A STUDY OF DEBT CONVERSION

DOMINICAN REPUBLIC

REPORT BY

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and

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CENTER FOR PRIVATIZATION
2000 Pennsylvania Avenue, NW - Washington, D.C. 20006

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Prepared for the
BUREAU FOR PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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I. Purpose and Scope

The purpose of this study is to supply inputs into an A.I.D. project the objective of which is to help establish a mechanism to convert elements of the Dominican Republic's external debt into direct private investment. This paper covers two categories of subjects:

1. operational issues- the adequacy of the draft regulations, creating a process to approve applications, developing policies to minimize inflationary and exchange rate effects and determining the tpe and timing of technical assistance to be furnished by A.I.D.; and

2. measuring the potential impact on the economy by projecting: a) earnings and saving of foreign exchange and b) job creation.

II. Executive Summary

The Dominican government's principal objective is to stimulate foreign private investment by using debt/equity conversions to provide local currency to the investor at what amounts to a highly favorable exchange rate. By directing projects to the export sectors such as tourism and the expansion of the free zones for manufacturing, it hopes to signifigantly increase its foreign exchange earnings.

The program would be open to any investor, corporate or individual, foreigner or citizen. Investments must be made in fixed assets like land or construction. Conversion to increase working capital or to capitalize an existing enterprise is not permitted. Investments are registered separately from those made by the conversion of foreign exchange and are subject to an eight year prohibition on the repatriation of capital and three years on the transfer of dividends.

In reviewing the draft regulations, we find three provisions that are serious obstacles to investors which should be changed. The first is registration in local currency, which over many years could sharply reduce the dollar value of capital and dividend repatriation. The second is a requirement that a banker stipulate that funds to be invested have been sitting in an account two years prior to transfer, an impractical or meaningless provision for a multinational. The third is the inadequate rate of interest to be paid on peso deposits between the time of conversion and disbursement. The maintanence of any of them could affect the success of the program.

Based on its regulations, when compared with other debt/equity programs in Latin America, the Dominican Republic's ranks in about the middle between Chile at the upper and Argentina at the lower end. In practice, its competitive standing will depend on whether they are administered pragmatically and flexibly.

A part from a good set of regulations their sensible administration, a successful program requires a stable economy, a realistic exchange rate, an adequate supply of debt and attractive investment opportunities. The Dominican economy is currently suffering from accelerating inflation fed by large budget deficits after a brief period of monetary and fiscal discipline under the aegis of an IMF standby in 1985-86. As a consequence, the exchange rate has depreciated sharply in the past year, leading the government to establish buying and selling rates for the dollar diverging from the free market by as much as 15-20%.

The debt to be converted would be part of the roughly $800 million of commercial bank credits, almost a quarter of all external debt. Almost all are part of a multi-year rescheduling agreement(MYRA) which would have to be amended to permit conversion. The banks are insisting, before they agree, that the Paris Club, i.e., governments, restrucure the 45% of Dominican debt they hold.

The key then to establishing the proper framework for a successful debt conversion program is an IMF standby agreement which would provide a more stable environment, a realistic exchange rate and a large supply of debt.(Judging from the $650 million of proposals that have already been submitted there seems to be no shortage of projects.) The Dominican authorities have not yet made a decision to start the stand-by process. Until they do there will be only about $35 million available in commercial bank credits not subject to be consolidated in the MYRA if the few leading banks that hold them agree.

Debt conversion's most serious drawback is the way it expands money supply. The Dominican program is equivalent to an advance payoff of external debt by the Central Bank creating money. To minimize its inflationary impact, a annual dollar ceiling (probably $50 million) should be placed on authorized projects, the actual conversion of which should be phased in accordance with peso disbursements, and, bonds should be sold to the public to immobilize some of the liquidity created.

The Junta Monetaria (Monetary Board) will authorize conversions, based on recommendations and staff work of the Debt Conversion Unit (DCU) of the Central Bank. The DCU will screen projects, analyse them with the help of other departments of the Bank, ensure that approved projects are implemented and monitor disbursement. The object is to create a small highly professional group that will speed the process of approval, not slow it down. A.I.D. assistance will consist of help in organizing the office such as the provision of training and equipment and advice in dealing with operational problems. Both will require the most intense effort in the first year. Therefore, we concluded that it would most efficent, and politically least disturbing, to have a number of experts on tap for TDY assignments. A detailed analysis of the organization of work and a plan providing for fifty-nine man-months of assistance are laid out in chapter VI.

In chapter VII. the effect on the balance of payments and employment of a specified composition of investments, under this program, are projected assuming that $50 million are authorized for conversion each year for five years. By year five, foreign exchange earnings will reach $70 million and savings from debt dervice $15 million per annum. Employment will increase by 60,000. Both will continue to rise for several more years.

III. Description of the Debt/Equity Conversion Mechanism

A. Objectives

The objectives of the debt/ equity mechanism in the DR are, in order of priority:

1. to promote private investment whether by foreigners or through the repatriation of Dominican assets;
2. to increase exports of goods and services;
3. to sell state-owned assets to private investors; and
4. to reduce the foreign exchange cost of servicing external debt.

The Central Bank takes, as a starting point, that new foreign investment, as distinct from reinvested profits, has been very scarce in recent years and that existing incentives should be supplemented to attract more foreign direct investment. The debt/equity conversion offers an alternative channel to attract investments by a very simple mechanism- a cheap source of local currency. They hope to use this new investment to increase export earnings in the tourism and agro-industry sectors and to convert idle state-owned lands into productive assets. The need to minimize the domestic inflationary impact of conversions will initially limit the dollar value of conversions and the foreign exchange savings that can be achieved by reducing external debt service.

Privatization plays a minor role in the initial stage. Once established however, debt conversion could become an excellent vehicle to divest the goverment of enterprises that are not relevant to a sensible strategy of development. At the moment even the sale of sugar growing picked up from bankruptcy proceedings is politically sensitive even though feasible.

B.Strategy

The conversion of debt to equity provides an incentive to investors by creating, for each transaction, a de facto exchange rate more favorable than one at which they otherwise would be able to convert foreign exchange or value imported physical stopassets. The investor receives,in effect, a premium in local currency that makes his investment cheaper than it otherwise would be.

The size of the incentive depends on two factors:

1. the discount from face value at which the original creditor is prepared to sell his loan; and

2. the discount from face value at which the central bank is prepared to convert into pesos.

The external discount must be larger than the internal one for there to be any incentive at all; and, the larger that difference the more attractive the mechanism becomes. For example, suppose that Dominican paper is selling at half its face value and the Central Bank is prepared to convert at a 20% discount; then the investor receives 30% more pesos than at the official rate. Assuming the latter is 6/$1, the de facto exchange rate is 8.8/$1.

C.Description

In the Dominican Republic, the draft regulations would permit the conversion of commercial bank debt only to make direct investments. The program is open to any investor, corporate or individual, foreigner or citizen. It is limited to new fixed investment in companies organized in accordance with Dominican law. Assets to be acquired may consist of land, private or public, construction and local goods and services. Debt conversion for working capital or to strengthen the capital of an existing enterprise is not permitted. Imported goods and services must be paid for with foreign exchange supplied by the investor and registered under the foreign investment law (861).

Investments should be in the following sectors: tourism, construction of industrial free zones, agro-industry, fishing, forestry, hospitals, low and medium cost housing, education and transport. The phrase however referring to "other high priority activities" gives the authorities discretion to approve other proposals that they find attractive.

The central bank will convert the foreign currency debt by opening an account in the name of the investor in pesos at the dollar buying rate minus a discount. The discount from face value is based on a table which assigns values to characteristics of the investment such as contributions to employment and foreign earnings, location and transfer of technology.

Investments made by debt conversion will be registered separately from those made by the conversion of foreign exchange. Unlike those made under the provisions of the foreign investment law, profits cannot be remitted in the first three or capital repatriated for the first eight years.

D. Guideline Issues and Suggested Policy Modifications

The proposed debt conversion mechanism has been reviewed against the comments and suggestions of potential major players, the financial institutions -both national and multinational. Given the opposition to this program which sees it as a give-away of sovereignty (entrega de soberania), the wiser course would be to set in motion a spare mechanism rather than a broad program.

An attempt was made to distinguish between features which we see as undermining the success of the program and those whose adjustment would enhance its attractiveness to the participants, but are not necesary, at least at the outset. Only essential modifications have been included in the first category. Some of those in the second group appear eminently desireable, and would improve the program's efficiency . We believe, based on conversations with officials of the External Debt Department, that they are aware of the problems and concerns expressed below, and since they have not yet submitted their formal recommendations to the Junta Monetaria, have the opportunity to make the minimum needed amendments.

In the first category, there are three areas of concern:

1. Chapter XI 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 (251), 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.

2. 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 he will not object to this discrimation because he is already treated differently than the foreign investor under law 251, where the latter has 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. (The problem of roundtripping is discussed in Section III.)

3. Chapter X provides for the Central Bank to pay 10% on undisbursed balances of the converted debt. This would not be acceptable to the investor who has converted from a dollar asset yielding 10 or more per cent on a face value for which he has probably paid less than half price. In Section III. an alternative is proposed and discussed in greater detail of keeping the debt unconverted in dollars until required for disbursement.

These three changes are essential to attract foreign investors and make this a successful program. We recommend that the Central Bank staff make the modifications proposed here, or others that would have the same effect, to the Junta Monetaria.

In the category of modifications that would enhance or broaden the attractiveness of the program are the following five points:

1. The requirement that conversion be only for new investments, basically in fixed assets or shares in companies that acquire new assets. While a prime reason for converting debt is to invest it in the capital or physical assets of a new enterprise, 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. This suggestion was not accepted by the Bank staff. (Nonetheless, after this was written, the Manager of the External Debt Department acknowledged that he had agreed to accept the proposal of one banker whose local agency was not in compliance with reserve requirements, to convert into capital of the local subsidiary, a portion of debt (thought to be bankers acceptances) that had remained outside the rescheduling agreement, on the promise to bring in one fresh dollar for every four converted.)

This evidence of pragmatism suggests that if other important proposals or problems develop, they will receive consideration.

2. Chap. IV, Para 3, Eligible Investments, contains some restrictions, the ramifications of which may not have been fully appreciated in the drafting; e.g.,

the requirement that leases be for not less than 20 years. may be too restrictive; it may not fit the norms of the users;

the permission to use proceeds for construction of infrastructure may need to be clarified to permit the building of just one one building; i.e. that the investor does not have to build a whole park. This possibly unintended limitation also appears in paragraph 4. The Debt Conversion Department views this as a serious constraint which should be removed.

3. Chapter VIII gives the investor 90 days from date of approval by the Monetary Board to close the transaction. The 90 day period may be too short. If the investor has to incorporate a new company, or obtain approvals from other agencies, such as Tourism, or benefits from ministries, 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 the approval is given.

4. Chapter IX, Conversion Mechanism, establishes the conversion rate as the Central Bank's U.S. dollar purchase rate. If there is a significant difference between that rate and the rate at which dollars can be sold in the outside market, this will be a strong disincentive. (This point is dicussed further in Section II.)

5. Chapter IV on Eligible Investments and Activities, as discussed earlier, limits the permissible areas. In the light of experience, it may prove useful to consider some of the following:

debt-export conversion is not contemplated under the regulations. However, one Spanish bank has come forward with an interesting proposal which may merit consideration as a means of pre-financing the planting and processing of food products for export; and

the expansion of existing facilities appears to be excluded. But consideration might be given to permit conversion for expansion, especially when it concerns local industry.

E. A Comparison of the Dominican Program with Those of Other Countries

If there is an indicator which best sums up the comparative advantages of investments and of debt conversion programs in each country it is probably the relative prices of each country's debt, i.e. the discount from face value. Sooner or later, the price of a country's debt in the secondary market will come to be a function of country risk, the bite the government takes, what can be done with the funds in the country, and the restrictions on the transfer of proceeds.

All programs draw essentially from the same pool of international investors -the multinationals, including the banks which, heretofore, have been the big lenders and, to a lesser extent, other important foreign companies. These two groups are the basic source of new investment in LDC's. For these would-be investors, there are no unique opportunities, only a choice of alternatives. They generally choose to locate in places that offer subsidies such as debt conversion programs. The debt discount incentive can be so great as to become the deciding factor in determining where the investment goes.

Countries are in competition with each other for investment, analagous to the situation in the U.S. where local communities go around offering incentives to attract new investment. In such a competitive environment a country's debt conversion program is viewed in a framework of investor perceptions about a country's economic managagement and the experience of resident foreign companies. Experience shows that a country with a decent program really does bring in investment but it takes time because: a. putting debt together is a lengthy process; and b. investors -especially the banks- have become very wary of going into new untried debt conversion incentive programs.

People are coming to look at debt conversions as an adjunct to other measures to obtain repayment, such as converting debt to some other instrument at a discounted price. The "other instrument" may be a bond, like Chile's new one which carries with it a pledge of export earnings as collateral to the loan. Another type being considered is one that supports the bond by a guarantee of interest payments by, say, the World Bank.

Secondly, some banks in New York believe that debt for equity may be outmoded. Debt buy-back has become the current fahion. Mexican and Venezuelan nationals, for example, are putting up the money. It is a return of flight capital with the big banks, which become the holders of record, fronting for local investors. Thus, while the Dominican Republic is just now coming out with a program to aid its development by taking advantage of the depressed value of its debt in the international market, it may find that all the debt holders are not quite as keenly interested as formerly.

A chart has been prepared, from published information, comparing the principal features of several Latin American and Caribbean countries'debt conversion programs. This chart is attached as Exhibit I.

If, as the bankers say, the Dominican Republic's real competitors are Jamaica, Costa Rica and Mexico, then it appears that the D.R. falls below Jamaica, is about even with or better than Mexico, and above Costa Rica which, at any rate, is out of commission at the moment. Jamaica's program, which has the advantage of being up and running, rates higher because it is less restrictive as to profit remittance, capital repatriation and use of the funds.

Comparing the D.R. program with all of the programs listed on the chart, one would have to conclude that it falls somewhere in the middle. Chile has the best program because it contains the least restrictions and allows people to decide how the money will be used. Moreover it has clear rules, it has been in place for a long time and has not been interrupted. Mexico, in contrast, has a program which is complicated by criteria and red tape.

In the worst category would be programs like those of Argentina and Venezuela. Argentina put in all kinds of restrictions including requiring one fresh dollar for every dollar converted. The result was that there were no takers until the program was modified. An investor consensus has still not been reached. Venezuela adopted a conversion rate that was less than half of the free rate, which nullified the whole program.

Assuming that the objectionable feature(s) discussed in the chapter entitled: "Suggested Guide Line Issues And Policy Modifications" are dealt with, the D.R. program should prove competitive. The Central Bank "bite" is on the low side, the rules appear uncomplicated and, while the program is somewhat restrictive in the sense that conversions may not be used for working capital or financial operations such as debt capitalization, there do seem to be interesting alternative uses. The restrictions are intended to direct investment to specified sectors, the practice in most countries.

The banks do not see serious problems in the organization of the D.R. program. But they stress that much will depend on its ease and flexibility. The proof will be in the operation of the program. It is a complex process to design a program that must start out full blown without trying out some of the features. Designers can learn from others' experiences, but must still adapt the design to the local environment. The key to the successful operation of the D. R. program may well be in not becoming locked into a rigid system, but allowing for periodic review and adjustment in the light of experience.

IV. Economic and Financial Preconditions

A. Stability

A sucessful debt conversion program requires that the economy in which investments are being made is stable, the exchange rate realistic and that there be an adequate supply of debt to convert and projects to interest investors.

A foreign investor needs a minimum degree of general economic stability if he is to avoid being a victim of inflation, labor unrest, import restrictions or, temporarily, the program mounted to deal with them. Current conditions in the DR are not very propitious. After a brief period of fairly disciplined management from early 1985 to early 1986, under an IMF standby agreement, a shift in monetary and fiscal policy has led since, to a very rapid growth of money supply, accelerating inflation and a sharp depreciation of the exchange rate. The table which follows presents the movement of these indicators since 1985.

ECONOMIC INDICATORS

	1985	1986	1987	1988
A. Growth of: (in percent)				
1. Domestic Assets of Banking System*		45	43	
a. o/w pub. sec.*		69	32	
2. Money Supply*				
a. M1	8	66	36	32(IQ)
b. M2	19	66	15	30 "
3. COL*	9	6	25	27(Jan.)
4. GNP-	4.2	2.6	8.0	
B.				
1. Exchange rate** (monthly average)	2.6	3.1	4.9	6.2(May)
2. Exchange Reserves,net (in million $US)	-248	-152	-358	-221(Apr)

* end of period
** per dollar

The latest shift of policy was motivated by preparation for the 1986 elections, and the subsequent desire of the new Balaguer administration to stimulate growth by public works spending. There was a very large increase of credit to the public sector in 1986 and a continuing growth at a high rate in 1987. The rise of M2 in 1986 at the same rate as MI indicates that surplus liquidity was at first absorbed by savings deposits but spilled out into the market via currency in circulation and demand deposits in 1987 when consumer prices rose sharply, GNP grew an unprecedented 8%, imports rose steeply and exchange reserves fell to minimum levels.

As inflationary pressures have increased, the government has tried to treat the symptoms rather than the disease by subsidizing mass consumption items and forcing the commercial banks to maintain, for periods of time, an artificial exchange rate when the market rate of conversion exceeded 5/1 at the end of 1987. The government seems to be aware that the disadvantages of this policy outweigh its benefits, but the decision to try a more decisive approach such as the conclusion of a standby agreement with the IMF has not yet been made. The mounting shortage of foreign exchange and a partial breakdown of the electric generation and distribution apparatus is creating an atmosphere of disorganization which could lead to disorder. At the moment, therefore, the basic condition of stability does not yet exist. There is however a continuing foreign interest in investment,(there were fourteen new proposals for debt conversion received by the Central Bank between December and May) on which the government can count if a stabilization is carried out this year.

B. Realistic Exchange Rate

Because the debt/equity conversion provides a premium exchange rate to the investor, the attractiveness of the incentive depends in part on how competitive the regular rate is. If it is overvalued, much of the benefit will used up in compensation for that overvaluation. Just what would be an appropriate exchange rate in the present situation is unclear. What is obvious is that government efforts to stop depreciation in the market have led to a gap of 15-25% between bank quotations and those availble in the market. Until these rates are reunified and stabilized in the framework of a free market there will be a tendency for investors to wait and speculate on rate movements.

C. Usable Foreign Debt

The raw material of a debt/equity program is a good supply of foreign currency denominated debt that the orginal lenders are prepared to sell at a substantial discount from face value. The table below indicates how the Dominican debt is distributed by lender in part A; the status of debt restructured in the multiyear rescheduling agreement (MYRA)in part B; and, in part C., a breakdown of commercial bank lending by category of bank. The purpose is to narrow down that part of the debt that 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 vehicule 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 multiyear rescheduling agreement (MYRA), signed in 1986. On signature, $327 million representing arrears and amortization due 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 agreement is partially suspended because the DR has not fulfilled all the conditions precedent; in particular, the signature of a new IMF standby which would allow a renegotiation, in the Paris Club, of the forty five percent of the Republic's external debt, held by foreign governments.

The consolidated debt cannot be converted without amendment of the MYRA. The commercial banks are in favor of this modification but they still want a standby agreement with the IMF. The Dominican authorities also want the terms- thirteen years maturity of which --grace and 1/3/8 % over LIBOR to be brought in line with the more recent and liberal Mexican and Argentine agreements. This complex a negotiation will take some time to resolve. Until a standby agreement improves the outlook for stability, unifies the exchange rate at a realistic level and frees the commercial bank debt for conversion, the chances for success for such a program would be diminished.

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. 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 banks are more cautious. A Chase or Citibank and some of the others do not want to "mark to market" all of their Dominican paper when the going price is twenty cents on the dollar. If, however a bank invests a portion of its loans, the losses could be substantially less. This is an accounting "grey area" which remanins to be worked out. Until it is, or unless the price were to rise signifigantly, 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.

A part from the consolidated commercial bank debt, there is thirty-seven million dollars of non consolidated bank debt and a similar amount of commercial arrears that date from several years ago. In the latter case, pesos have been 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.

Half of the unconsolidated bank credit is in the hands of the Royal Bank and Citibank. Whether they are willing to have it used for conversion before the MYRA is amended is not known. (The Central Bank is however negotiating a special arrangement with one bank to convert one of its own unconsolidated loans for the purpose of increasing its capital and meeting reserve requirements.) Therefore, while a pilot program might begin with some of the unconsolidated bank debt, one of any size really depends on agreement with the banks to amend the MYRA.

D. Investment Opportunities

The Central Bank has received 45 individual debt conversion proposals (Exhibit II.), of which 41 within the last 11 months, and including 16 since the beginning of this year. There were no cost estimates for sixteen projects. Those that had them totaled $644 million, a sum far in excess of the amounts contemplated for the initial program, which is expected start at around $50 million per year. In terms of format there were thirteen formal requests twenty-six letters of intent, three project outlines and three, although recently submitted, represented projects already completed.

A categorization of the 45 proposals by sector of interest, reveals that half (23) were for tourism, specifically hotels, six were for free zone activities, six in agro-industry, six in industry (three in electricity generation, three in mining) and the other four in financial and educational activities.

Just 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. It is expected that this pioneering effort by the Canadian group will open up a large tract owned by the Central Bank, where there is already considerable infrastructure. A successful divestiture of these government-owned assets could pave the way for a program to privatize the CORDE owned companies, provided the political climate for such measures improved.

By national origin, thirty came from the U.S. and/ or Puerto Rico, six from Spain, six from local investors and three from other places. Over half of the proponents were financial institutions, led by Chase Manhattan with 18, followed by Banco de Bilbao with 3 and Bankers Trust with 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 informed us that while they have not deposited proposals with 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.

The preponderance of hotel projects could be an object of concern, in the first place, as to the limits of expansion of this industry which has been growing so rapidly, and secondly as to the wisdom of concentrating so much economic dependence in this one sector. But there were several other projects, in agriculture, industry and free zones which could provide balance.

Many of these projects, along with the hotel proposals, 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 mine/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.

Talks with bankers and others provided further evidence to support the conclusion that there are varied investment opportunities in the 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 were talking investments. Among options mentioned were investments in existing agro-industrial firms for expansion programs. Bankers like especially 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. Nevertheless, at this point it is reasonable to conclude that there is a healthy stream of projects at hand, and this is the heart of the process.

If, after some experience, the situation proves otherwise, there should be enough flexibility in the program to permit lifting some of the restrictions.

V. Economic Management of the Program

The policy issues involved in minimizing the side effects on the economy are:

A. offsetting the monetary expansion inherent in the Central Bank's purchase of external debt;

B. avoiding depreciation of the peso by speculators seeking to recycle funds through the foreign exchange market; and

C. additionality-insuring that the demand for investment increases as a result of the program.

A. Offsetting Monetary Expansion

Foreign investment through debt equity conversion has a different effect on resource availability than the conventional method of exchanging foreign exchange 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 not only money supply but the monetary base. At the other, would be 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 problem the project faces.

The ways in which the monetary impact can be minimized are:

1. limiting the size of the program and phasing local currency disbursements:

a. limiting the dollar value of debt to be converted,

b. freezing converted funds in central bank accounts until needed for disbursement, or

c. Dividing external debt instruments into small tranches to be converted in accordance with a disbursement schedule,

2. exchanging physical assets instead of pesos for part of the conversion.

3. offsetting the monetary impact wholly or in part by the sale of a security to an entity 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 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 probably the minimum necessary to establish a flow of investment. Many of the 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 projects that could be proposed latter on.

The larger the quota, the easier the choice of investments but viewed from the angle of monetary expansion, the smaller the better. Even the minimum level of fifty million dollars presents problems of monetary management. For projection purposes, we will assume initially that it is also a maximum.

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 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 receving a high effective interest rate in dollars on the discounted value at which he bought the debt and by remaining in dollars for a longer period and so profiting 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.

2. Exchanging Assets Instead of Pesos for Converted Debt

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 liablity against a reduction of assets. In the case of state enterprises, the land transferred to the investor could be 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 should be cut to zero.

3. Offsetting the Monetary Effects of Central Bank Purchases

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, the pesos are derived from the issue of securities on the local capital market and possible contributions from A.I.D. import-generated local currency. Central Bank monetary creation would be the residual source when other resources were not available.

A Central Bank bond could be of three types: denominated in pesos and designed to be sold to non-bank investors, denominated in pesos but sold to banks or sold for pesos but linked to the exchange rate, for sale to either banks or non-banks. All would be issued by the Central Bank under its monetary stabilization authority and would have to be limited by law to one year.

The problem with selling a bond is the interest rate. Interest payments have exactly the same monetary effect as any other Central Bank creation of money. The objective is to sell a security whose peso cost is as low as possible. In the current market we have been told that a sale to households and businesses would require a rate of 30% per annum. The Monetary Board, that makes policy in this area, has just approved the issue of 300,000,000 pesos carrying an interest rate of 26%.

A bond with a lower interest rate could probably be sold to local commercial banks if it could be used to meet reserve requirements. Whether this process necessarily led to increased lending by the banks, based on that reserve, would depend on whether they were initially in default on their reserve requirements and/or whether reserve requirements were adjusted upward to stop higher lending. It is not possible to conclude without knowing the specific set of circumstances whether the monetary impact for this procedure would be larger or smaller than sales to non-banks over a period of several years.

The third possibility would be to index the bond to the dollar exchange rate by denominating the security in dollars. The investor would buy the bond with pesos at the prevailing rate of exchange and would be assured that if the rate depreciated when the principal was paid off at the end of a year that he would receive a proportionate increase in pesos. By protecting the investor against inflation, the interest rate could be sharply reduced to probably one or two percentage points above a comparable U.S.security. Given the sharp depreciation of the exchange rate in the past year, if it were unified at current levels in the context of an IMF supported program, it is possible that the exchange rate would appreciate the first year and the peso cost would be minimized, at least in the first year or two of the program.

The interest rate depends fundamentally on the rate of inflation. If a degree of stability in the framework of an IMF agreement were reached, the rate of inflation, the level of interest rates and the size of the problem would all be reduced.

The fourth option would be the allocation of some of the local currency generated by A.I.D.-financed imports to the purchase of debt. In principle, this procedure would have a neutral effect on money supply because the pesos would come from the local sales proceeds. The difficulty is that the amounts of pesos are limited and that commitments can be made only one year in advance for a program whose planning horizon should be three to five years.

In order to understand the dimensions of the problem, <u>disbursements</u> are projected under the following assumptions:

1. an IMF agreement is signed, the MYRA is renegotiated and the

exchange rate is unified and stabilized at 6/1;

2. conversions are limited to $50 million per year with the first group approved in the first half of 1989;

3. disbursements take three years with the first sixth occurring in the second half of the year the conversion is approved;

4. debt is converted in small increments in accordance with the disbursement schedule so that the Central Bank does not have to pay interest; and

5. the average Central Bank discount is about 15%.

YEAR	I		II		III		IV		V	
	1	2	1	2	1	2	1	2	1	2
	(in millions of pesos)									
I		40	40	40	40	40	40	-	-	-
II				40	40	40	40	40	40	-
III						40	40	40	40	40
IV								40	40	40
V										40
TOTAL (year)	40		120		200		240		240	

In order to estimate the maximum inflationary effect, the following table assumes that all conversion is made by Central Bank monetary expansion. It further assumes:

1. that M1 will grow 30% this year (1988) and 15% thereafter, without taking into account the impact of this program, and

2. that the relation between the incremental increase in Central Bank money and the growth of money supply, based on studies of the Central Bank research department is 1.2/1.

	1989	1990	1991	1992	1993
		(in millions of pesos) (end of period)			
1. debt conversion	40	120	200	240	240
2. Money (MI)	3,910	4,500	5,175	5,950	6,850
3. Growth (MI)	15%	15%	15%	15%	15%
4. MI adj.	3,950	4,644	5,415	6,238	7,138
5. Growth(MIadj.)	16%	18%	17%	15%	14%

The monetary impact is greatest in years two and three. Thereafter, it becomes a progressively smaller relative increment to monetary expansion arising from all other causes. Conceivably without offsets it could cause prices to rise 1-2% more in years two and three than they otherwise would have. By the fourth year, the expansionary effect disappears.

The base monetary projection is probably compatible with a ten percent annual price rise, a record the Dominican Republic has only achieved in the best years of the 'eighties. Raising that rate of increase to 12% is not negligible. It could be offset with a relatively modest program. Its effect on the money supply projection in the table above is recalculated below. The measures consist of:

a. in 1989, an A.I.D. allocation of local currency of 25,000,000 pesos and a 15,000,000 peso bond issue, paying 30% interest when maturing at the end of the year;

b. that the initial issue is rolled over at the end of 1989 and a new issue of 100,000,000 pesos paying 18% is made for 1990; and

c. this process is repeated each year so that at the end of 1993, bonds outstanding total 415,000,000 pesos.

	1989	1990	1991	1992	1993
		(in millions of pesos)			
1. MI	3,910	4,500	5,175	5,950	6,850
2. MI adj(a)	3,910	4,530	5,322	6,165	7,086
3. growth (2)	15%	16%	17%	16%	15%
(debt outst.)	(15)	(115)	(215)	(315)	(415)

There is no effect on money supply in 1989. In 1990, the increment not offset by the bond issue is 20,000,000 pesos plus the interest on the bond issue outstanding at the end of 1989. In 1991, the increment not offset is 100,000,000 pesos plus interest on debt outstanding at the end of 1990 and so on. The effect of this program is to defer the point of greatest monetary impact to 1991 and to reduce the incremental effect to zero by the fifth year, 1993.

Every element of this projection is to a certain degree arbitrary and could be altered to work out other scenarios. For example, the relative impact of the debt conversion program is relatively small because money supply is assumed to already following a 15% trend line and that the sharp depreciation of the peso in the last year insures that it will be stable for a couple of years into the future even though prices would be rising about 10% per year any way. Not allowing for exchange rate depreciation in years 3-5 is probably unrealistic but an adjustment for further depreciation would not basically change the conclusions. The effect of the debt conversion program, as adjusted would be only to raise price increase to 11% for a year or two. With a more ambitious stabilization goal of price rise of 5% or less the relative impact could be greater.

To the extent that government assets such as land could be traded for debt this program could be expanded further; or its inflationary impact could be reduced. The difficulty is that up to now there has been relatively little demand for the lands that the Central Bank would like to sell. Therefore, it would be premature to include land sales as a factor offsetting inflation.

The inflationary impact, if partially offset as outlined above, is manageable. Almost any increase in investment has some inflationary effect during the construction period but before the new facilities contribute to higher output. While the ultimate judgement has to be made by the authorities, it would seem in our opnion, the increase in foreign exchange earnings from year IV and the creation of jobs would be worth a temporary accleration of inflation.

This conclusion would clearly be strengthened by the allocation of A.I.D. import-generated pesos. The problem is the amounts required. Even the twenty-five million assumed in the projection is only tentatively earmarked. It represents a substantial part of the $13.2 million now under negotiation. Unless there were a large increase in aid financed general imports, A.I.D local currency contributions, as distinct from technical assistance, would not play a decisive role in the success or failure of the program.

B. Offsetting Pressure on the Exchange Rate from Recyling

In an open economy like that of the DR, the more attractive the exchange rate inherent in debt conversion is 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 paper with the dollars which he converts back into pesos at the more favorable exchange rate; or he can begin with foreign exchange. To avoid the initial conversion of pesos, the draft regulations have, as we noted earlier, asked for a certification of foreign exchange assets, probably not a very effective procedure. As a practical matter there is no way a goverment can prevent the exit of pesos for those, mostly local, investors who wish to acquire dollars to begin the conversion process.

The more important issue is to prevent the program from being a vehicule for speculative profits 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. efficent monitoring of disbursements in pesos.

The first point is obvious. Just as the monetary impact is limited by a dollar ceiling, the volume of mischief is restricted. Second, the most important objective of project examination prior to approval is to determine that the investor is serious and has the experience to carry out his plans. Investors of that kind are unlikely to spend time recycling pesos instead of using them in their projects. Finally the monitoring provisions in the draft regulation should reduce leakages to a minimum if they are effectively carried out.

C. Additionality

The third issue is the problem of additionality. If an investment would have taken place without using the premium exchange rate inherent in debt conversion, the economy has lost foreign exchange that it otherwise would have received from the usual exchange of dollars for local currency. To be defensible, there must be grounds for believing that some kinds of investment require this incentive.

There are several types of arguments that can be advanced. The first is that new investment in the Dominican economy has been rather scarce for some time. The table below shows the breakdown of the direct investment line in the balance of payments between new investment and reinvested earnings.

	1970-74	1975-79	1980-84	1985-87
	(in millions of dollars)			
New Investment	124	48	32	20 (33)*
Reinvested Earnings	170	202	259	155 (260)*
Total	294	250	291	175 (293)*

* five year trend based on the straight line extrapolation of the first three years.

New investments have fallen to a subtantially lower level in the 'eighties as compared to the 'seventies while total investments including reinvested earnings have a flat trend. One would expect therefore that offering a premium exchange rate two or three times better than available in the market would stimulate new investment and investors.

The second reason is that the 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, encourages banks to use their own outstanding credits as an investment instrument to improve the value of difficult-to-collect loans. There is no such incentive in the existing investment mechanism. 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.

VI. The Administrative Process

A combination of circumstances- continuing foreign interest in Dominican tourism and free zone development, government credits selling at 20-24 cents per dollar of face value and the liberalization of regulation K which allows U.S. banks to become partners in non-financial enterprises through debt/equity investments in heavily indebted LDCs- have led to a very favorable reception to the government's announcement that that a program to convert debt was under study. There have been forty-five written as well as numerous informal inquiries.

We believe, therefore, that this widespread interest combined with a fairly severe limitation on the value of applications that can be accepted means that the program will be very active in the first year or so and then taper off.

A. Administrative Responsibility

The Central Bank will manage the program under the responsibility of the Junta Monetaria. Within the External Debt Department, a new unit, the Debt Conversion Unit (DCU), has been created to admininster the program.

The Debt Conversion Unit's principal tasks will be to:

1. Screen out the unviable, unsound and illegitimate projects;

2. Select projects for positive recommendation to the Junta, and recommend those which it believes should be modified or rejected;

3. See to it that the projects are put in recommendable form; and

4. Follow through to see that the approved projects go through the government approval process and are carried out.

Since the proposed conversion mechanism is close to submission in final form for approval by the Junta Monetaria, the DCU must now begin setting up procedures, acquiring and training staff and obtaining material resources.

B. How the Process of Conversion will Work

In order to analyze resource and training needs, it is useful to start with a description of the process. The separate steps are presented schematically in Exhibit III.

a. Project Preparation

The investor, on his own or through the IPC and/or a financial intermediary, draws up a project and gets a line on the price and availability of Dominican Republic External Debt in the commercial market.

b. Preliminary Screening

The potential investor goes to the Central Bank, Department of Debt Conversion to find out if the project qualifies and the debt to be converted is eligible. The DCU describes the program and requests basic documentation in order to decide if the project falls within government guidelines and makes a preliminary calculation of the discount(s) applicable . The department reviews the documentation and gives a preliminary response as to eligibility of the debt and of the project, and the applicable discount.

Preliminary Application Requirements

[1]Basic Documentation
-Description of debt instrument proposed for conversion
-Description of project & proponent (as per Appendix III of application form)

[2]Government Guidelines
Eligible investments/activities as per Chapters 3 & 4 of Regulations

[3] Applicable Discounts
Table of Discounts, as per Appendix I of Regulations

c. Formal Application to Convert

The investor delivers a pre-feasibility study of the project, plus application form, documents supporting legal status of the company, and bank certification that the investor obtained the foreign exchange for the investment at least two years previous.(if Dominican)

The investor pays a 1 per mil fee in Dominican pesos.

d. Project Evaluation by Central Bank

The DCU requests technical evaluations from the pertinent departments of the Central Bank. If the project is a hotel, it is sent to INTRATUR, if industrial, to FIDE, etc.

The DCU performs economic and financial analyses to check if the projections are realistic, as well as to calculate the relative benefits in order to determine the discounts applicable.

e. Submission to the Junta Monetaria

The DCU assembles the information and analyzes and prepares a recommendation for the Junta Monetaria. The recommendation includes the suggested discount.

The Junta rejects, accepts, or suggests modifications to the project.

f. Investor and Central Bank Sign Contract

The Investor presents his corporate documents to the Legal Department of the Central Bank which prepares the contract for signature. Upon signing the contract the investor has ninety days to close the deal. During this period the Central Bank notifies the coordinating bank (if the debt certificate arises from a syndicated loan), giving it time to object.

g. Registration

The DCU sends the papers to the Exchange Department of the Central Bank for registration. The latter has the responsibility for maintaining proper records and controls over this and all other foreign investment transactions.

h. Disbursement

The order to the Exchange Department to disburse emanates from the DCU, once all previous steps have been satisfactorily completed, and the investor has justified the initial advance. It is the DCU's responsibility to satisfy itself that all the steps have been completed and that the request for the initial advance is properly documented. Subsequent disbursements will be subject to proof of expenditure of the prior advance plus justification for the current request.

C. The Central Bank's Administrative Resources

The Central Bank, through its technical departments, has long years 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 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 unit within the External Debt Department seems reasonable, as its activities are consistent with those of the External debt entity. Experience will demonstrate if the unit needs to stand alone as INDOTEC does.

In short, the tasks to be performed under the debt conversion 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. But the new unit has only a Director, and no staff, at this point.

D. Where Help is Needed

The DCU needs to be staffed, trained and adequately 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 training the staff, acquiring the hard and software, design of the MIS, developing reports, and installing the systems.

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

1. SCREENING & ORIENTING
2. EVALUATION
3. DEVELOPING RECOMMENDATIONS
4. LIAISING & FOLLOWING THROUGH
5. RECORDING, CONTROLLING AND INFORMING

1. SCREENING & ORIENTING POTENTIAL INVESTORS

The initial function is to provide orientation to potential investors concerning the objectives and workings of the program. Secondly, the DCU must screen out the roundtrippers and the speculative projects, and help make approvable the projects that most fit the program's objectives. The DCU will need to be able to understand, explain and apply the Government guidelines, check out 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, possibly in conjunction with professional appraisers, in order to establish recommended sales prices, on a fair market basis. It is anticipated that there will be only one or two requests initially . Asset valuation will probably first concern the Central Bank's real estate properties. Requests for valuation of other state-owned properties would come next, and much later, requests to value machinery and equipment and going concerns.

3. DEVELOPING RECOMMENDATIONS

The DCU will have the responsibility of preparing a package of analysis and 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. LIAISING & FOLLOWING THROUGH

There are two aspects, pre- and post-implementation. In the pre-implementation phase the task will be to inform and explain to investors how the program is to work. The information would be imparted to applicants on an individual basis, and in addition, disseminated in a general way to the local and international financial establishment, business organs and other appropriate agencies such as the IPC, the Ministries of Tourism, Industry, etc., and within the Central Bank itself to departments such as Exchange, Legal, technical and others which will be involved with the program.

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. Importantly, this section 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.

E. The DCU's Staff Requirements

The staff should be a lean one; - a few well trained people, small enough to be supervised and aided appropriately, and flexible enough to switch assignements, change course, respond to important deals. The staff will include:

* ONE DIVISION CHIEF (PLUS SECRETARY)
This person, who is well equipped for the position, has already been selected.

* ONE LIAISON PERSON OR 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.

* ONE ACCOUNTING/CONTROL PERSON - to handle the disbursement procedure, and the recording, control and information side. This person would have prior experience within the Central Bank and hold a CPA certificate.

F. The Kinds of Help that should be Provided

Three types of assistance are envisioned:

(1) TRAINING AND SUPERVISION
(2) OPPORTUNITY FOR TRAVEL TO OBSERVE AND LEARN
(3) MATERIAL HELP

(1) TRAINING AND SUPERVISION
The training and supervision would be performed in house in three different ways, and consume fifty-nine man months, with concentration in the early months of the first year, and declining over the second two years, as depicted in Exhibit IV.

I. An advisor, of senior status with a background in finance and investments, would provide eighteen man months of service, seven in the first year, including an initial fact finding visit. He will serve in a variety of advisory functions to the DCU Head. The advisor would help plan the training program of the DCU staff, help devise procedures for implementing the program including: information dissemination, proposal screening, project analysis, preparation of recommendation packages for the Junta Monetaria, disbursement authorizations, and follow-through on projects approved. The advisor would be on hand to provide start-up help and, in addition, would return periodically to review results and help adjust procedures based on experience gained.

The idea of having the advisor on permanent assignment for all or 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

c. they were concerned that there would a political reaction to having a foreigner in as sensitive area.

II. Two or more trainers, as required, would provide twenty-one man months, thirteen of them in the first year, to train the analysts, the disbursement/control and liaison persons. Training for the analysts would include project screening, economic analysis, financial analysis, and asset valuation. The trainers would return once for follow-up during the first year, and once again during the second year.

Training for the disbursement/control person, as described in Task E, would include developing a capability for verifying the legitimacy of draw downs and for providing meaningful information on the status and progress of the program. The trainer would provide 5.5 man months of training and follow-up, mainly in the first year and one half.

Training for the aide/liaison person would occupy three man months, mainly in the first year, to help the person develop a thorough understanding of the workings of the regulation, design a plan for disseminating information to appropriate publics through seminars and other means, and set the program in motion. Follow up visits are included in the scheduled man months.

III. Twenty man months of short term technical assistance will be programmed, to be provided as required, as the program unfolds. It is envisioned that experts will need to be brought in for specific tasks such as reviewing the regulations with an eye to recommending a changed mix of incentives, helping revise internal rules and procedures. An economist may be required to appraise monetization effects and to periodically evaluate costs and benefits, or a financial technician to help with financial aspects as they affect the smaller local investor/ entrepreneur. Experts in various aspects of privatization, including industry specific experts as well as appraisers and marketing experts may be required.

(2) <u>OPPORTUNITY FOR TRAVEL TO OBSERVE AND LEARN</u>

For a variety of reasons including for purposes of orientation, to cut the learning curve, to help the administrators of the program gain assurance, and to open avenues of contact with the investment banking world, a series of observational trips are programmed. Two trips of two weeks each are planned for each analyst to observe procedures in a government agency (the Central Bank of Chile) and in an international investment institution (IFC/World Bank).

Observational travel of four weeks for the Unit Head. He will have an opportunity to learn first hand how a successfule program works (Chile's); build contacts with a Government agency (again Chile's Central Bank) plus a public investment agency such as the IFC and one or two private institutions including an investmnent bank such as First Boston and a Merchant Bank such as Libra Bank. Repeat trips, possibly substituting other countries and institutions would be made in the second year. Additional travel of one month in each of the first two years would be budgeted for observational trips for the disbursement control person and the other member of the department, the liaison person.

(3) MATERIEL

The DCU will need hard and soft ware with which to operate the program. The basic items of hardware are the following:

1 Computer with OS/2 compatibility with 2 work stations, plus back-up system

1 Computer for the disbursement/control function

1 laser printer

1 Electronic word processer

1 Reproduction machine

1 Fax machine

The software needs are:

1 lotus 123 spread sheet program

1 word processing program

1 set of misc standard support programs

1 custom designed set of programs for the MIS/control system, and

1 custom designed program for the evaluation function

G. Timing of Assistance

The training program need not await the signing of agreements with the commercial lenders. In fact, the time can be used to build capabilities, procedures, and contacts so that the people and systems are ready when the authorities are. Moreover, should it be desired to do ad hoc operations with debt which is outside any rescheduling arrangements, the Unit should be ready to function.

It is assumed that the assistance program starts in the second semester of calendar 1988 with the selection of an advisor who would come down early on to familiarize himself with the program, the people and the situation, and then help the Mission and the Central Bank with arrangements for the materiel, training and travel.

VII. Economic Impact

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 maximising 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 project and the relatively small A.I.D. allocation of resources would make the calculation of a cost/benefit ratio unusually difficult and not necessrily 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 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 assume the same program of debt conversion of fifty million dollars per year for five years employed earlier in this study. The two variables to be examined 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 as those in section V.and assumes that the debt is converted and disbursed almost simultaneously. The calculation further assumes no amortiztion in this period and that interest, i.e., LIBOR plus average spread, equals 10% per annum.

	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 tourist 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 buildings (naves) will expand space available about one million square feet in the free zones; 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 we have not tried to calculate but, on the other hand, the tourist industry uses a great deal of foreign exchange in its operations so that this series may be a better approximation to net earnings. For the free zones, these numbers represent only local costs and so would not have to be adjusted.

The table below puts savings and increased earnings together to obtain increased "foreign exchange availability".

	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

The projection of employment has to be made in two parts: employment generated by construction and employment created once the projects are going enterprises.

	1989	1990	1991	1992	1993
			(in thousands)		
Tourism				1,900	7,500
Free Zones				5,000	20,000
Other				700	2,800
Total	4,600	13,800	24,600	36,800	59,500
(o/w const.)	(4,600)	(13,800)	(24,600)	(29,200)	(29,200)

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 signifigant. In year five of the program, when the first batch of investments are fully operational they will be producing seventy million dollars a year of foreign earnings and thirty thousand jobs. Assuming the program is terminated in 1993 employment in going enterprises will continue to rise by fifteen thousand per year and foreign exchange earnings of thirty-five 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.

There would appear little doubt that this is a worthwhile project if even an approximation of these results are obtained. They, of course, assume good management in the Dominican Republic and the continuation of the growth trend of the United States and the developed economies. If that does not prove to be the case, it may have to be cut back. The managers of the conversion program should be alert to demand developments in the tourist and free zone sectors. The growth in both has been explosive and is bound to trend down. Even though the existence of the debt conversion mechanism should give the DR an advantage, market shifts may require a change in the composition of investments to remain ecnomically efficent.

VIII. Other Issues

A. Working Capital

The scope of work calls for an examination of the desirability of A.I.D. providing working capital from its local currency resources. After careful consideration, we conclude that this would not be a good use for them for the following reasons:

a. currency available in relation to the size of the program is small;

b. it can used more effectively to offset the program's major operational problem, its monetary impact;

c. use of currency for working capital would require an elaborate administrative arrangement while its use as a sustitute for monetary creation would be a very simple annual agreement to allocate; and

d. the absence of working capital facilities would not be a deterrent to investors who could command it from the local banks or bring it in from abroad by currency swaps.

B. Need for a Promotion Program

The D.R. debt conversion should be seen as a tool, an incentive to attract new investment. The introduction of this new program has two informational aspects: one is external - to brief those whose job it is to diffuse information to would-be investors and intermediaries. The other is internal- to brief the staff of the other government units whose cooperation is essential to make it work properly.

The program is completely new and untried. Its financial concepts are not easily grasped and its procedures are complex. Moreover, its functioning will require involvement of other entities, both within and without the Central Bank, such as the Exchange and Legal Departments of the Central Bank, as well as INFRATUR, INDOTEC and FIDE. Because it involves foreign investment, the Ministries of Industry and Finance, and of course, the IPC will be concerned. Therefore, those who are to use it or work with it, should be trained to understand its design, procedure and objectives.

As the Central Bank has designed, evolved and will administer the program, it is the logical entity, to disseminate information internally on its workings. Its proper agent for this purpose should be the Debt Conversion Unit (DCU).

The IPC, as the investment promotion arm of the Government, will have the job of applying this tool to attract new investment -both at home and abroad. The IPC is, or should be, the point of interface with the investor.

RECOMMENDATION

It is recommended that a series of workshops and seminars be organized by the DCU, with the help of its Advisor, once the regulations are in final form, and their approval is a matter of time.

The first workshop should be in the DCU, once the staff has been hired and the advisor is aboard. Its purpose will be to impart a solid working knowledge of the mechanism and to work out the bugs. This is a process that could require a few weeks.

The second series would be work shops for representatives of other Central Bank departments with whom the DCU would interface to administer the program. The principal ones were mentioned above.

Once the Central Bank is comfortable with the program, the DCU can set up seminars for the other agencies of the Government, and including the IPC. These seminars would be less concerned with internal operating mechanics and more with the concepts, goals and objectives of the program, and how it touches the work of these agencies.

Finally, as the IPC becomes familiar with the program it should hold meetings, both at home and abroad, jointly with the DCU, to describe the program to the financial community and to selected investor groups such as Chambers of Commerce.

Exhibit I

A COMPARISON OF SELECTED LATIN AMERICAN/CARIBBEAN DEBT CONVERSION PROGRAMS

COUNTRY	PROGRAM STATUS	SUPPLY OF DEBT/AMOUNT CONVERTED	CONVERSION CEILING	PRICE RANGES ON SECONDARY MARKET:CENTS PER DOLLAR	CENTRAL BANK DISCOUNT OR FEE	APPLICATION FEE	CONVERSION EXCHANGE RATE	ELIGIBLE INVESTORS	MATCHING FUNDS REQUIRED	RESTRICTIONS ON REMITTANCE OF PROFITS	RESTRICTIONS ON REPATRIATION OF CAPITAL	RESTRICTIONS ON USE	CONVERSION PROCEDURE	CLOSING PERIOD	COMMENTS
DOM REP	regs pending approval	$774.7 mn [1]	$50 mn per yr	20-24 [5]	2.5% to 32.5%	1 per mil max $25,000	unified rate?	bks.mncs. indvds. natls	for import component	3 years	8 years	invest in local costs of new cos	central bank case by case	90 days	discount incentives for priority targets
ARGENTINA	began 1/87 revised 10/87	54 bn 550 mn	$400 mn 1988 $2 bn in 5 yrs	28-29 [5]	35-40%		market rate	bks.mncs. indvds. natls	cnvrsion ltd to 70% prjct [10]	4 years	10 years	new/expanded plants no imports	cen bk auctions 250 mn each time		tried official rate - no takers
BOLIVIA	began 3/88	679 mn 650 m		10-12 [5]	93.5%		officl rate	bks.mncs. indvds. natls		none	5 years	most sectors eligible	central bank case by case		executed $650 m debt-for-nature swap in 87
BRAZIL	new program 11/87	110 bn [2] 1.5 bn	$1.5 bn per yr	55-56 [5]	n.a.		officl rate	bks.mncs. indvds. natls		4 years	12 years	new or expanded prjcts:no pub sect	cent bk auctions case by case revw		nationalistic sentiments may nullify program
CHILE	began 5/85	19.3 bn 2.1 bn	$2-4 bn p/yr	61-62 [5]	9-12%		officl rate	bks.mncs.indvd natls.non-rsdnts		4 years [11]	10 years	most sectors eligible	mix of case by case & auction		require approval when foreign stake in local company
COSTA RICA	program suspended Fall 87	3.8 bn 94.6 mn	none	17 [6]	40%		officl rate	bks.mncs.indivds		as soon as profitable	not more favorabl than originl debt 8-9 years	rev progrm will favr export prod. fincl	central bank case by case		rev program likely to limit conversn to a % of project
ECUADOR	in suspense-to revive late 88	9.5 bn [3] 44 mn	$1.3 bn	34-36 [6]	35%		free rate	bks.mncs. indvds. natls		4 years	12 years	rev progrm to favr minng.agro.mfg	central bank case by case		program appeals mainly to companies already there
JAMAICA	began 7/87	3.5 bn n.a.		31 [5]	8-10%	$250	officl rate	bks.mncs.indivds		3 years	7 years: 3 for priority prjcts	free zones.tourism ag export & mfg	central bank case by case	90-120 days	1st swap of $1.5 mn apprvd awaiting execution
MEXICO	late 87 suspend now ad hoc	105 bn [4]		54 [7]	8-14% [8]	2.5% p/million pesos	free rate	bks.mncs.indivds		1st 5 yrs must be less than original amt	12 years	privatiz.export. debt repay.jobs	treasury case by case		new feature -differentiate betwn convrts & dbt buyers debt buyers taxed 30%
VENEZUELA	began 4/87	33 bn n.a.	none	55-56 [5]	none		officl rate	bks.mncs. indvds. natls [9]		10% pr yr 1st 3:then 20%	5 years: then not more than 12.5% per year	priority sectors favored. incl capitaliz prv debt	spec govt comm case by case		off rate: 14.5: free rate 35.5: so no transactions

[*] m = thousands mn = millions bn = billions

[2] some $7.2 billion are eligible

[3] program only covers $1.3 bn private debt

[4] $60 bn is eligible

[5] as of 5/88

[6] as of 2/88

[7] as of 5/88. Up from low 40's in Fall 87

[8] in 5/88 one was done ad hoc at 20%

[9] originally not open to nationals

[10] changed from 1 to 1 when no takers

[11] after which 25% of 1st 4 yrs profits

Exhibit II

REGISTER OF PROPOSALS TO CONVERT EXTERNAL DEBT INTO LOCAL INVESTMENTS

PROPONENT	ORIGIN COUNTRY	LOCAL COMPANY	DATE SUBMITTED	SECTOR	TYPE OF INVESTMENT	AMOUNT OF INVESTMENT	TYPE OF PROPOSAL
1 AMERICAN EXPRESS BANK	USA	NOT STATED	30-Oct-86	TOURISM	HOTEL COSTA NORTE	$30.000.000	FORMAL PROPOSAL
2 BREAULT. GUY. OBRIEN	USA	INV 3 CULT	15-May-87	TOURISM	HOTEL PLAYA GRANDE)		FORMAL PROPOSAL
3 BREAULT. GUY. OBRIEN	USA	INV 3 CULT	15-May-87	FREE ZONE	FREE ZONE)	$16.000.000	FORMAL PROPOSAL
4 BANKERS TRUST	USA	-	22-Sep-86	TOURISM	HOTEL	NOT STATED	FORMAL PROPOSAL
5 BANKERS TRUST	USA	-	22-Sep-86	FREE ZONE	FREE ZONE	NOT STATED	FORMAL PROPOSAL
6 EDINGTON HOTSPUR	USA	HYATT PL DRDA	02-Sep-87	TOURISM	HOTEL PLAYA DORADA	$60.000.000	FORMAL PROPOSAL
7 DREXEL BURNHAM	USA/PR	-	02-Jul-87	FINANCIAL	DEBT FOR EXPORTS	NOT STATED	LETTER OF INTENT
8 BANCO BILBAO	SPAIN	-	30-Jul-87	FINANCIAL	DEBT FOR EXPORTS	NOT STATED	LETTER OF INTENT
9 CEMENTOS DEL SUR	D.R.	CMNTS DEL SUR	27-Jun-87	INDUSTRY	CEMENT FACTORY	NOT STATED	LETTER OF INTENT
10 MERCK A.G.	GERMANY	MERCK DOMINIC	15-Oct-87	PHARMCEUTCL	-	$500.000	LETTER OF INTENT
11 CHASE MANHATTAN BANK	USA	DOMIN CARB CO	15-Jan-88	TOURISM	HOTEL PLAYA MACAO	NOT STATED	LETTER OF INTENT
12 INVERPLATA	D.R.	HOTEL V CENT	22-Jul-87	TOURISM	HOTEL IN STO DOMNG	$5.000.000	LETTER OF INTENT
13 HUSA INT HOTELS	SPAIN	-	04-Jun-87	TOURISM	HOTEL PLAYA DORADA	NOT STATED	LETTER OF INTENT
14 WASHINGTON CAP MKTS	USA	HOTEL JARAGUA	30-Jun-87	TOURISM	HOTEL IN STO DOMNG	$18.000.000	FORMAL PROPOSAL
15 CHASE MANHATTAN BANK	USA	CHASE MANHAT	23-Oct-87	FINANCIAL	DEVELPT BANK	$10.000.000	LETTER OF INTENT
16 CHASE MANHATTAN BANK	USA	PLAYA CORTCTO	15-Dec-87	TOURISM	HOTEL ZONA ESTE	NOT STATED	PROJECT COMPLETED
17 CHASE MANHATTAN BANK	USA	DOLE PNEAPPLE	24-Jul-87	AGRO INDUST	NOT INDICATED	NOT STATED	LETTER OF INTENT
18 CHASE MANHATTAN BANK	USA	CHEVRON	24-Jul-87	MINING	NOT INDICATED	NOT STATED	LETTER OF INTENT
19 CHASE MANHATTAN BANK	USA	VARIOUS	23-Jul-87	ENERGY	ELECTRCY GENRATION	$34.000.000	LETTER OF INTENT
20 CHASE MANHATTAN BANK	USA	HOTEL DYNASTY	24-Jul-87	TOURISM	HOTEL IN STO DOMNG	$45.000.000	FORMAL PROPOSAL
21 INVERSION COSTA CARIBE	D.R.	COSTA CARIBE	17-Oct-87	TOURISM	HOTEL - JUAN DOLIO	NOT STATED	FORMAL PROPOSAL
22 SOCIETE LSL	CANADA	-	21-Oct-87	EDUCATION	UNIV INFRATSTRUCT	$1.000.000	LETTER OF INTENT
23 GRUPO BARCELO	SPAIN	HOTEL BAVARO	1[illegible]-Sep-87	TOURISM	HOTEL BAVARO PALCE	$20.000.000	FORMAL PROJECT
24 DR ALEJANDRO VICINI	D.R.	-	29-Oct-87	TOURISM	HOTEL - BARAHONA	$20.000.000	LETTER OF INTENT
25 CHASE MANHATTAN BANK	USA	DOM AMER DEVCO	20-Aug-87	LIVESTOCK	POULTRY FARM	$16.000.000	FORMAL PROJECT
26 CHASE MANHATTAN BANK	USA	PNTA CANA YTCH	28-Sep-87	TOURISM	HOTEL - ZONA ESTE	$36.400.000	FORMAL PROJECT

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7	CHASE MANHATTAN BANK	USA	HOTEL PLAZA	10-Nov-87	TOURISM	APT HOTL -STO DOM	$10.000.000	PRELIM PROJECT
28	CHASE MANHATTAN BANK	USA	IEMCA	05-Oct-87	ENERGY	BUY PTO PLATA I.II	NOT STATED	LETTER OF INTENT
29	DREXEL BURNHAM	USA/PR	AMER SPORT CO	23-Dec-97	FREE ZONE	SHOE FACTORY	$720.000	FORMAL PROJECT
30	CADENAS SOL Y MELIA		-	19-Nov-87	TOURISM	3 HOTELS ZONA ESTE	$120,000.000	LETTER OF INTENT
31	THE FRANKLIN MINT	USA	FRANKLIN MINT	02-Dec-88	FREE ZONE	PORCELAIN FACTORY	$10.000.000	LETTER OF INTENT
32	CHASE MANHATTAN BANK	USA	UNION S FRNSCO	18-Jan-88	TOURISM	HOTEL -PLAYA DORDA	$1,000.000	FORMAL PROJECT
33	CHASE MANHATTAN BANK	USA	DOM AM DEV CO	08-Jan-88	AGRO INDUST	REHAB CHOCLT FCTRY	$250.000	LETTER OF INTENT
34	BANCO DE BILBAO	SPAIN	CARIBE FIESTA	02-Apr-88	TOURISM	HOTEL - PTO PLATA	$20,000.000	LETTER OF INTENT
35	THE MONTECRISTO CORP	D.R.	MONTECRISTI	02-Apr-88	FREE ZONE	AGROINDUSTRY)		PROJECT OUTLINE
36	THE MONTECRISTO CORP	D.R.	MONTECRISTI	02-Apr-88	TOURISM	HOTEL IN MT CRISTI)	$100.000.000	PROJECT OUTLINE
37	INTERAM BUSINESS CNSLT	P.RICO	-	22-Mar-88	MINING	MARBLE INDUSTRY	NOT STATED	LETTER OF INTENT
38	CHASE MANHATTAN BANK	USA	RAMIRATEX	01-Mar-88	AGRO INDUST	RAMI PRODUCTION	$5.000.000	LETTER OF INTENT
39	CHASE MANHATTAN BANK	USA	ANCEL PRODUCTS	01-Mar-88	AGRO INDUST	FRUITS FOR EXPORT	NOT STATED	LETTER OF INTENT
40	CHASE MANHATTAN BANK	USA	PRIVATE BRANDS	11-Mar-88	FREE ZONE	FACTORY EXPANSION	$500.000	LETTER OF INTENT
41	INTERAM BUSINESS CNSLT	P. RICO	-	22-Mar-88	AGRO INDUST	TOMATO PRODUCTION	NOT STATED	LETTER OF INTENT
42	CHASE MANHATTAN BANK	USA	JR SOSUA HOTEL	23-Mar-88	TOURISM	APT HOTEL IN SOSUA	$5.000.000	PROJECT COMPLETED
43	LASPAU SCHLRSHP HVD U	USA	UNIVS DOMINICS	16-Mar-88	EDUCATION	HIGHER EDUCATION	NOT STATED	LETTER OF INTENT
44	BANCO BILBAO	SPAIN	PRIN HHOTELS	18-Feb-88	TOURISM	HOTEL PTO PLATA	$25,000.000	LETTER OF INTENT
45	GRUPO EMPRESAS MATUTES	SPAIN	FIESTA CARIBE	11-Apr-88	TOURISM	HOTELS-PLAYA MACAO	$35.000.000	LETTER OF INTENT
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45							$644.370.000	