

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Richard L. Hough, A/DIR

DATE: April 30, 1973 4P.

FROM : Theodore T. Foley, CRDO *WF*

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SUBJECT: Monthly Progress Report - CRD - April 1973

1. Total AID loans authorized for D.R. were approximately 89.7% disbursed through 3/31/73. During March 1973 \$1,078,991 was drawn down against active development loans, bringing total DL disbursements for the first quarter of CY 1973 to \$2,232,652 as compared with disbursements of \$1,305,864 in the first quarter of CY 1972.

2. Significant DL actions during April 1973 included:

517-L-024 - Educational Credit. Implementation proceeded normally during April. During April, the USAID made an analysis of ECF's accounts receivable as of 12/31/72, and held a series of loan review meetings with ECF management to evaluate ECF's efforts to strengthen its management and improve its collections. (See summary memorandum report dated April 4, 1973 attached.)

Collection rates are still not satisfactory, but appear to be improving. In the past six months ECF has (a) substituted more capable personnel at all levels in its Collections Department, (b) reorganized its filing and loan registry systems, (c) established a system of controls on sub-borrower's compliance with subloan conditions, (d) accelerated legal process actions on delinquent account recoveries, and (e) hired an in-house lawyer and two additional secretaries to handle past-due actions.

Based upon its relatively short experience to date, ECF has made the policy decision to refrain from financing new subloans for 4-year Bachelor degrees. The magnitude of such subloans and their long resultant repayment time have shown early evidence that these subloans have built-in propensities to become delinquent. ECF is now financing studies abroad for a maximum of two years of either terminal Junior College or graduate degrees, and believes these students' abilities to repay will show a better collection picture in the long run.

ECF has studied the possibility of making modification of its repayment criteria. It has considered, however, that such a policy action would not be prudent until based upon more experience with graduate students and upon a complete and reliable data base which would indicate changes of policy productive of better results. One, as yet unknown, element, is the relative repayment expectancy by disciplines studied. For example, a graduate in civil engineering seems to have a greater capacity for prompt repayment than a graduate in sociology. Yet, therein lies an



inherent problem in extending educational credit in a developing nation. The country needs an input of higher educated manpower in both the more lucrative engineering and the modestly compensated social science fields. Should a developmentally oriented educational credit institution lend only to grade A bankable repayment risks, or should it lend to a mix of disciplines which will produce the array of manpower resources needed to develop all facets of an emerging country?

The inadequacy of a reliable data base and data retrieval system has constrained ECF in its ability to pinpoint problem areas with accuracy in a timely manner and thus make rational corrective operational and policy modifications instead of intuitive ones.

The computerization of ECF's statistical accounting and collection systems has lagged far behind the original 1972 target date. It now appears that the Price Waterhouse computerization will only attain full operationality by the end of CY 1973. Meanwhile, ECF is carrying on its operations with a cumbersome hand accounting/statistical system and, partially, with a gradually phasing-in computer system.

ECF has, at the USAID's suggestion, assembled the raw data base for a detailed study of each student loan made using AID funds. Early studies of these data, before computer studies are available, are expected to reveal some indicators of actions which could be taken to make student loans which produce a better manpower end-product and at the same time carry a higher subloan repayment prospect. The USAID is collaborating with ECF and giving guidance in analyses of these data.

Progress in the areas of operations improvement and policy modifications is a gradual process. Indications at this time are that ECF is operating significantly better than it was a year ago, and that a year hence it will have made considerable additional progress.

3. For more details on current DL portfolio status see USAID/DR DL status report dated 4/30/73 sent to LA/DR.

cc: A/DD
PROG

AID/W: GGower- ARA-LA/CAR/DR
Fay H. Clayton - LA/DR
WASigler - LA/DP

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Richard L. Hough, ^{Deputy} Director

DATE: April 4, 1973

FROM : Theodore T. Foley, CRDO

SUBJECT: Educational Credit Foundation - Analysis of Accounts Receivable as of 12/31/72

1. The attached table shows the status of ECF's accounts receivable as of December 31, 1972 broken down into its major components.
2. Although still far short of satisfactory, ECF's collections against AID-financed subloans are considerably better than its collections against subloans made from other resources. Past due receivables of AID-financed subloans totaled 66.1%; of other resource-financed subloans 85.1%; and of the total portfolio 73.8%.
3. One major factor which continues to contribute to the high delinquency statistic is ECF's policy of requiring early repayment of student subloans. The audit established that the contractual requirement obliging a student loan to be repaid within three times the length of the studies has not been met by "most" of the borrowers. The audit recommended that ECF establish procedures which would result in the determination of proper repayment rates.
4. In our opinion, it is not realistic in Latin America to classify 1-2 months' overdues as delinquent, in the same context as the more serious past due accounts. We believe a private sector credit manager would simplify his analysis and guidelines for remedial actions by grouping the aging of receivables into four categories (plus a notation recording the short term call loans - which constitute only 2% of the portfolio). Such an analysis might summarize as follows:

	Other Resource Funded		AID Funded		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Due 12/31/72	1,216,648	100.0	1,782,172	100.0	2,988,820	100.0
Short Term call loans	66,471	5.4	-	-	-	2.0
Paid on due date	181,325	14.9	604,303	33.9 ✓	785,628	26.2
Slow Pay (overdue 1-2 mo)	210,381	17.3	441,590	24.8 ✓	651,971	21.8
Delinquent (overdue 3-12 mo)	548,030	45.1	622,233	34.9	1,170,263	39.1
Potential Bad Debts (over 12 mo)	210,441	17.3	114,046	6.4	324,487	10.9

5. ECF's present portfolio represents, in some degree, the sacrifice costs of embarking upon a new concept of educational credit lending in the Dominican Republic. It is expected that, based upon experience and development of administrative capabilities, ECF will improve its performance substantially.



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Price Waterhouse is now completing the implementation in ECF of an administrative and accounting system which will provide better data retrieval and management tools for use by ECF's administrative and policy determining staff. ECF is aware of its need for improving collections and is in the process of instituting USAID and Price Waterhouse recommended policy and procedural changes.

6. The notion that ECF can improve its collections and not exceed 15% of receivables past due does not seem to be practical. A realistic assessment of the goal which could be attained by ECF within a year after making procedural improvements and intensifying its collection efforts might be more in the

neighborhood of:	Paid on due date	50 %
	Slow Pay	30
	Delinquent	15
	Potential Bad Debts	5

cc: Mr. Valdez:SDP/D