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DOMINICAN REPUBLIC  
Loan Completion Review and Report  
AID Loan 517-L-024 (\$1,750,000)  
Foundation for Educational Credit Loan II

517-104

I. PURPOSE AND ACHIEVEMENT OF LOAN

A. Purpose

To finance the United States dollar and local currency costs of goods and services to assist the Foundation for Educational Credit (ECF) to (1) provide continuing and expanded credit to Dominican students for advanced technical training and/or undergraduate and graduate level study outside of the Dominican Republic in the United States or other independent Western Hemisphere Country south of the U.S. except Cuba, and to (2) provide technical assistance to ECF and for a survey of manpower needs.

B. Background

Until the founding of ECF, a variety of Dominican projects for educational credit had failed to provide a student loan program which could stimulate a selective and efficient higher level manpower development program. A previous attempt to develop a student loan program by the Government was in 1964 when the Dominican Institute for Educational Credit (IDCE) was set up. The institution was recognized as ineffective and the GODR turned over its program to the ECF when that entity was established with AID support in 1967.

In June 1967, an AID loan (517-L-017) for \$1.4 million was made to the ECF and guaranteed by the GODR. The ECF used that loan and grants from the GODR and Dominican private sources to develop a loan program for university students to study in the Dominican Republic and abroad.

At the time the first loan was made, financing for a higher level manpower study was to be provided from other sources. Since these sources did not materialize, a part of the funds for the study was included in the second loan.

C. Achievements

1. The Primary Purposes of the Loan - Provision of Credit to Dominican Students

The first loan (517-L-017) resulted in the establishment and initial capitalization of the ECF, a new semi-autonomous educational credit institution in the Dominican Republic. Approximately 1,215

qualified Dominican students of proven financial need received credits for college-level study during the disbursement period of the loan.

The additional capital assistance of the second loan (517-L-024), also guaranteed by the GODR, enabled the ECF to provide credits totalling \$1,677,444 for college-level study to an additional 3,465 Dominican students.

On the basis of the foregoing, the Mission Loan Committee has concluded that a reasonable strengthening and increase in the quantity and quality of higher level education in priority areas needed for Dominican development has been provided as a result of Loan 024 activities during the disbursement period.

## 2. The Technical Assistance/Training Element

A total of \$72,556 of loan funds were used to provide technical assistance to ECF (under the Loan) by financial advisors and by Price Waterhouse's development of administration systems and data analysis procedures. A continuing dialogue with Mission staff has enabled the ECF to make substantial improvements in its administrative operations. A series of loan reviews have been held between Mission and ECF management to evaluate ECF's efforts to strengthen its management and administration as a result of which collection rates have been improved, more capable personnel has been secured, filing and loan registration systems have been revised, controls have been set up on sub-borrower's compliance with subloan conditions, legal process actions on delinquent account recoveries have been accelerated, and an in-house lawyer has been retained to handle past-due actions. Further, interim data compiled with Price Waterhouse and Mission guidance has enabled the ECF to revise its policy decisions on the selection of studies to be supported by the ECF and the development of criteria for financing studies abroad which will result in a better repayment expectancy by disciplines studied. Indications at the time of the last in-depth reviews (April 1973 and January 1974) were that ECF is operating significantly better than it was prior to the loan, and considerable additional progress is under way. We conclude, therefore, that one of the basic purposes of the Loan - to improve ECF's administrative capabilities - has been substantially fulfilled.

## 3. Resolution of Manpower Survey Obligations

During intensive review of Loan 024, consideration was given to the absence of reliable manpower studies which raised a question as to the adequate selection of priority areas of training by the Educational Credit Foundation (ECF). Given the almost total lack of trained people in most areas critical to economic development, it was concluded that the absence of a reliable manpower study does not prevent sound selection of priority study areas. Nevertheless, it was recognized that such a study would be required in subsequent years. Accordingly, funds for a manpower study were included in the Education Sector Loan (517-L-022) which loan, however, was not executed. The Mission believing that the only way at the time to assure that such a study would be carried out would be to provide financing for it under the Educational Credit Loan, made the manpower survey part of the 024 loan package.

The Mission stated in the CAP that detailed manpower study would be expensive and unnecessary. It concluded that a relatively short-term survey of present manpower availabilities and estimated requirements in the major management and technical fields would be sufficient for both the ECF and university planning. Hence, a short-term consultant team was recommended to review the supply and project demand in the near future. The services of John H. Linton, Manpower Advisor, Office of International Labor Affairs, U.S. Department of Labor, were contracted in 1971 for the purpose of advising the Mission and ECF on the feasibility, methodology, and scope of work necessary to determine priority fields of study for financing student loans.

The Linton report, issued December 15, 1971, concluded that the fiscal situation eliminated the need for a manpower study at that time insofar as the Loan 517-L-024 is concerned. Linton's rationale was that in the absence of a manpower study, the ECF had established its own priorities, and selections of fields of study had been made using these informal criteria, and that, further, these criteria appear to have been valid. Moreover, Mr. Linton pointed out that by July 31, 1971, \$400,000 (24%) of the loan funds had been disbursed and another \$946,000 (55%) was committed as a reserve to insure that students currently abroad could complete their education - the inference being that study undertaken would be completed too late to affect the students who were utilizing loan funds. The Linton report stated, moreover, that even if other resources become available to finance additional groups of students, there would still in his opinion be an issue as to whether the ECF should undertake a manpower study. He reasoned that proper manpower survey would be too large an undertaking both fiscally and practically to be carried out by a small, private organization like the ECF. He suggested that it would be more appropriate for government agencies to take on the responsibility of such tasks and surmised that the National Board, the Secretariat of Education, the Secretariat of Labor, ECF, and other institutions, such as universities, might be induced to cooperate in a joint effort to underwrite a manpower study.

ECF reviewed in depth its technical assistance requirements and requested the Mission to allocate funds tentatively earmarked for a manpower study to other forms of technical assistance which could be more useful to the ongoing progress of the ECF's programs. Previously contracted had been the services of a financial advisor and Price Waterhouse to improve administrative procedures, systems, data collection and retrieval. After an intensive review of the problem within the Mission, and additional discussion with the ECF, the Mission (by letter dated March 24, 1972) agreed that a formal manpower survey need not be carried out under the Loan and that the \$75,000 originally earmarked for the survey could be utilized for other technical assistance.

Notwithstanding the above determination, certain technical assistance financed under the Loan and other research activities have developed elements of a manpower study which will be useful to the ECF in accomplishing its objectives. For instance, on December 15, 1972, ECF entered into a contract with the Citizen's Committee for Social Promotion (CCSP) under which the latter would conduct a human resources survey entitled "Impact of Educational Credit Studies on the Demand for Professionals in the Dominican Republic". This study, as yet incomplete, will determine the number of returned students that have studied abroad, their areas of study, type of current employment, income range, etc. In addition, the study will update a human resources inventory coordinated by the CCSP in 1966 and published in 1968. The USAID authorized the use of \$25,500 from the TA portion of the loan to cover costs of the study (IL No. 9).

More significantly, IDB has requested that the GODR undertake a major human resources study (estimated cost \$150,000) to be financed from the Fondo de Preinversión of the current IDB loan administered by the FIDE fund of the Central Bank as a prerequisite to IDB's authorization of a loan to ECF. This study will encompass the major sectors of the Dominican economy and is designed to provide an estimate of future manpower requirements for overall economic development. The study and its conclusions will provide guidance to a wide range of government and private entities including the ECF, and will allow the ECF to draw upon the results of a far more sophisticated manpower study than it could ever have envisioned undertaking on its own. It is, in short, the kind of expensive in-depth analysis recommended by Mr. Linton in his report.

#### 4. Significant Problems and Issues

##### a. Disbursements

Although the basic purposes of the Loan were achieved, several administrative problems arose which delayed disbursements. The original TDD of 6/30/74 was extended to 6/30/75 to allow full disbursement of funds earmarked for study abroad, and also to provide sufficient time for ECF to seek outside expertise to make a thorough feasibility study of several potential alternative possibilities for mobilizing new sources of Dominican capital funds for its long-term operations. ECF was unable to negotiate a feasibility study contract satisfactory to ECF and to AID in time to use the balance of AID loan funds which had been tentatively earmarked for that purpose. Consequently, ECF requested and AID approved that these funds be made available for sub-loans for Study Abroad. The last disbursement, completing the loan, was made on February 24, 1975.

##### b. Future Institutional Viability of ECF

The Mission has been concerned with ECF's institutional viability, which concern precipitated the preparation of multivariant cash flows in late 1973 and in 1974. There is a substantial difference between Loan Agreement covenants and the assumptions expressed in the Capital Assistance Paper. The Capital Assistance Paper (see, e.g. pp. ii,

26 and 27) foresees that ECF would be self-financing by 1974, assuming the continuance, and indeed, increase of contributions from the Government as well as the maintenance of private sector financing levels during the intervening period. Thus, it was assumed in Annex II, Exhibit H, that the Dominican Government would contribute \$715,000 in 1970, \$940,000 in 1971, and \$1,050,000 annually thereafter. However when the Loan Agreement was ultimately signed in February 1971, the GODR only undertook to contribute \$300,000 per year during the period of disbursement (see Section 9.04). Mission records fail to reveal anything explaining the disparity between the Capital Assistance Paper and the Loan Agreement. However, had the ECF received and utilized efficiently the amount postulated in the Capital Assistance Paper rather than the lesser Loan Agreement amount, we estimate ECF would now be very close to self-sufficiency.

The USAID, in coordination with IDB and ECF, diligently worked towards reducing the delinquency rate on outstanding student loans. However, even a substantial improvement in the collection rate would, by itself, not be enough to solve ECF's long-term financial problems which require the injection of additional grant or concessional capital (See cash flow and other attachments to Stack/Seifman letter dated January 30, 1974).

The ECF has been negotiating for a concessional loan from the IDB since 1972, but, as of this writing, the loan has not materialized. In this context, it has been pointed out to the IDB representatives that ECF continues to have a major role in meeting the skilled manpower requirements of Dominican economic and institutional development, and that it has successfully fulfilled this function over the past seven years by providing higher education to approximately 4680 Dominicans who in large part would not have otherwise had this opportunity. Moreover, ECF-funded students in the past few years have become increasingly visible in high level positions in the government, private industry, and commerce. Atrophy of the Foundation would leave an institutional vacuum, and the subsidizing of middle and lower class students at the university level could revert to wholly inadequate programs of government and private support. The Mission concludes that, from a strictly banking viewpoint, AID does not stand to lose either interest payment or principal repayments from its loans, inasmuch as these are fully guaranteed by the GODR. It should also be noted that AID assistance over the past seven years has been extremely valuable, for it financed critically needed university education which has developed substantial Dominican manpower resources. However, even though the AID investment has neither been wasted nor jeopardized, we would hope that means can be found to assist ECF in continuing to provide its needed services. Nevertheless, the essential requirements of the project have been accomplished under the loan.

## II. LOAN COVENANTS

All covenants have been met to date, and are listed below.

A. General Covenants and Warranties

- Section 4.01 - Execution of the Project
- Section 4.02 - Eligible Institutions
- Section 4.03 - Funds and other Resources to be Provided by Borrower
- Section 4.04 - Continuing Consultation
- Section 4.05 - Management
- Section 4.06 - Taxation
- Section 4.07 - Utilization of Goods and Services
- Section 4.08 - Disclosure of Material Facts and Circumstances
- Section 4.09 - Commissions, Fees and Other Payments
- Section 4.10 - Maintenance and Audit of Records
- Section 4.11 - Reports
- Section 4.12 - Inspections

B. Special Covenants

- Section 5.01 - a) Technical assistance  
b) Borrower's acceptance of additional debt  
c) Use of recuperations.

C. Procurement

- Section 6.01 - Procurement from other Western Hemisphere Countries
- Section 6.02 - Procurement from the Dominican Republic
- Section 6.03 - Eligibility Date
- Section 6.04 - Goods and Services not Financed under Loan
- Section 6.05 - Implementation of Procurement Requirements
- Section 6.06 - Plans, Specifications, and Contracts
- Section 6.07 - Reasonable Price
- Section 6.08 - Information and Marking
- Section 6.09 - Shipping and Insurance

III. LOAN REPORTING REQUIREMENTS

A. Reporting required during the disbursement period of the loan was fulfilled satisfactorily.

B. Monthly, quarterly and annual reports on Loan Fund Activity will be required until June 30, 1975, and thereafter no continuing reporting requirements will remain other than annual audit, and Loan repayment reports, such as may be required by the Loan Agreement, to be submitted to the USAID Controller.

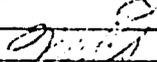
C. The Office of the Auditor General - LA(N), performed two interim audits on this Loan (Audit Report No. 1-517-72-60 dated December 30, 1971; and Audit Report No. 1-517-74-62 dated February 25, 1974). All audit recommendations have been closed.

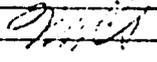
**IV. RESIDUAL MONITORING**

Residual monitoring will be completed by TDD of 6/30/75, after which other residual follow-up responsibilities of minimal surveillance with regard to payment of interest and repayment of principal, and receipt of ECF's annual audit, will rest with the USAID Controller.

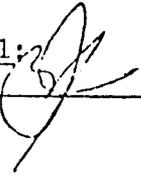
Clearances:

CON:RJJlop 

PROG:DCohen 

AD:MRStack 

Mission Approval:

D:JBRobinson 

Drafted by:

SA:TFoley:rfe

April 10, 1975

