el transcurso de los últimos meses se había venido negociando con esas entidades la introducción de una enmienda al referido Contrato para eliminar la indicada prohibición, en interés de permitir cualquier negociación de esa naturaleza en el futuro inmediato, como alternativa para la cancelación de la deuda externa del país.

Por otra parte, el Gobernador señaló que frente a la eventual receptibidad de los bancos acreedores desde el punto de vista de la apertura del mencionado Contrato de reestructuración de la deuda externa, había pensado en la conveniencia de solicitar formalmente a dichas entidades la enmienda de lugar en ese sentido, a cuyo efecto el Banco Central de la República Dominicana estaba en la mejor disposición de iniciar la ofensiva necesaria para el logro del indicado propósito.

Agregó, que la mencionada propuesta tendría una serie de ventajas, tales como a) facilitar el ingreso de la República Dominicana al grupo de países que habiendo afirmado siempre su intención de pagar la deuda, busca nuevas alternativas para materializar su deseo; b) abriría el contrato de forma tal que permita las operaciones de conversión de deuda en inversión, mientras el Banco Central estudia un mecanismo apropiado para llevar a la práctica esas operaciones; y c) de lograrse la modificación de la cláusula que prohibe la conversión de deudas en inversiones, la República Dominicana estaría en una posición más ventajosa que la situación actual.

Finalmente, el Gobernador manifestó que en ese orden de ideas se permitía recabar la correspondiente autorización de la Junta Monetaria para los fines indicados, señalando, por otra parte, que dada la naturaleza e importancia de dicha propuesta, procedería a solicitar también la anuencia del Presidente de la República antes de dirigirse a los bancos comerciales, con lo cual estuvieron de acuerdo los demás Miembros presentes;

Por tanto, la Junta Monetaria

R E S U E L V E

1. Dar encargo al Gobernador del Banco Central para que comunique a los bancos comerciales agrupados en el Contrato de Reestructuración de la deuda externa suscrito en el mes de febrero de 1986, el deseo de la República Dominicana de modificar dicho Contrato con la finalidad de que - permita las operaciones de conversión de deuda en inversión teniendo en cuenta que se trata de un asunto prohibido de manera expresa en ese documento.

2. La mencionada propuesta tendría por finalidad principal lograr lo siguiente: a) que la República Dominicana pase a formar parte del grupo de países que mantiene su interés de pagar la deuda externa aunque para ello sea necesario buscar alternativas que le permitan realizar ese propósito; b) abrir el Contrato vigente de tal manera que haga posible la conversión de la deuda en inversión, mientras el Banco Central estudia un mecanismo apropiado para llevar a la práctica esas operaciones; y c) eliminar las cláusulas que prohiben esas operaciones de manera expresa, de tal forma que la conversión de la deuda en inversión sea permitida a personas morales o jurídicas y no sólo a bancos y/o instituciones financieras, así como hacer posible tanto la conversión de deuda en inversión como la capitalización de la misma, además de que puedan participar tanto inversionistas nacionales como extranjeros.

3. Finalmente, la propuesta a que se refiere la presente Resolución deberá ser consultada por el Gobernador del Banco Central con el Poder Ejecutivo, antes de darle el

curso correspondiente, sin perder de vista, además, que para la puesta en práctica de la misma, en caso de ser aceptada, en ningún momento las autoridades monetarias dejarían de tomar en cuenta una sana programación monetaria, así como el nivel del medio circulante, el cual se ha venido reduciendo gradualmente en el transcurso de los últimos meses como resultado de las medidas adoptadas para esos fines.

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
SANTO DOMINGO, R D

NOTA DE PRENSA

En su sesión ordinaria celebrada en fecha de ayer, la Junta Monetaria conoció del contenido de una publicación efectuada en la prensa nacional por la Asociación de Bancos de la República Dominicana, Inc. en torno a las últimas medidas adoptadas por las autoridades monetarias y de manera especial en lo que concierne al nuevo sistema de encaje legal requerido a dichas entidades.

En esa oportunidad la Junta Monetaria reafirmó su decisión de mantener con firmeza las decisiones y medidas tomadas hasta ahora por dicho Organismo para regular el sistema bancario y una sana política monetaria y cambiaria en el país, aunque reiteró su disposición de mantener relaciones cordiales con todas las entidades que integran el sistema bancario nacional y muy especialmente en lo que concierne a conservar abierto en todo momento la posibilidad del diálogo y a ser flexible cuando las circunstancias lo permitan el ámbito de las atribuciones que le competen de acuerdo con las disposiciones legales vigentes.

Por otra parte, la Junta Monetaria, accediendo a una solicitud formulada por la Fundación de Crédito Educativo, Inc. estuvo de acuerdo en aumentar a RD$5.0 millones el tope de los préstamos que pueden ser deducidos por los bancos comerciales del total de sus depósitos de ahorro y a plazos, desde

\13

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
SANTO DOMINGO, R.D.

el punto de vista del efectivo requerido para fines del encaje legal, cuando se trate de créditos otorgados por dichas entidades a la Fundación de Crédito Educativo, Inc. La Resolución adoptada en ese sentido modifica las disposiciones contenidas en la Decimoséptima Resolución de dicho Organismo de fecha 13 de febrero de 1986, la cual a su vez había reformado el contenido de la Tercera Resolución adoptada en fecha 7 de junio de 1984, sobre este mismo asunto.

La Junta Monetaria aprobó también una propuesta del señor Gobernador del Banco Central encaminada a solicitar a los bancos comerciales extranjeros agrupados en el contrato de reestructuración de febrero de 1986, una enmienda a dicho contrato que permita las operaciones de conversión de deuda en inversión, las cuales están prohibidas explícitamente en ese documento.

Con esta propuesta al Comité de los Bancos, se perseguirían los siguientes objetivos: a) que la República Dominicana ingrese en el Club de los que habiendo dicho siempre que quieren pagar, busque nuevas alternativas para cumplir con ese propósito; b) abrir el contrato de forma tal que permita de una manera general las operaciones de conversión de deuda en inversión, mientras el Banco Central estudia un mecanismo apropiado para la regulación de la puesta en práctica de dichas operacio-

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
SANTO DOMINGO, R.D.

nes; y c) con este primer paso se trata de buscar modificaciones a las cláusulas que prohiben expresamente las operaciones que aquí se señalan, de manera que en lo adelante sean permitidas, principalmente con las finalidades que se señalan más adelante:

1) Que las operaciones de conversión de deuda en inversión sean permitidas a personas jurídicas o morales, no sólo a Bancos y/o instituciones financieras.

2) Que se permitan tanto la conversión de deuda en inversión como la capitalización de la misma.

3) Que se le permita tanto a inversionistas nacionales como extranjeros el participar en dicha clase de actividades.

Todo de acuerdo a las circunstancias que permitan una sana programación monetaria y la posición del medio circulante actualmente en proceso de reducción de conformidad con las medidas de política monetaria que se ha venido adoptando últimamente.

22 de enero de 1987.

TEXTO DE LA QUINTA RESOLUCION ADOPTADA POR LA JUNTA MONETARIA EN FECHA 9 DE ABRIL DE 1987.

5. QUINTA RESOLUCION.- OIDA la exposición verbal del Gobernador del Banco Central informando que como recordarían los señores Miembros, hacía varias semanas que se incluyó como tema de agenda un documento relativo a la posibilidad de convertir la Deuda Externa del país en inversión de capital en la República Dominicana, principalmente en interés de que

los integrantes de este Organismo analizaran el contenido de ese documento e hicieran las observaciones que creyeran pertinentes sobre el particular.

En ese sentido, el Gobernador expresó que como habrían podido observar también los señores Miembros, en el discurso que tuvo oportunidad de pronunciar con motivo de la última Reunión de Gobernadores del Banco Interamericano de Desarrollo (BID) que tuvo lugar en Miami, E.U.A., a mediados del pasado mes de marzo, había tratado ese tema y estaba en condiciones de informar que por lo menos los representantes de algunos de los bancos acreedores le manifestaron que aguardaban con interés la propuesta de la República Dominicana para analizarla con detenimiento antes de fijar su postura sobre el particular.

Agregó, que habiendo transcurrido ya varias semanas desde la fecha en que el documento relativo a la conversión de la deuda externa fue entregado a los Miembros de la Junta Monetaria, creía llegado el momento en que este Organismo se abocara a tomar una decisión al respecto, teniendo en cuenta que no se habían recibido observaciones o reparos al referido documento, con lo cual estuvieron de acuerdo los demás Miembros presentes;

Por tanto, la Junta Monetaria

RESUELVE:

Dar encargo al Secretario de la Junta Monetaria para que elabore un Proyecto de Resolución destinado a la Conversión de la Deuda Externa en Inversión de Capital en la República Dominicana, utilizando para esos fines el documento entregado a los señores Miembros de este Organismo en la sesión celebrada en fecha 22 de enero de 1987, proyecto éste que deberá ser incluído como tema de agenda de la próxima sesión.

PROYECTO DE RESOLUCION

RESOLUCION: VISTO el memorandum de fecha 5 de marzo de 1987, por cuyo medio el Departamento de Deuda Externa del Banco Central de la República Dominicana sugiere que se definan las condiciones bajo las cuales se admitirá la conversión de deudas en inversión, en caso de que los bancos comerciales suscribientes del Contrato sobre Reestructuración de la Deuda Externa de fecha 25 de febrero de 1986, acepten la enmienda propuesta con la finalidad de hacer posible este tipo de operaciones;

VISTA la Ley No. 251, de fecha 11 de mayo de 1964, que regula las transferencias internacionales de fondos que se efectúen del país hacia el exterior y viceversa;

VISTA la Resolución del Congreso Nacional No. 1886, de fecha 7 de mayo de 1986, que aprobó el Contrato de Reestructuración de la Deuda Externa de la República Dominicana, formalizado con la banca comercial en fecha 25 de febrero de 1986;

VISTA la Decimosexta Resolución adoptada por la Junta Monetaria en fecha 22 de enero de 1987;

VISTA la Quinta Resolución adoptada por la Junta Monetaria en fecha 9 de abril de 1987;

CONSIDERANDO que al 31 de diciembre de 1985, la deuda externa comprometida de la República Dominicana ascendía a US$4,234.00, mientras que la deuda externa ya desembolsada para esa misma fecha se elevaba a un monto de US$3,719.00;

123

CONSIDERANDO que en fecha 25 de febrero de 1986, la República Dominicana formalizó un Contrato de Reestructuración de la Deuda Externa con la banca comercial representada por un grupo de Bancos encabezados por The Royal Bank of Canada como Agente Coordinador, cuyo monto asciende a US$774.8 millones, previéndose que dicha deuda sería reconvertida durante el período comprendido de 1986 a 1989;

CONSIDERANDO que en 1986, la deuda externa de la República Dominicana con la banca comercial, ya renegociada y reconvertida, ascendió a US$326.8 millones, destacándose la circunstancia de que en el transcurso de los últimos años varios países latinoamericanos han logrado modificar los contratos relativos a la renegociación de sus respectivas deudas con la banca comercial, para facilitar la conversión de dicha deuda en inversión;

CONSIDERANDO que por razones obvias a la República Dominicana le convendría iniciar un proceso de conversión de su deuda externa con la banca comercial, en inversión, siempre que se refiera a obligaciones renegociadas y ya reconvertidas, como medida tendente a reducir la presión que ejercerá en el futuro inmediato el servicio de esa deuda en la balanza de pagos internacionales del país;

CONSIDERANDO que precisamente con esa finalidad, en fecha 22 de enero de 1987, la Junta Monetaria acordó gestionar frente a los Miembros del Comité Asesor de Bancos para la República Dominicana, la posibilidad de modificar en algunos aspectos el Contrato de Reestructuración de la Deuda Externa con la banca comercial, de fecha

25 de febrero de 1986, en interés de facilitar la conversión de dicha deuda en inversión tal como lo han hecho otros países hermanos del Continente;

CONSIDERANDO que ante la eventualidad de que la banca comercial acepte la proyectada enmienda al referido Contrato de Reestructuración de la Deuda Externa de la República Dominicana, de fecha 25 de febrero de 1986, este Organismo estima necesario definir el tratamiento que recibirían después de reformado el Contrato, las solicitudes de conversión de deuda en inversión, en términos de control del medio circulante, así como del efecto cambiario que pueda generarse;

CONSIDERANDO que en vista de lo expuesto, procede continuar las gestiones iniciadas con el mencionado propósito, de manera que la deuda externa de la República Dominicana con la banca comercial, ya renegociada y que haya sido objeto de reconversión, pueda ser convertida en inversión, bajo determinadas condiciones que aseguren un efecto favorable para la economía del país;

Por tanto, la Junta Monetaria

R E S U E L V E :

Disponer que en caso de aceptación por parte de la banca comercial, la propuesta encaminada a modificar el Contrato de Reestructuración de la Deuda Externa del país formalizado en fecha 25 de febrero de 1986, en interés de facilitar la conversión de dicha deuda en inversión, el Banco Central de la República Dominicana aplique las normas y criterios que se señalan más adelante, al momento de analizar cada solicitud que reciba para la conversión de documentos ----

125

expresados en moneda extranjera, a cargo de esta Institución, a documentos expresados en pesos dominicanos, en la forma siguiente:

a) PROPOSITO DEL MECANISMO

El objetivo que se persigue con este mecanismo es el de promover, en condiciones favorables para la economía nacional, la conversión de obligaciones en moneda extranjera que documentan la deuda pública externa, a títulos-valores expresados en pesos, para orientar esos recursos hacia inversiones productivas en el país, en especial aquellas que tiendan a incrementar los ingresos de divisas, la producción y el empleo, al tiempo que se reduzcan los pagos por concepto del servicio que estas obligaciones le generen al país.

b) TITULOS INTERCAMBIABLES

Los títulos convertibles a documentos en pesos mediante este mecanismo, serán los certificados expresados en moneda extranjera emitidos por el Banco Central de la República Dominicana, impresos en papel especial y firmados por los funcionarios competentes a favor de acreedores externos, conforme a los convenios de refinanciación de la deuda pública externa de la República Dominicana. El Banco Central se reserva el derecho de incorporar en el futuro a este esquema de conversión, otros documentos de deuda externa, en adición a los certificados que aquí se indican.

c) <u>CONDICIONES DE INTERCAMBIO</u>

Los títulos expresados en moneda extranjera, serán intercambiados por títulos en pesos, en las condiciones que convengan las partes, pero el plazo de los nuevos documentos no podrá ser menor al del título original. En la determinación de estas condiciones se tomarán en cuenta los términos en que se presente la oferta y el destino de los recursos en pesos..

d) <u>LAS SOLICITUDES DE INTERCAMBIO</u>

Los interesados deberán presentar sus ofertas de intercambio con las siguientes informaciones:

I) Indicación de la razón social, domicilio, nombre de los apoderados o representantes legales del inversionista;

II) Solicitud formal de conversión, en que se detallen las inversiones que se realizarán en el país con los títulos en pesos que se obtengan en la conversión, especialmente sus características financieras, en las que se demuestre la factibilidad de la inversión y el volumen y el valor de las exportaciones que la misma generaría en la vida del proyecto. También indicación de si el proyecto requiere para su realización equipos, maquinarias o materiales importados, y período en el que serían realizadas esas importaciones y los montos de las mismas.

III) Indicación de las condiciones en que el tenedor está dispuesto a hacer la operación en canje, detallando las características de los títulos en moneda extranjera que posee, y las condi...

127

Las solicitudes deberán ser presentadas a la Gobernación del Banco Central de la República Dominicana, quien después de ordenar la evaluación de lugar la someterá a la consideración de la Junta Monetaria.

e) INVERSIONES PRIORITARIAS PARA EL PAIS

Se considerarán prioritarias para el país las inversiones que se realicen en los siguientes sectores:

Empresas nuevas productoras de bienes y servicios que aumenten las exportaciones en las áreas que se indican a continuación:

I) Turismo

II) Agroindustria

III) Zonas Francas

IV) También se considerará cualquier otra actividad productiva que permita el incremento de las Reservas Líquidas del Banco Central de la República Dominicana a través del mecanismo de canje cruzado de bienes exportables de entrega futura y títulos de deuda.

Cuando las ofertas de conversión se refieran al desarrollo de proyectos que se consideren de interés nacional, pero que impliquen el consumo en vez de la generación de divisas, deberán incluir nuevos recursos en moneda extranjera, como aporte del inversionista o como financiamiento externo de la inversión, por un monto equivalente al componente importado del proyecto. Las condiciones en que se aprobaría el financiamiento externo deberán ajustarse a las disposiciones contenidas en la Decimoc tava Resolución adoptada por la Junta Monetaria en fecha 18 de

910

128

diciembre de 1986, sobre política de endeudamiento en moneda extranjera y registro sin obligación cambiaria.

f) REGIMEN DE INCENTIVO Y CRITERIOS PARA APLICARLOS

Partiendo del valor de mercado de los títulos o de un precio de referencia aceptable para el Banco Central, se fijará el valor para la transacción de que se trate. El Banco Central efectuará consultas de precios con entidades de reconocido prestigio en la colocación de títulos financieros internacionales y las utilizará como guía en la determinación del precio de referencia citado.

La determinación final del precio de cada transacción, estará en función de las prioridades definidas en el punto anterior. Cuanto más alta sea la prioridad que el Banco conceda a la actividad en la que se inviertan los recursos, mayor será el beneficio que se reconozca al inversionista, siempre dentro de límites establecidos al efecto. Sin embargo, en ningún caso el precio de conversión a que el Banco Central acepte las ofertas, podrá ser superior al 70% del valor facial de los respectivos certificados de deuda. Sólo se permitirá realizar este tipo de operación a extranjeros o dominicanos no residentes en el país y a dominicanos y extranjeros residentes que presenten pruebas debidamente certificadas de su solvencia expresada en moneda extranjera.

El objetivo de la restricción al precio es asegurar que, en términos de valor presente, las condiciones de la conversión

124

de los certificados no represente un deterioro al ahorro por concepto del servicio de la deuda externa, así como el mayor egreso de divisas que pueda ocurrir en el futuro, cuando se moneticen los pesos del principal y los intereses de los certificados emitidos por el Banco Central en el canje, o cuando se haga uso de los beneficios del registro de capitales a que se refiere el literal g) de esta Resolución. Desde este punto de vista, como un incentivo a las inversiones en actividades prioritarias, el valor de la transacción deberá mantener una relación con el valor presente de los beneficios netos que le produzcan al país los ingresos adicionales de divisas que generen esas inversiones, y el ahorro de divisas por el uso de los pesos entregados con respecto a la ejecución del proyecto de inversión.

La conversión de certificados en pesos de los documentos de la deuda, se referirá al valor de mercado de estos documentos, en vez de a su valor facial. El nivel del precio que se acepte dependerá, en todo caso de las condiciones de cada oferta, de acuerdo con los criterios básicos descritos en este mecanismo. Además, la situación del mercado para los títulos y el precio que se conceda, se reflejarán en la transacción, entregando a cambio títulos en pesos por una porción del valor facial de los documentos, o bien por el equivalente al valor de esa porción si el caso lo requiere.

g) REGISTRO DE LAS INVERSIONES A SER REALIZADAS

El Banco Central de la República Dominicana establecerá las condiciones para el registro del capital traído al país, vía

130

este mecanismo, a fin de que el inversionista pueda repatriar las inversiones y las rentas o utilidades que ellas generen, o servir los créditos externos que se consigan para financiar el proyecto, según el caso, conforme a lo establecido en la Ley No. 861, de fecha 22 de julio de 1978, sobre Inversión Extranjera, y sus modificaciones. Los montos que se consignen en ese registro serán similares a los que el Banco Central haya aceptado recibir en certificados de deuda. En el caso de inversiones, incluidos los dividendos correspondientes, no podrán repatriarse total o parcialmente hasta que transcurran cinco (5) años computados a partir de la fecha de inicio de operación del proyecto.

h) CUMPLIMIENTO DEL CRONOGRAMA DE INVERSION

El Banco Central de la República Dominicana establecerá los requisitos y lineamientos que deban llevarse en cada caso, respecto al cronograma de inversión del proyecto, para controlar que se está ejecutando el proyecto cuya realización se planteó como plan de inversión, a la hora de efectuarse el canje de los documentos. Estos lineamientos tendrán por finalidad última controlar también que los desembolsos entregados al inversionista no aumenten el medio circulante y por ende el tipo de cambio de la economía de la República Dominicana.

i) APROBACION FINAL

La aprobación definitiva de cada caso que se presente a la consideración del Banco Central, será dada por la Junta Monetaria de forma que todo acuerdo a que en principio llegue la administración del Banco Central con los tenedores de los documentos a canjear, quedará sujeto a la posterior aprobación de la Junta Monetaria y en ningún caso compromete al Banco Central a aceptar la oferta. Los proyectos aprobados por la Junta Monetaria, acogidos al presente mecanismo, deberán iniciar su ejecución a más tardar seis (6) meses después de la aprobación, en función del cronograma de inversión descrito en el punto anterior. El Banco Central de la República Dominicana se reserva el derecho de fijar un monto máximo anual, al valor total de los certificados que aceptará canjear mediante este mecanismo, en función de la programación monetaria correspondiente.

j) <u>SEGUIMIENTO DE LAS OPERACIONES</u>

Con el propósito de formalizar las operaciones que se deriven de este mecanismo, los interesados suscribirán un acuerdo con el Banco Central de la República Dominicana en el cual se establecerán, entre otras cosas, los compromisos y responsabilidades de las partes, el plazo mínimo para realizar la operación y las sanciones que podrían aplicarse en caso de que las inversiones no se efectúen conforme a los términos y condiciones previstos. Si el Banco Central llegara a comprobar incumplimiento en los planes de inversión presentados para desarrollarlos dentro de este mecanismo, podrá aplicar las sanciones previstas, incluyendo la suspensión de los beneficios concedidos al amparo del presente esquema de conversión.

32

k) VIGENCIA DEL MECANISMO

La Junta Monetaria, como Organismo superior del Banco Central de la República Dominicana se reserva el derecho de modificar los lineamientos establecidos en el presente mecanismo, cuando se produzcan situaciones que así lo aconsejen. Dichas enmiendas podrán afectar las solicitudes de conversión que se encuentren en trámite para fines de estudio y las que se presenten en el futuro, pero en ningún caso las ofertas que ya hayan sido aprobadas por la Junta Monetaria.

2. Asímismo, en vista de que las normas y criterios a que se refiere el Ordinal 1 que antecede, sólo entrarán en vigencia después que haya sido modificado el contrato relativo a la Reestructuración de la Deuda Externa con la banca comercial, las disposiciones contenidas en la presente Resolución deberán ser discutidas con el Comité Asesor de los bancos comerciales para la República Dominicana, entendiéndose, además, que el Departamento de Deuda Externa del Banco Central, con la asesoría técnica del señor E. Gayle Macguigan, elaborará un proyecto de Reglamento destinado a la aplicación de las mencionadas normas y criterios, el cual deberá ser sometido más adelante a la consideración de este Organismo.