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EVALUATION OF  
AID Loan 517-L-023  
PRIVATE INVESTMENT FUND

517-24-290-102

DOMINICAN REPUBLIC

920 in Master List

PD-AAA-706-E1

SUMMARY

The project purpose will have been achieved upon completion of the project although later than originally planned. Upon examining the benefits derived from the project, this evaluation reveals that a demonstrable expansion of medium and long-term credit to the private sector has been achieved during the life of the loan and greater private investment has resulted in selected areas of agriculture, manufacturing, transportation and medical and service enterprises. This program, given the momentum it has helped to create, should continue to play a substantial role in meeting the medium and long-term credit needs of the private sector and stimulating further development of the sector.

BACKGROUND

In early CY 1969, AID authorized a second loan to the GODR to cover the foreign exchange costs of the Central Bank's Fondo de Inversiones para el Desarrollo Económico (FIDE). The AID loan, signed November 25, 1969, was part of a new \$20 million infusion of capital to the FIDE fund, planned and executed as follows:

<u>Donor</u>	<u>Amount</u> (Millions)
AID	\$ 8.0
IDB	7.0
GODR	5.0
	<u>\$20.0</u>

The loan was made at a time when the Dominican Government was in the midst of an economic austerity program and the economy was recovering from (i) two years (1967-68) of severe drought, (ii) extensive rehabilitation efforts, (iii) the dislocations of the civil war in 1965, and (iv) a negative investment climate dating from 1962. Medium-long-term credit was sharply limited and business confidence still weak. Further, data as late as 1970 revealed some 40% of total industrial output, excluding sugar, was still in State hands. This setting is important in understanding the rationale of this loan.

PROCESS TOWARD PLANNED OBJECTIVES

Goal

The project goal was to assist in promoting a revival of competitive private enterprise which would spur private investment and generate new

1/ To the extent practical, the USAID used the logical framework technique (AIDTO CIRC A-1080) and accordingly, the attached matrix should be considered a component of this evaluation.

capital formation and production in the private sector. One can conclude that this goal has been attained. As indicators in the attached matrix (Annex A) reveal, the Dominican economy has developed dramatically over the last five years.

While it would be obviously incorrect to claim this macro-development to be a result of this project, it is clear that the FIDE project made a noteworthy contribution to this economic advance, specifically in terms of greater private productive investment in development activities, and it did so during a key time period.

Purpose

The project purpose -- expand medium and long term credit availability to the private sector to induce greater investment in selected areas -- in terms of original targets has been surpassed although the project's operational period has approximately 18 more months to run (TDD 12/31/75).

<u>Target</u>		<u>FIDE</u> <u>Approved Subloans</u>	
\$30 million of total investment during life of project	CY 1974 (6 mos.)	\$10,500,188	2/
	CY 1973 full year	17,694,053	2/
	CY 1972 " "	12,987,569	2/
	CY 1971 " "	10,497,398	
	CY 1970 " "	10,395,912	
	TOTAL	<u>\$62,075,120</u>	

Virtually none of the above approved subloans derived from the first tranche loan provided FIDE (only some \$40,000 in CY 1970-71). Given the magnitude of approved subloans and the fact that FIDE, to our knowledge, has never financed more than 50% of project costs, the project target -- \$30 million of additional private productive investment -- has been exceeded by about 300%. This quantitative indicator includes both the financing provided by the Interamerican Development Bank since the project was conceived and planned on the basis of consortium financing and the World Bank financing noted above. The types and magnitude of projects funded to date with only O23 funds are set forth in Annex B.

Price inflation in the Dominican Republic began in 1970 after a decade of price stability. Increases in consumer prices, the GDP deflator and foreign trade prices are demonstrated in the table below (percent increases) 3/:

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2/ Subloans financed with a World Bank loan to FIDE totalling \$3,710,130 over CY 1972 to 6/30/74 are also included in the above figures although this credit was not included in the original project planning.

3/ Sources: Consumer prices are according to the Santo Domingo Consumer Price Index. Other prices are from IMF sources.

<u>3/</u>	<u>Year</u>	<u>Consumer Prices</u>	<u>GDP Deflator</u>	<u>Import Prices</u>	<u>Export Prices</u>
	1970	+ 5.2	+ 1.7	+ 0.5	- 3.0
	1971	+ 2.9	+ 1.0	+11.3	-14.0
	1972	+ 7.8	+ 7.8	+ 3.3	+ 7.2
	1973	+15.1	+16.4	+17.4	+ 5.6

Inflation accelerated in 1972 and 1973 when all four price series rose rather sharply. The Government contends that inflation in 1974 was largely imported. However, while import prices rose by 17.4% in 1973, imports amounted to 23% of GDP and could directly have accounted for only about 4% of the rise in domestic prices. The prime source of inflation was the expansion of domestic bank credit from RD\$177.6 million in 1969 to RD\$430.1 million in 1973 (an increase of RD\$252.5 million) compared to an increase of RD\$66.1 million during the period 1965-1969. In percentage terms the annual increases in bank credit were as follows: 1970, 19%; 1971, 21.4%; 1972, 23.5%, 1973, 35.7%. The annual rate of growth of domestic bank credit was far in excess of the annual rate of growth of real GDP.

The question arises whether AID Loan 517-L-023 could have contributed in a significant way to this inflationary expansion of credit. Loans approved by FIDE rose from RD\$10.4 million in 1970 to RD\$17.7 million in 1973. The 023 loan amounts to RD\$8.0 million. Thus a considerable part of the growth in FIDE loans resulted from the Program. FIDE loans accounted for only 4% of the expansion of bank credit during the period which per se testifies in quantitative terms to the very minor role they could have played in an inflationary expansion of demand. When one considers that the FIDE loans were backed by foreign exchange loans from international donors that permitted a more or less commensurate expansion of imports and that their only purpose was to develop new production capacity, their contribution to inflation was insignificant to non-existent.

One of the ancillary aims of the program was to create new job opportunities. Assuming that the loan financed half the cost of investments, RD\$16 million of investments created 1923 new jobs, 4/ or about RD\$8,340 per job. This indicates that the investments have been somewhat capital intensive as a consequence of the investment and tax policies of the government which in effect have in the past encouraged capital intensive investments.

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4/ According to FIDE records in the Central Bank.

### Implementation

While the quantitative performance is impressive, loan implementation has not been without problems although marked improvements have occurred since early CY 1973. Many of the earlier problems were procedural such as AID commodity and shipping eligibility regulations, a requirement to undertake an analysis of the legislative and other incentives available to the private industrial sector, the pari passu tie with the IDB loan which was originally more restrictive than the AID loan, and a proclivity to use Central Bank funds in lieu of AID or IDB funds. These implementation problems have been satisfactorily resolved one by one with USAID assistance. Some of the problems were not apparent during the first FIDE loan because local currency expenditures were eligible as well as dollars. A new Chief and Deputy Chief of FIDE were appointed between the time of the two loans and this required a period of reorientation of the new management both internally and in its liaison with international financing institutions.

In early 1973, using the findings of an audit of FIDE, the USAID dealt directly with the Central Bank's top management on a series of FIDE operational problems including that of slow disbursement. Implementation improved thereafter, facilitated by a number of mutually agreed measures.

At present the Central Bank is in the process of making personnel changes within its FIDE department. These changes will not result in any reduction in force of FIDE personnel inasmuch as all personnel released or transferred to other Central Bank functions are being replaced. During the transition period in July 1974, this personnel reorganization resulted in some slippage of FIDE's reporting and loan processing functions. However, the long term result will be a strengthening of FIDE's operational capacity and we do not anticipate any adverse effects on the rate of disbursement of 023 subloans. The most apparent retarding factor in disbursements at present is delays in deliveries of U.S. manufactured industrial equipment because of current market conditions, as described in AIDTO CIRC A-375.

Concurrently, due to the nature of the credit system wherein the sub-borrower and the intermediate credit institution are removed from direct AID cognizance and given the complex nature of AID commodity and procurement procedures, periodic problems with the eligibility and condition of AID/FIDE financed sub-projects have occurred and can be expected to continue to occur during the remaining operational period of the loan. Such operational difficulties have however always proven to be amenable to solution.

FIDE has committed some \$8.5 million of approved subloans against the loan 023 program in an effort to assure full usage of AID funds. At final reconciliation, any balances of residual commitments after accounting for cancellations, etc., will be financed from the Central Bank's own resources.

The operations and management of FIDE are still not as efficient as perhaps they could be. However, the basic soundness of the Private Investment Fund concept and system wherein an estimated 70-80% of the total operations

is carried out by the private sector is not in question. This system insures a viable credit disbursement mechanism to the private sector and provides the government with an effective instrument for channeling resources, both institutional credit and private investment, into those productive sectors which are of high priority to the country's development. Recent cases in point are FIDE's support of tourism over the last two years principally by providing financing for badly needed hotel construction, and the Central Bank's more current efforts in agriculture.

CONCLUSION

Given the advanced stage of project implementation, the full commitment of AID loan funds, and the fact that the project's objectives are being surpassed, no basic changes are warranted in project execution. Further, FIDE has attained the administrative capability necessary for future portfolio administration of selected activities under sector loans.

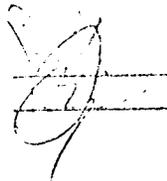
  
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*on file 9/5/74*

EVALUATION SUMMARY

ANNEX A

AID Loan 517-L-023

Private Investment Fund II

Summary	1969 Verifiable Indicators	Planning Assumptions	Change in Assumptions or Circumstances	1973 Progress in Terms of Verifiable Indicators																																				
<p>A. <u>Program Goal:</u> Promote a resurgence of competitive private enterprise which will bring about beneficial economic results.</p>	<p>1969 GDP RD\$1,167.1 million*</p> <p>Compound Growth Rate 1960-66 4.4%</p> <p>1969 Per Capita Income RD\$291 (GDP)*</p> <p>1969 Foreign Trade Balance - (RD\$33.8) million</p>	<p>That FIDE has been and will continue to be an important source of medium and long term financing to the private productive sector.</p>	<p>Whereas the credit situation has eased over the past 5-6 years and FIDE's role is not as prominent as before. Its role of financing productive investment on medium and long term bases is still important.</p>	<p>1973 GDP RD\$1,718.6 million *</p> <p>Compound Growth Rate 1967-73 8.8%</p> <p>1973 Per Capita Income RD\$381 (GDP)*</p> <p>1973 Foreign Trade Balance + RD\$36.4 million</p>																																				
<p>B. <u>Project Purpose:</u> Expand medium and long term credit availability to the private sector to induce greater private investment.</p>	<p>1969 Commercial Bank Credit to Private Sector Total RD\$147.5 million</p> <table border="0"> <tr> <td colspan="2"><u>Production</u> 92.5</td> </tr> <tr> <td>Agriculture</td> <td>12.7</td> </tr> <tr> <td>Manufacturing</td> <td>66.8</td> </tr> <tr> <td>Construction</td> <td>9.0</td> </tr> <tr> <td>Service</td> <td>4.0</td> </tr> <tr> <td colspan="2"><u>Commerce</u> 55.0</td> </tr> <tr> <td>Trade</td> <td>38.4</td> </tr> <tr> <td>Installment</td> <td>1.7</td> </tr> <tr> <td>Misc.</td> <td>14.9</td> </tr> </table>	<u>Production</u> 92.5		Agriculture	12.7	Manufacturing	66.8	Construction	9.0	Service	4.0	<u>Commerce</u> 55.0		Trade	38.4	Installment	1.7	Misc.	14.9			<p>1973 Commercial Bank Credit to Private Sector Total RD\$370.6 million</p> <table border="0"> <tr> <td colspan="2"><u>Production</u> 222.7</td> </tr> <tr> <td>Agriculture</td> <td>34.5</td> </tr> <tr> <td>Manufacturing</td> <td>147.9</td> </tr> <tr> <td>Construction</td> <td>25.3</td> </tr> <tr> <td>Service</td> <td>15.0</td> </tr> <tr> <td colspan="2"><u>Commerce</u> 147.9</td> </tr> <tr> <td>Trade</td> <td>85.6</td> </tr> <tr> <td>Installment</td> <td>1.0</td> </tr> <tr> <td>Misc.</td> <td>61.3</td> </tr> </table>	<u>Production</u> 222.7		Agriculture	34.5	Manufacturing	147.9	Construction	25.3	Service	15.0	<u>Commerce</u> 147.9		Trade	85.6	Installment	1.0	Misc.	61.3
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<p>C. <u>Project Target:</u> Central Bank's FIDE fund to inject additional credit to selected private sector investment.</p> <p>FIDE credits to create new job opportunities</p>	<p>\$30 million of new productive credit during life of project.</p> <p>Substantial new employment resulting from FIDE lending.</p>	<p>Project was conceived as a jointly sponsored fund; therefore investment target includes A.I.D., IDB and GODR contributions.</p>		<p>In period 1/1/70 through 6/30/74 FIDE productive credits totalled \$62 million.</p> <p>As of 6/30/74 these were 1,923 new jobs created directly by new subloans from only the 023 portion of FIDE's portfolio.</p>																																				

Note\* - Based on 1962 constant prices.

## ANNEX B

## PROJECTS FINANCED UNDER 023

Subloan No.	Sub-borrower	ICI	Total Project Cost	FIDE Loan	023 Financing	Value Added	New Employment	Import Saving	Sector	Other
814	Operadora Hotelera Bacha, C. por A.	Banco de Reservas	\$1,168,784	\$580,000	\$ 90,156	\$ 274,553	35		Tourism	
812	INDUMUFFLER, CxA	" " "	210,970	105,000	60,000	88,074	34	\$212,185	Industrial	
836	Chang Sang, CxA	Chase Manhattan B.	954,407	400,000	200,000	295,352	54		Tourism	
804	Bernardo Abreu, CxA	" Popular Dom.	115,797	50,000	13,000				Industrial	
738	Textiles "K", CxA	Corp. Fomento Ind.	322,986	150,000	75,000				"	
786	Hilanderias Dom., S.A.	" " "	2,614,947	600,000	66,738	535,136	53		"	
784	Lama, CxA	Royal Bank	610,218	300,000	100,000	246,889	19		"	
783	Clínica Gómez Patiño, CxA	" "	976,370	450,000	226,137	224,349	26		Health	
792	Neveras Dom., CxA	Banco Popular Dom.	557,888	200,000	128,754	1,203,918	33		Industrial	
766	Industria Farmaceutica del Caribe	" " "	151,339	182,000	67,390	91,074	27		"	
764	Embotelladora Dom.	First Ntl. City Bank	542,643	240,000	240,000				"	
763	Dr. Eduardo Dinzey Mason	Corp. Fin. Asociada	163,074	80,000	25,788	69,557	8		Health	
762	Centro de Pediatría y Esp., CxA	Banco de Reservas	847,831	422,122	143,911		58		"	
760	Villa de las Américas, CxA	" " "	117,129	58,000	13,430	146,708			Tourism	

BEST AVAILABLE

<u>Subloan No.</u>	<u>Sub-borrower</u>	<u>ICI</u>	<u>Total Project Cost</u>	<u>FIDE Loan</u>	<u>Other Financing</u>	<u>Value Added</u>	<u>Employment</u>	<u>Import Saving</u>	<u>Sector</u>	<u>Other</u>
758	Dra. Andrea Dipres de Ricourt	Banco de Reservas	\$ 28,623	\$ 14,000	\$ 10,000	\$ 15,376	5		Health	
749	Centro Médico Aguasvivas	" " "	109,349	54,600	6,078	23,462	5		"	
740	Dr. Dájer José Acra Diepp	Banco Popular Dom.	58,687	58,000	58,000	78,604	3		"	
732	Granja Porcina Ivania, S.A.	Corp. Fomento Ind.	19,400	15,000	2,200				Cattle	
729	Ind. Continental	Banco de Reservas	367,640	162,000	33,000	159,614	18		Industrial	
723	Hotel el Napolitano	C.M.B.	920,478	477,449	185,000	231,413	21		Tourism	
721	Transportes Yanez	Corp. Fomento Ind.	93,825	40,825	40,825				Industrial	
720	Emp. Industriales	Banco Popular Dom.	414,406	199,340	192,322	145,440	9		"	
716	Metal Litho Dom.	First Ntl. City Bank	774,170	350,000	277,000	216,216	23	\$594,000	"	
704	Alambres Dom.	" " " "	434,601	200,000	6,920	132,422	20		"	
702	Envases Antillanos	Banco Popular Dom.	1,664,854	832,427	679,074	1,779,542	23	637,700	"	
700	Servicios a la Construcción	Banco de Reservas	163,165	80,000	12,500	128,585	10		"	
696	Granja Mora, CxA	Banco Popular Dom.	2,560,845	551,469	296,583	1,246,583	153		"	
691	Bernardo Abreu y Cia., CxA	" " "	542,192	250,000	121,840	347,660	86		"	
686	Expresos Dom., S.A.	First Ntl. City Bank	108,779	50,000	50,000	137,264	23		Transportation	

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BEST AVAILABLE

<u>Subloan No.</u>	<u>Sub-borrower</u>	<u>ICI</u>	<u>Total Project Cost</u>	<u>FIDE Loan</u>	<u>023 Financing</u>	<u>Value Added</u>	<u>New Employment</u>	<u>Import Saving</u>	<u>Sector</u>	<u>Other</u>
677	Cilindros Nacionales	Royal Bank	\$ 617,150	\$600,000	\$ 10,000	\$ 534,860	94	\$758,140	Industrial	
669	Ind. Metálicas, CxA	First Natl. City Bank	47,131	20,000	15,078	46,587	3		"	
667	Hotel Continental	Banco de Reservas	1,128,900	555,471	192,016	190,514	19		Tourism	
657	Ray-O-Vac Dom., S.A.	Corp. Fomento Ind.	569,372	413,495	154,995	333,213	78	551,145	Industrial	
655	Asfaltos Dom., CxA	Corp. Financiera Asoc.	250,975	120,000	50,130	173,064	12		Services	
653	Almacenes Generales del Caribe, S.A.	Corp. Fomento Ind.	373,322	141,434	38,974	147,917	10		"	
649	Granja Reproductora	Banco Popular Dom.	528,940	222,567	91,866	306,373	16		Industrial	
628	Productos Diversos	Royal Bank	404,138	200,000	168,989	176,361	21	507,450	"	
618	Embotelladora Dom.	First Natl. City Bank	1,359,289	560,000	485,220	1,520,850	14		"	
613	García y Ortíz, CxA (Hotel Villa de las Américas)	Banco de Reservas	319,207	150,000	48,934	115,479	30		Tourism	
602	Empresas Unidas, CxA	Corp. Fomento Ind.	117,090	58,383	41,701	144,953			Services	
598	Víctor M. Despradel (Hotel Guaricamo)	Banco de Reservas	143,305	71,600	27,178	57,534	9		Tourism	
588	Casa Central, CxA	Royal Bank	236,205	117,318	14,189	644,595	9		Industrial	
582	J. Pelayo Ramblar Sucs., CxA	Banco Popular Dom.	348,891	174,300	53,712	152,309			Services	
572	Ensanche Juliana, CxA (Hotel El Comodoro)	Banco de Reservas	792,080	400,000	186,129	162,232	18		Tourism	

BEST AVAILABLE

Subloan No.	Sub-borrower	ICI	Total Project Cost	FIDE Loan	023 Financing	Value Added	Employment	Import Saving	Sector	Other
529	Dato Centro	Banco de Reservas	\$1,000,000	\$500,000	\$500,000	\$ 427,596	30		Services	
508	Constructora Díaz Toribio, S.A.	" " "	1,013,574	487,260	230,993	786,686	35		"	
481	Jabonería Valencia	" " "	753,432	377,600	198,927	350,802	48		Industrial	
477	Hotelera Dominicana (Hotel San Jerónimo)	" " "	1,227,917	550,000	237,160	346,119	61		Tourism	
463	Hotel Restaurant Lina, CxA	" " "	1,445,696	600,000	232,240	443,759	80		"	
435	Reyes Arquitectura y Const. (Hotel Pinar Dorado)	" " "	789,424	350,000	75,884	213,701	24		"	
424	Compañía de Transportaciones, CxA	First Nat. City bank	134,247	18,863	16,302	92,631	1		Transportation	
423	Manuel A. Fernández Mármol	Banco Popular Dom.	83,369	50,000	3,463		12		Cattle	
402	Industria Farmo-Química, CxA	Banco de Reservas	288,366	95,000	7,151	139,824	47	\$125,815	Industrial	
387	Clínica Santo Domingo, CxA	" " "	2,302,836	1,200,000	399,992	576,763	142		Health	
378	Centro Materno-Infantil Dr. Betances	" " "	640,322	209,000	63,362	117,000	21		"	
372	Centro Médico Oriental, CxA	" " "	514,795	150,000	50,000	136,121	25		"	

BEST AVAILABLE

Subloan No.	Sub-borrower	ICI	Total Project Cost	FIDE Loan	023 Financing	Value Added	New Employment	Import Saving	Sector	Other
365	Centro Médico de De Oleo Montero	Banco de Reservas	\$ 153,744	\$ 50,000	\$ 37,774	\$ 103,338	7		Health	
360	Vulcanizados Dominicanos, CxA	Corp. Fomento Ind.	30,000	30,000	29,066				Industrial	
351	Clínica Corominas	Banco Popular Dom.	1,510,652	755,300	210,245	348,596	95		Health	
344	Quitpe, CxA	Banco de Reservas	133,119	91,540	91,540	86,006	20	\$75,686	Industrial	
847	Stocker, CxA	Corp. Fomento Ind.	100,834	47,500	47,500	42,413			"	
310	Compañía Dominicana de Alim. Lácteos	Corp. Fomento Ind.	3,771,400	600,000	367,339	437,122	82	2,509,427	Industrial	
304	Panificadora Pepín	" " "	378,310	74,000	74,000	302,664			"	
349	Centro Policlínico Naco	Banco de Reservas	2,771,171	1,000,000	400,038	689,691	119		Health	
371	Construcciones Civiles y Marítimas	Corp. Fomento Ind.	170,917	170,415	170,415		10		Services	
496	Cartonera Cibao	Firma Inter City Ind.	190,400	97,700	47,700	242,203			Industrial	
742	Máximo Gómez P.	Corp. Fomento Ind.	170,700	70,061	40,001	558,605	9		"	
837	Diseños Intercontinentales, CxA	Banco de Reservas	157,277	70,000	42,233	157,277	30		"	
			<u>10,411,191</u>	<u>\$18,240,930</u>	<u>\$8,583,082</u>	<u>\$18,828,297</u>	<u>1,923</u>	<u>\$5,881,548</u>	"	

Note: Some of the above projects have additional financing from different sources including FIDE.

Prepared by:  
Capital Resources Dev. Office  
May, 1974