

Proj. 5-200195-
ON- (2)

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

520-6-016

GUATEMALA: FEASIBILITY STUDIES AND SURVEYS (SECOND)

AID-DLC/P-848

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-848
June 23, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Guatemala: Feasibility Studies and Surveys (Second)

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$2,000,000 to the Government of Guatemala to assist in financing the United States dollar and local currency costs of general surveys pre-feasibility and feasibility studies which are included in the program of the National Economic Planning Council.

Please advise us as early as possible but in no event later than close of business on Friday, June 27, 1969, if you have a basic policy issue arising out of this proposal.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-IV

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GUATEMALA: SECOND FEASIBILITY STUDIES & SURVEYS

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GUATEMALA: SECOND FEASIBILITY STUDIES & SURVEYS

PART ONE: SUMMARY AND RECOMMENDATIONS

1. THE BORROWER:

The Borrower will be the Republic of Guatemala with authority and responsibility for project execution vested in the Secretary-General of the National Economic Planning Council, a dependency of the Ministry of Economy located in Guatemala City.

2. THE LOAN:

Up to \$2,000,000, on concessional terms: 40-year amortization including a 10-year grace period, with interest charged at 2% during the grace period and at 3% thereafter. Based on contract experience under the first Feasibility Studies loan, a local-currency financing component of approximately one-third the Loan is anticipated. (1)

3. THE PROJECT:

The Project is the financing of the U.S. Dollar and local-currency costs of feasibility studies and surveys contracted by the Secretary-General of the Planning Council in the course of establishing national priorities, identifying worthwhile projects, and attracting the necessary financing. First attention will be given to the following topics: chemical industries; agricultural production and marketing; export development; and

(1) Applicable rate of exchange: 1 Quetzal equals 1 Dollar.

drainage projects along the Pacific coast. The Loan will provide full financing of the Dollar and local-currency costs of the consulting services contracts included in the project, up to a maximum total commitment of \$2,000,000.

4. PURPOSE:

The GOG's February, 1969 CIAP presentation identified the lack of well-prepared projects as one of the primary factors retarding the development process in Guatemala.

The purpose of this project is to assist the Planning Council in the identification and scheduling of viable projects and in their development to the point of attracting the necessary construction or other financing.

5. FINANCIAL PLAN:

The total cost of the Project will be up to \$2,000,000, wholly provided by this Loan. Approximately one-third of this will be local-currency costs and two-thirds in U.S. Dollars, depending on the outcome of contractor selections and contract negotiations.

6. OTHER SOURCES OF FUNDS:

The IBRD has advised A.I.D. that they are not interested in financing this project but asked to be kept posted on the progress of individual studies performed, "as a number of them relate to projects that we either already have in our lending program, or are ones that affect institutions with whom we are working very closely." Formal statements of "no interest" were also received from the EXIM and the IDE. It is the conclusion of the Mission that, due to the indirect nature of the economic returns of this project and its need for concessional financing, A.I.D. is the only free-world source of financing on satisfactory terms.

7. STATUTORY CRITERIA:

All statutory criteria have been met, as detailed in Annex III.

8. VIEWS OF COUNTRY TEAM:

A substantial development momentum has been developed over the past two years through the use of the first A.I.D. Feasibility Studies Loan, with perhaps \$200,000,000 resulting in infrastructure projects coming into view for implementation during the 1970's. With the current national annual capital investment rate of \$51,000,000 expected to rise to an average exceeding \$75,000,000 during the 1970's, several times this amount of projects can be handled. The proposed Loan is essential to the continuing development of projects for the 1970's in a rational and timely manner. Its place in the national economic development program is therefore fundamental.

9. ISSUE: Local-Currency Financing

The Mission considers that in view of: (1) the inevitable incurrence of local-currency costs within the Project; (2) the non-availability of AID-owned local currency or financing from other sources; and (3) the inability of the Government of Guatemala to meet this expense, as detailed in Section II-D-3, the local-currency financing requested herein is justified.

10. LOAN ADMINISTRATION:

Subproject identification and definition will be done by the Planning Council with the approval of A.I.D.

Procurement of consulting services and contract administration will be carried out by the Planning Council in a manner consistent with the A.I.D. Capital Project Guidelines.

Disbursement of Loan funds for Project Dollar costs will be effected through the A.I.D. Letter of Commitment procedure or through other customary A.I.D. procedures, as appropriate. Disbursement of Loan funds for Project local-currency costs will be made from the Special Letter of Credit-generated Quetzal account maintained by the USAID/G Controller.

11. RECOMMENDATIONS:

On the basis of the conclusions of the Capital Assistance Committee that the Project is technically, economically, and financially justified, it is recommended that a Loan to the Republic of Guatemala for an amount not to exceed \$2,000,000 be authorized subject to the following terms and conditions:

- a. the Loan will finance the Central American Common Market local-currency and the U.S. Dollar costs of the Project;
- b. the Loan principal shall be repaid to the Agency for International Development in U.S. Dollars within forty years from the date of the first disbursement under the Loan, including a grace period of not to exceed ten years;
- c. interest on the disbursed balance of the Loan shall be paid to the Agency for International Development in U.S. Dollars at two percent per annum during the grace period and at three percent per annum thereafter;
- d. goods and services (except shipping and marine insurance) financed under the Loan shall have their origin in and be procured from the United States or Member Countries of the Central American Common Market. Shipping financed under the Loan shall be procured from the United States. Marine insurance financed under the Loan shall be placed in the United States with a company authorized to do marine insurance business in any State of the United States.

- e. such other terms and conditions as A.I.D. may consider appropriate.

CAPITAL ASSISTANCE COMMITTEE:

Capital Development Officer	Charles R. Connolly, Jr.
General Engineer	George A. Krumm
Economist	Alan Cohen
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amo: 5-16-69

PART TWO - THE PROJECT

Section I. NATURE OF THE PROJECT

A. Project Description

1. Purpose

The basic goal of the Project is to assist the Government of Guatemala continue the program now being executed for the most part by the National Economic Planning Council of establishing national economic priorities, identifying and evaluation specific programs and projects, rejecting unworkable or otherwise unjustifiable proposals, and developing viable projects to the point of financing and implementation. While the concept of an independent feasibility study as a serious factor in shaping a course of official action has yet to attain wholesale understanding and acceptance within the Government, the presence of concessional A.I.D. funds to finance studies and surveys reduces the grounds for opposition to such studies, encourages their proponents, and is expected to result in more effective and rational program development and implementation than would occur in their absence.

The determination of studies to be executed and the administration of their execution under contract is a major Planning Council activity, and one in which the Planning Council staff has acquired some facility during the past two years. The technical assistance to be provided to the Planning Council by the IDB during 1970-71 in planning and the utilization of studies should develop this institutional skill further during the implementation term of the proposed Loan, and leave the Planning Council better able to attract future study financing from non-A.I.D. sources than is now the case. The Government intends to approach the IDB, IBRD, and

CABEI for such financing, and is considering providing complementary funds from its own resources after the second A.I.D. Loan is exhausted.

2. Method

The course of action in the Project will be as with the previous A.I.D. Loan: first the selection of subjects for general survey or detailed study; then the issuance of Invitations For Proposals (IFP); comparison of Proposals and the selection of a firm for contract negotiations; completion of contract negotiations; contract execution; and execution of the study by the contractor. All except the last step will be performed by the Planning Council, subject to A.I.D. approvals of the study subject, the IFP, the firm selected, and the negotiated draft contract (including a detailed scope-of-work and cost breakdown).

The Planning Council has proposed four topics for study during 1970-71, listed below, and estimates that these studies will commit \$1,000,000 of the A.I.D. loan. An additional estimated \$1,000,000 worth of studies will be financed by loan funds from the list of twenty-two priority projects identified by the Planning Council on page 21 of this paper. The \$1,000,000 worth of projects financed by A.I.D. on this list will also be studied in 1970-71. The four identified topics of study will be as follows:

- a. Prefeasibility Survey - Chemical Industries Potential
Feasibility Studies - Chemical Industries Projects
- b. Prefeasibility Survey - Export Markets and Production
Feasibility Studies - Export Production Projects
- c. Feasibility Studies - Agricultural Marketing Projects
- d. Feasibility Studies - Pacific Coast Drainage Projects

not sure whether they are under this project # 35.

The Feasibility Studies included in (a) and (b) will be of specific projects identified and recommended in the course of the Prefeasibility Surveys.

The Feasibility Studies included in (c) will be drawn from the recommendations of the Iowa State team now completing a macro-economic survey of the Guatemalan agriculture sector and the Kansas State team scheduled to perform a survey during late 1969 of the institutional, legislative, and infrastructure improvements needed in the area of grain handling.

The Feasibility Studies included in (d) will be drawn from the recommendations made by a Natural Resources Division team scheduled to make a prefeasibility survey in June, 1969 of the Pacific coast area.

In addition to the reasonably firm projects on the four identified topics, selections will be made as indicated above from the twenty-two projects listed on page 21 of this paper. It is the Planning Council's intention to continually review these proposals against changes that may take place in national priorities and against other project possibilities employing the following criteria:

- a. number of people benefited;
- b. balance-of-payments considerations;
- c. internal utilization of natural resources;
- d. timing of payout; and
- e. availability of financing.

The Mission considers this approach realistic, and will approve projects meeting these criteria.

3. A.I.D. Participation

The A.I.D. participation in the implementation of the Project will consist of the various reviews and approvals described above under Method, plus whatever suggestions and guidance the Planning Council requests of the Mission in project selection and contract administration.

The A.I.D. financial participation will be the financing of approved studies, up to a maximum obligation of \$2,000,000.

B. Project Background

1. Loan 520-L-008, General Surveys and Feasibility Studies

a. Implementation Summary

This \$2,000,000 Loan was authorized in June, 1964 and signed in September, 1964. The Conditions Precedent to Initial Financing were set in March, 1966. The first study was contracted in May, 1967. Four more studies were contracted in the following fourteen months, amounting to 232,338 of Loan funds. The two study contracts in negotiation at present are expected to commit nearly all the remaining loan balance.

The two-year gap between the Loan Authorization and the signing of Conditions Precedent to Initial Financing was due to a factor outside the realm of the Planning Council: the Government at that time as a matter of policy was reluctant to seek (or accept) external loans. This reluctance in regard to A.I.D. crossed on the Special Letter of Credit procedure. This procedure was the subject of extensive and long negotiations and, as if by design, was not resolved until one week before the Presidential elections of 1966.

That fourteen months then passed before the first study was contracted again is attributable to factors which the Planning Council could not control. Following the satisfaction of Conditions Precedent, an intense effort was made by the then Secretary-General to contract several studies included in the Planning Council's first-priority grouping.

Technical Proposals were received for the San Felipe "T" Highways a Mazatenango-Retalhuleu area survey, and Two of what later became the Four Northern Roads. However the required procedures and approvals from within the Government could not be completed before the July 1966 inauguration of the new Administration, at which point a new Secretary-General was appointed and all previous determinations of priorities, programs, and projects were brought under review.

The Loan implementation process came to a halt while the new Secretary-General deliberated.

During the next six months pressures for project development began to be felt within several areas of the new Government, and the controversy around the "Xaya-Pixcaya, Guatemala City Water" proposal, for which the Guatemalan Army Engineers and the Guatemala City Municipal Engineers had presented competing plans, grew sufficiently hot to cause the Ministry of Finance to bypass the Secretary-General of the Planning Council and authorize INFOM, as a competent and impartial agency, to contract for an independent technical review and comparison of these competing projects. The Invitation For Proposals (IFP) covering this study was issued in February, 1967; twenty-two firms responded in April; and the Parsons Corporation was contracted in May.

Reacting to this, the Secretary-General in March, 1967 reissued the IFP covering the San Felipe "T" Highways which the previous administration had issued one year earlier. Almost a year passed in reviewing Proposals, selecting a firm for contract negotiations, breaking off negotiations, and negotiating with a second firm. The F. R. Harris Company was contracted in March, 1968.

In June and July, 1967, the Ministry of Finance again bypassed the Secretary-General of the Planning Council to solicit Proposals directly from seven U.S. firms for a Telecommunications feasibility study based on an IBRD scope-of-work, and then requested a waiver of the AID-required public advertisement of this Invitation. After a brief discussion the Ministry quickly re-issued the Invitation, this time with advertising in the Commerce Business Daily; received twenty-two Proposals on September 29, 1967; selected Page Communications Engineers on November 11; received AID approvals of the negotiated draft contract on December 21, 1967, and again on April 15, 1968, following the review and approval of more detailed cost data than had been available in December; and on April 19, with the publication of the ratifying Acuerdo in the gazette, the signed contract became effective.

During the 1967-68 year end period the Ministry of Finance, in an attempt to prepare another project specifically for the IBRD, bypassed the Secretary-General of the Planning Council a third time to select and contract with a local firm to perform an economic survey and comparison of the two most likely areas for a major port on the Pacific coast.

At this point the Secretary-General concluded his deliberations and began to assume the administration of the Project.

In November, 1967 the Planning Council authorized the contracting of the "Four Northern Roads" study. An IFP was drafted by the Planning Council staff, approved by the Mission, and advertised in December. In addition, to assure a broad response, Invitations were sent by the Secretary-General's office directly to the twenty-six U.S. firms which had responded to the second San Felipe "T" advertisement. Twenty-five Proposals were received in February. A review commission met and in early April selected five firms for final consideration. The list narrowed to two in late April, and to one (Louis Berger) in June. The negotiated draft contract was approved by A.I.D. on June 23 and signed July 24. The consultant since then has worked under the general supervision of the Planning Council, with the smooth execution of the study to date reflecting a good level of communications and, on the part of the Planning Council staff, an ability to review progress, discuss problems and concur in solutions, and effect payments rapidly.

The Secretary-General then proposed a broad survey of the hydraulic resources of a large section of northern Guatemala, evidently at the urging of the Ministry of Foreign Relations. Following the establishment in October of this proposal as the Planning Council's top next priority, the IFP was approved by the Mission and issued in November, 1968. Twenty-two Proposals were received January 30, 1969. The review commission narrowed the list to five, with an order of preference, on February 11. The Secretary-General selected the first firm recommended (Harza-Berger) on February 18, a selection approved by the Mission on February 26. Contract negotiations are underway.

In like manner in November, 1968 the Secretary-General presented an IFP for the Guatemala-Escuintla Expressway study, a proposal whose priority had been set by the Planning Council

a year earlier and repeated in the October, 1968 Resolution. This IFP was approved and issued in December. Nineteen Proposals were received on February 21. The reviewing commission reduced the list to three by March 3, with an order of preference. On March 4 the Secretary-General selected the first firm recommended (Berger), a selection approved by the Mission on March 11. These contract negotiations are underway also.

With costs for the first five studies totalling \$1,252,338, and a Planning Council staff estimate of \$700,000 combined for the two contracts under negotiation, less than \$50,000 of the Loan remains uncommitted or unreserved. Disbursement is scheduled for completion in 1970.

b. Evaluation of Studies Financed

(i) Water:Xaya-Pixcaya, Guatemala City
\$32,000

This study was a feasibility analysis and comparison on technical and economic grounds of the competing proposals offered by the Guatemalan Army engineers and the Guatemala City municipal engineers.

Both sets of plans represented large investments of time and money, particularly in the case of the Army plan which had been financed by an IDB loan of \$235,000. The dispute was further complicated by traditional rivalries among the engineers and offices involved and the well-publicized determination of the Ministry of Defense to see the Army plan executed. Since the dispute had reached a stand off and the water shortage in the City was one of the major problems facing the new regime, an impartial technical and economic evaluation by an independent qualified firm acceptable to both disputants appeared to be the best next step towards getting the project moving again.

The study contract was awarded to the Parsons Corporation, signed in May, 1967, and the work completed in November of the same year. Parsons concluded that both proposals were technically and economically feasible, but recommended the Municipality's plan as the one which, among other factors, would be less costly, begin water-delivery first by a six-month margin, and best provide for long-range expansion.

The Ministry of Defense immediately rejected this line of reasoning, and sought to discredit the Parsons firm and its findings through an intense publicity campaign. Parsons stuck to its guns, however, and thereafter defended their report with considerable energy and at their own expense. It is the opinion of the Mission that the Parsons conclusions have not been shown to be incorrect.

After eight months of turmoil the Government made its decision. In July, 1968 the Army plan was selected by the President, and the IDB was approached for financing. Discussions with the IDB have continued since then, and eventual financing appears reasonably certain as time and yet another study brings about changes in the Army plan.

(ii) Pacific Port Economic Supplement -
\$14,706

This survey was a comparison, on economic and technical grounds, of two alternative locations for a major protected port on the Pacific coast. The two locations surveyed were the present port sites of San Jose, near the Capital, and Champerico, near Quezaltenango in western Guatemala.

The possibility of expanding the San Jose port had been explored by the U.S. Army engineers in 1963, and in late 1966 the

Government opened discussions with the IBRD concerning the financing of such a venture.

The interest of the Ministry in this small survey was to ascertain if consideration could also be given the Champerico location, in line with the Government's stated policy of encouraging the development of western Guatemala. The consultant reported in May, 1968, that investment in both locations could be technically and economically justifiable, but that San Jose appeared to offer a better return.

In October, 1968 the President selected Champerico as the site of the new port, and in March, 1969 a credit of \$450,000 was received from CABEI to finance further studies and engineering. The GOG is attempting to develop the project to a point at which it might be considered for either CABEI or IBRD financing.

(iii) Telecommunications - \$230,370

This study (near completion) of the National Telecommunications Program follows a scope-of-work drawn up by the IBRD including a facilities survey and review of existing plans; traffic projections; preliminary plant design; administration, staffing and training aspects; a proposed construction program; and an analysis of financial and economic feasibility.

The contract with Page Communications was signed in March, 1968. A complete report was submitted to the Ministry of Finance in March, 1969. Following a review of the report by the official review commission and their receipt of comments from AID and the IBRD, the study was returned to the consultant by the Ministry on April 19 for additional work. This may be completed in the next few months to the satisfaction of the IBRD, with their financing authorized thereafter.

(iv) Highways: San Felipe "T"
\$155,270

This study (near completion) includes an analysis of the technical and economic feasibility of two intersecting highways totalling approximately 240 kilometers in the Izabal region and the review and supervision of completion of the final design, bidding and contracting documents prepared by the Highway Department for the construction of these two roads. The scope-of-work for the study was drafted by the IBRD.

The Spanish edition of the feasibility report has been delivered. Delivery of the English edition is still due. It appears that the review of final designs, etc., will be completed in July.

The Mission has not had the opportunity to review the feasibility report, but it seems clear that should the report cover the scope-of-work satisfactorily and the recommendations be favorable, construction financing will be available from the IBRD.

(v) Four Northern Roads - \$819,992

The scope-of-work prepared by the Planning Council staff includes economic and technical feasibility studies of four proposed highways totalling approximately 735 kilometers in the northern Departments of Huehuetenango, Quiche, Alta Verapaz and El Peten. About 350 kilometers will be new road, with the balance to be alignment and design work along existing routes.

The work was 60% completed at April 30, 1969, and scheduled to be finished in March 1970. Guatemala's 1969 C.I.A.P. presentation mentions the IDB as a likely source of construction financing.

(vi) Contract in Negotiation;
Northern Hydro Survey

This survey of the hydraulic resources of much the same area as that covered in the Four Northern Roads study, with the exclusion of El Peten, is expected to begin in the third quarter of 1969 and take one year. No identification has been made of specific projects to be developed and their likely sources of financing.

(vii) Contract in Negotiation; Guatemala-
Escuintla Expressway

This study of the technical and economic feasibility of a divided highway between Guatemala City and Escuintla, the most heavily traveled highway in Central America, is expected to be contracted in the third quarter of 1969 and finished by mid-1970. Guatemala's 1969 C.I.A.P. presentation suggests the IBRD as a likely source of construction financing.

(viii) Summary

The Mission considers the first loan to have been allocated to studies and surveys of acceptably high priority included in the program of the National Economic Planning Council.

A tabular analysis of the studies financed follows as Annex II, Exhibit 1.

A map of the areas covered in these studies follows as Annex II, Exhibit 2.

c. Evaluation of Administration

The Ministry of Finance's early intervention in the administration of the Project reflected the political pressures

surrounding the Xaya-Pixcaya situation and the new regime's determination to start a development momentum in Guatemala employing external financing.

At the time this intervention appeared to be the best course of action, with an improvement in the competence of the office of the Secretary-General and the Planning Council staff a goal to be put aside temporarily in the interest of getting some projects started. The Mission considers this judgment to have been correct.

Institutions in Guatemala, whether private or public, often suffer from overly centralized management. The performance of an institution is closely tied to the ability and effectiveness of its key man. The human resource base being small and institutions numerous, institutional performance is generally poor. The Planning Council Secretariat has been an interesting model.

The incumbent Secretary-General, appointed shortly after the present regime took office in July, 1966, entered his office with considerable concern for the political and technical complexities of the planning process and, as later became evident, with even more concern for the consequences of failure. His immediate call for a review of all previous programming and project identification efforts reflected a prudent approach to an unfamiliar task; however after a few months it began to appear more a bureaucratic refuge. The technical capability, productivity, and reputation of the Secretariat did not improve during this period.

It was not until late in 1967 that he felt compelled to move, and then in an unexpected manner: responsibility for the development and execution of a studies program was delegated to certain staffers, and the Secretary General began to accept their recommendations and respond quickly with the needed approvals, authorizations, etc.

Whether this change reflected an increased confidence in his staff or simply a negation of responsibility by the Secretary-General is unclear. Nevertheless the effect has been clear and favorable: the Secretariat now responds to the Planning Council determinations of national priorities and goes about arranging for the necessary studies in an efficient and businesslike manner. Members of the staff handle the various A.I.D. routines and requirements with dispatch, and the progress of the studies underway and the two current contract negotiations indicate that effective working relationships have been established with the contracting U.S. firms.

It is the reported intention of the IDB to provide the Planning Council the technical assistance requested in Guatemala's 1969 C.I.A.P. presentation. In addition U.N.D.P. is planning on providing staff assistance to the Council. Presumably this assistance will be directed more at the planning and programming work of the Secretariat than in the area of studies administration.

The Mission considers the administration of the Loan 520-L-008, first by the Ministry of Finance and then by the Planning Council Secretariat, to have been satisfactory; with some experience now behind the staff, and IDB and U.N. technical assistance likely to be provided, the administrative capability of the Secretariat to execute the proposed new Loan should be better than before.

2. Prospects

a. Future Studies

As mentioned previously, the Planning Council has proposed four topics for study during 1970-71, listed below, and estimates that these studies will commit half the A.I.D. Loan:

- (i) Prefeasibility Survey - Chemical Industries Potential
Feasibility Studies - Chemical Industries Projects
- (ii) Prefeasibility Survey - Export Markets and Production
Feasibility Studies - Export Production Projects
- (iii) Feasibility Studies - Agricultural Marketing Projects
- (iv) Feasibility Studies - Pacific Coast Drainage Projects.

The Planning Council's most recent statement of priorities includes these four subjects and the Northern Hydro and Guatemala-Escuintla Expressway proposals, for which study contract negotiations have begun.

The report "Situación Económico-Social de Guatemala: Perspectivas y Problemas" presented to Gov. Rockefeller's recent Mission to Central America included a review of the Planning Council's activities in project preparation and feasibility studies. In addition to the studies described above, the report mentions that from various sources the Planning Council has assembled one hundred and thirty-eight separate study proposals over the past few years, and of these has selected twenty-two topics as worthy of consideration for implementation during 1970-74. The A.I.D. loan will finance approximately \$1,000,000 worth of these projects during 1970-1971.

(1) Agriculture Sector-est. \$1,875,000 (1)

Colonization
Fishing Resources
Livestock: Sheep and Goats
Spices and Medicinals
Izabal Land-use Classification
Major Irrigation Projects
Training and Research Centers in
the Peten
Regional and Local Grain Storage

(ii) Industrial Sector-est. \$1,035,000

Industrial Promotion Office

Industrial Opportunities: Retalhuleu,
Suchitepequez, Quezaltenango (the
western Pacific coast area)

Industrial Opportunities: Escuintla
(central Pacific coast)

El Peten Natural Gas Exploitation

Development of Small Industries

Industrial Parks

(iii) Infrastructure-est. \$1,055,000

Modesto Mendez - Flores Road
Geothermic Resources
Navegable Waterways

(iv) Other-est. \$2,050,000

City Plan: Guatemala City
Rural Potable Water Projects
Rural Housing
Regional Development Plan: El Peten

(1) Planning Council cost estimates.

This list illustrates the strong demand for studies; the diverse interests and pressures brought to bear on the Planning Council in allocating study funds; and the need for the technical assistance to be provided by the IDB. The highest priority loans in this list, in an amount of approximately \$1,000,000, will be financed by the A.I.D. loan.

b. Future Projects

A substantial development momentum has been created over the past two years through the use of the first A.I.D. Feasibility Studies Loan, with perhaps \$200 Million resulting in infrastructure projects (see Annex II, Exhibit 1) coming into view for implementation during the 1970's. With the current annual capital investment budget rate of \$51 Million expected to rise to an average exceeding \$75 Million during the 1970's, several times this amount of projects can be handled. Specific projects which will emerge and their sources of financing cannot be determined at this time; however, the 1969 C.I.A.P. presentation forecasts investment during 1970-74 in twenty-eight projects, not all of which will require studies, costing over \$300 Million, with the anticipated external financing (about 60%) expected from the IDB and the IBRD. This forecast offers another reflection of the protean nature of priority analysis and project selection in Guatemala.

3. Response to CAEC Comments on IRR

The Intensive Review was begun April 2, on receipt of STATE 49922 advising the Mission of the LA Bureau approval of the IRR on March 18. The text of the CAEC comments, including six specific points, and the Mission's responses thereto follow in Annex I. The Mission considers all points raised in the IRR and the CAEC comments to have been resolved satisfactorily.

4. Justification of Additional A.I.D. Financing

a. Effective Demand

Largely as a result of the united front of the international lending institutions in requiring sound project preparation, the feasibility study concept is receiving increasing -- but not yet universal -- acceptance and endorsement throughout the Government of Guatemala. The Planning Council Secretariat has been a patient and persuasive advocate of the utility of the study process. Its success in bringing the members of the Planning Council (see Annex II, Exhibit 3) to either agreement with or acceptance of the idea has led to high level official support of the formulation of the lists of future projects described above. With this support in principle and a multitude of projects in sight, the Mission considers that an effective demand exists for financing the proposed \$2,000,000 worth of projects during 1970-71.

b. Non-availability of Local or Other Financing

The IDB, 1969, and EXIM have advised A.I.D. in writing that they are not interested in financing this project. The Ministry of Finance has advised the Mission that the pressures for funds for other purposes in the national budget make it impossible for him to make a cash contribution to this project other than the \$200,000 current annual budget of the Planning Council. In consideration of the difficulties inherent in obtaining A. I. D. loan contracts in Guatemala and in financing study contracts, the Mission decided not to press this point further. Also the Mission concludes that due to the indirect nature of the economic returns of this project the need for concessional financing. A.I.D. is the only free-world source of financing on appropriate terms.

c. Conclusion

In consideration of: the fundamental importance of continuing the process of national planning, programming, and project identification and development in a rational and efficient manner; the existence of an effective demand for funds with which to do this; and the non-availability of funds on satisfactory terms from any source other than A.I.D., the Mission concludes that the additional A.I.D. financing requested is justified.

C. Program Justification

1. Macro-Economic Analysis

Guatemala's gross national product of \$1.5 billion yields a per capita income of about \$300. Since GNP growth in recent years has only slightly exceeded the 3.3% population growth rate, per capita income has crept upward at an almost imperceptible pace. The distribution of income is startling: 3/4 of the population subsists on \$75 or less per person per year; moreover, evidence suggests that the distribution has become even more unequal since 1950. The maldistribution of income coupled with a lack of entrepreneurial impulse among the wealthy have kept the investment level low, and the political power of the oligarchy has held down public revenue. Nevertheless government income, savings, and investment have been moving upward. Central government tax revenues were up \$11 Million to \$113 Million, in 1968. Central government investment amounted to \$34 Million in 1968 and will probably reach \$40 Million in 1969.

Two thirds of the public investment in 1969 is being financed by foreign loans. At the same time debt repayments and the import component of capital expenditures appear to use up as much

foreign exchange as is accruing to the government on capital account. Always under pressure because of high import propensities, Guatemala's balance of payments is not, therefore, receiving any direct relief from public foreign loans. Of course if the proceeds of the loans are spent on projects that offer eventual balance of payments relief, the loans may well indirectly affect the payments disequilibrium.

All four of the sub-projects of the feasibility studies loan are expected to offer eventual balance of payments relief. Assuming that the studies successfully identify feasible enterprises, both the export expansion and the chemical industries sub-loans will be valuable in relieving payments pressures. The former will directly stimulate export earnings; the latter will offer import substitution possibilities.

New industrial enterprises, and the increasingly productive agricultural enterprises that will evolve out of the sub-projects relating to agriculture, will increase the tax base from which the government can draw revenue to finance future investments.

2. Consistency with C.I.A.P. Review

The C.I.A.P. report issued following the Guatemala review in February, 1969 included statements by the IDB, IBRD, and AID representatives on the need for more and better planning and project preparation. The IBRD statement is particularly relevant:

"We believe that the possibility of additional financing on our part depends primarily on the ability of the Guatemalan public sector to provide the counterpart funds and to identify, prepare, and implement adequate projects. We are therefore happy to know that there are serious plans to improve the administrative and technical planning capacity of the public sector, and that

technical assistance is being sought for this purpose. We would hope to see soon a well articulated public investment plan, with a clear indication of priorities, a proper balance among infrastructure, directly productive and social investments, and a high project content."

3. Place in A.I.D. Program

Section III, General and Specific Objectives, of the 1970 CASP states as one general objective the "balanced economic growth of GNP at an annual rate of at least 6% with relative price stability, and overall balance of payments equilibrium." Additional financing for feasibility studies is included in the list of actions to be taken to meet this objective.

Aside from the general program consideration of the fundamental importance of sound planning and project preparation in the economic development process, the project is particularly responsive to the A.I.D. policy of encouraging financial participation in development projects from other free-world sources.

As shown in Annex II, Exhibit 1 four of the five projects studied or under study are eventually intended for IDB or IBRD financing, with the financing for the fifth undetermined; and the remaining study under contract, the two in contract negotiations, and with one exception those proposed under the second Loan are not expected to require A.I.D. project financing.

The one exception is the agricultural marketing series, which may lead directly to a major A.I.D. loan package in the rural development sector in the next fiscal year.

4. Impact on U.S. Economy

About 2/3 of the Loan proceeds will be spent for dollar procurement of US consulting services and commodities associated with those services. The Loan may provide subsequent additionality in that projects offering opportunities for American exports of capital and intermediate goods are likely to be recommended.

The net effect of the chemical industry study is indeterminate, although it may cause a reduction in US exports.

On the other hand, the new Guatemalan exports that result from the export expansion study will probably operate favorably on the US balance of payments for two reasons. First, in the overall trade balance Guatemala is substantially more important as a buyer of US exports than as a seller to the US. If the new exports are spread among Guatemala's customers proportionately with the current export mix (and there is no a priori reason to expect either change or status quo), the resulting increased foreign exchange earnings are likely to lead to increased imports from the US. Second, if the exports result from a Guatemalan commercial advantage vis-a-vis current foreign suppliers of US imports, then the price of US imports will fall, to the advantage of the US. Only if Guatemalan exports successfully compete with US manufactures will the US payments balance suffer. Again, there is no a priori reasoning that suggests what type of exports will be expanded.

Increased food and raw material production is the expected outcome of projects devised by the agriculture-related studies. Except for the US capital goods exports involved, these projects should have little direct effect on the US balance of payments. To the extent that these projects improve general economic conditions in Guatemala the local buying power for American exports will increase.

5. Director's Certification

The Director's Certification of June 6, 1969 as to the satisfactory performance by the Borrower with respect to previous A.I.D. loans and its capability to implement the proposed Loan follows in Annex I.

Section II - PROJECT ANALYSIS

A. Project Administration

The Project will be administered by the Secretary-General of the National Economic Planning Council, a dependency of the Ministry of Economy located in Guatemala City.

The evolution of the Planning Council began with its creation in 1954 to carry out a broad list of responsibilities in the coordination of Guatemala's development effort. In 1965 the composition of the Council was broadened to include the Cabinet, the President of the Bank of Guatemala, the President of INFOP (the national development bank), the Secretary of Social Welfare, and three representatives of the President of the Republic. Chairmanship of the Council was assigned to the Minister of Economy. The present Planning Council membership list and organization chart, the Secretariat organization chart, and the resumé of the Secretary-General are contained in Annex II.

The procedures the Planning Council employs in the development and implementation of feasibility studies follow:

1. A proposal is presented to the Secretary-General by an interested government office, private entity, or his staff.
2. The proposal is reviewed by the Secretariat staff which recommends a position to the Secretary-General.

3. The Secretary-General presents the matter to the Planning Council in its bi-weekly meeting for acceptance or rejection and, if accepted, for a determination of priority in the current listing of approved proposals.
4. If accepted, the Secretary-General formally presents the idea and a draft Invitation For Proposals (IFP) to the Mission for review and approval.
5. Following receipt of A.I.D. approval of the IFP, evidenced by the Mission's handling the transmission of the Notification to the Commerce Business Daily and of the IFPs to the Guatemalan Embassy in Washington, the IFP is advertised locally and in the United States.
6. Proposals are received and a selection commission is formed with representation from the Secretariat staff and interested government offices.
7. The review commission recommends several firms for consideration, and suggests an order of preference.
8. The Secretary-General makes the selection of one firm and requests A.I.D. approval.
9. This received, contract negotiations begin between the firm and the Secretariat staff, with the occasional participation of the Secretary-General.
10. The negotiated draft contract, with a detailed scope-of-work and cost-breakdown, is submitted by the Secretary-General to the Mission for review and approval.
11. This received, the firm and the Secretary-General sign the contract, and after the issuance of the Presidential Acuerdo (usually a week or two later) the work begins.

12. The Secretariat staff maintains close contact with the contractor during the execution term of the study, and a commission which may have the same members as the selection commission reviews his progress on a regular basis, goes over his monthly progress reports, and certifies to progress and payments.

As detailed under "Evaluation of Administration", this system now functions successfully, and the Mission considers the Planning Council able to administer the proposed Loan project satisfactorily.

B. Engineering Aspects

1. Adequacy of Scopes-of-Work

The Secretariat staff works very closely with the Mission in drafting scopes-of-work for inclusion in IFPs, and has responded favorably to recommendations originating in the Mission, AID/W, and in several instances, the IBRD.

The technical quality of contract scopes-of-work has been acceptable, and may be expected to improve as the Secretariat staff gains experience.

2. Selection of Contractors

During the implementation of the first Loan the Ministry of Finance and the Planning Council adhered to the procedures described in the A.I.D. Capital Projects Guidelines for procurement of engineering services, as described in the Spanish-English summary drafted by the Mission with minor adaptations reflecting local law and practice. Copies of this summary ("Attachment P to Basic Implementation Letters") are available in the LA/DR/ENG offices.

Through this procedure well-qualified firms were selected for each study. It is the intent of the Planning Council to continue to employ this procedure throughout the implementation period of the second Loan.

3. Contract Administration

The progress of the studies underway, the two current contract negotiations, and informal reports from contractors and the Secretariat staff, indicate that effective working relationships have been established with the contracting U.S. firms.

4. Conclusion

The project plan, implementation procedures, and administrative capability of the Borrower are technically satisfactory.

C. Economic Aspects

Once the studies financed by this loan are complete and feasible activities have been identified, the key to achieving the balance of payments, added government revenue, and the other macro-economic benefits previously described is the availability of financing for the investment required.

As the shortage of funds is one of two principle reasons (see "Justification of Local-Currency Financing") that the Guatemalan government seeks loans to finance the studies, it is unrealistic to expect that the government, even through its development banks, will be able to offer all the necessary project financing.

Sources of funds are available, however, in international agencies, and if the studies uncover particularly attractive enterprises private capital may be forthcoming.

D. Financial Aspects

1. Disbursement Projection

The total cost of the Project will be up to \$2 Million, wholly financed by this Loan. The Dollar vs. local-currency breakdown will depend on the outcome of contractor selections and contract negotiations. The experience of the past two years (see Annex II, Exhibit 1) yielded a Dollars 63%, Quetzales 37% cost breakdown.

Assuming authorization in June, 1969, and completion of Loan negotiations, execution of Agreement, Guatemalan Congressional ratification, and Conditions Precedent by year-end, disbursement might occur as follows:

		<u>CY 1970</u>	<u>CY 1971</u>	<u>6 mos. 1972</u>
Dollars: 63%	(1)	400,000	800,000	60,000
Quetzales: 37%		<u>240,000</u>	<u>480,000</u>	<u>20,000</u>
Totals		<u>640,000</u>	<u>1,280,000</u>	<u>80,000</u>

2. Alternative Sources of Financing

There is no local currency under A.I.D. control which could be made available for this Project.

The IDB, IBRD, and EXIM have formally stated they are not interested in financing this Project (Annex II).

The Mission has been advised by ROCAP that CABEI funds cannot be expected to be available for this Project.

A.I.D. appears to be the only free-world source of financing for this Project on satisfactory terms.

(1) One Quetzal equals one Dollar.

3. Justification of Local-Currency Financing

a. Other Sources of Local-Currency

As mentioned previously, A.I.D. appears to be the only source of financing for this Project. There is no local-currency under A.I.D. control at present which could be made available. Interest and amortization payments on the one A.I.D. loan repayable in Quetzales (AID 520-A-005), formerly DLF No. 174, \$5.4 Million, approximately \$4 Million outstanding) are deposited into a local account maintained by the Embassy D.O. These funds are used for a variety of local expenses, and when available may be transferred to the Mission Controller's SLC account to meet Loan-financed local-currency expenditures. The coincidence of supply and demand for these funds is unpredictable; however to the degree that it occurs, local-currency financing from the new Loan will be reduced. There are no P.L. 480 or other programs (except the SLC procedure) generating Quetzales for A.I.D. project use.

b. U.S. Balance-of-Payments Considerations

The ultimate net loss to the U.S. balance-of-payments caused by this Project will be substantially lower than the estimated \$740,000 in local-cost financing proposed. Guatemala's propensity to buy U.S. exports with foreign exchange earnings is .504. That is, slightly over one-half of the Dollars spent to finance Quetzal costs may be expected to return directly to the United States in payment for U.S. exports.

Feasibility studies offer off-setting additional possibilities via the import components of the projects identified by the

studies as worthy of execution. The study of chemical industries will probably identify projects that will call not only for capital goods imports, but also for a continuous flow of chemical imports. The other studies are also expected to identify projects offering opportunities for the export of American products. The resulting net additionality however, is impossible to predict.

Over the long run the U.S. balance-of-payments should receive further relief from the Project as Guatemala's GNP increases. The marginal propensity to import from the United States is .2, and therefore about one-fifth of the increment to income produced by this Project may be expected to return to the United States through increased purchases of U.S. products.

c. Political Considerations

The local political climate with respect to foreign consultants is such that the Guatemalan government is unlikely to spend any of its scarce resources for their services even when the necessity of such services in externally-financed operations is recognized. Foreign consultants are palatable to the government only when they are externally financed, and even with this financing there is continuing resistance to the use of foreign consultants. The tightness of the government's budget and the antipathy toward foreign consultants are the two principle reasons that this feasibility studies project, which inevitably includes local costs, must be financed entirely if the studies are to be carried out.

4. Prospects of Repayment

Repayment of the Loan will be an obligation of the Republic of Guatemala. The Republic of Guatemala is current in meeting its external debt service obligations.

Guatemala's medium and long-term external public debt is approaching \$100 Million. The Mission expects it to rise slowly from this level over the next decade.

The annual debt service obligation is currently about \$15 Million, and in the same decade is expected to rise about \$20 Million - \$25 Million as drawdowns accelerate, grace periods expire, and the effects of higher interest rates are felt.

Foreign exchange earnings now approximate \$250 Million annually. Even allowing for eventual decreases in returns from coffee and cotton, which now contribute 50% of the total, these also are expected to rise gradually in the future.

Consequently it appears that the ratio of debt service to export earnings may stabilize at around 10% throughout the amortization term of this Loan, providing an ample foreign-exchange cover.

It therefore appears that there are reasonable prospects of repayment.

5. Financial Conclusions

The Mission concludes that the presence of a list of high-priority study proposals likely to cost more than the Loan requested; the existence of an agency capable of carrying out the contracting and

administration of these studies in an efficient manner; the non-availability of funds from other sources; and the assurance that the Loan will be repaid, constitute satisfactory financial planning and justification of A.I.D. participation.

Section III - LOAN ADMINISTRATION

A. Project Execution

1. Execution Plan and Schedule

The steps prior to subproject implementation include: Loan Authorization; negotiation and signature of the Loan Agreement, accompanied by the Basic Implementation Letter; Guatemalan Congressional ratification of the Loan; publication of the ratifying Congressional Decree in the gazette; satisfaction of the Conditions Precedent to Initial Disbursement; and satisfaction of the Conditions Precedent to the first specific subproject. The time required to complete the steps through publication of the Decree is difficult to predict. The process of Congressional ratification is likely to be the most time-consuming step. The subsequent steps leading to the implementation of the first specific sub-project can be expected to be taken with reasonable promptness. All these steps may be completed by December 31, 1969.

The mechanics of subproject implementation have been described in detail in Section II-A, "Project Administration." Once started, this procedure is handled with dispatch by the Planning Council and its Secretariat. While the subproject list intended at this time for implementation cannot be considered binding, it appears reasonably certain that the Loan will be fully committed to signed contracts by mid-1971 and disbursed by mid-1972.

Executive Arrangements

a. The Planning Council

The Planning Council and its Secretariat will be responsible for subproject selection and justification, contractor selection, contract negotiation, and administration throughout the subproject execution term including certifying to progress and payments. Primary responsibility for these actions will be vested in the office of the Secretary-General.

b. The Mission

The Mission will be responsible for reviewing study subjects; approving the text of Invitations For Proposals and advertising them in the United States; approving the firm selected for contract negotiation; approving the negotiated draft contract, detailed scope of work, and cost breakdown; approving payment requests; and approving the final reports. Primary responsibility for processing these approvals will be vested in the office of the O&M General Engineer.

B. Implementation Procedures

1. Procurement

The professional services to be included in this Project and financed under the Loan will be procured by the Borrower in a manner consistent with the A.I.D. Capital Projects Guidelines (M.O. 442-1, January 1969) as summarized in the Implementation Letter Attachment "A" issued by the Mission based on these guidelines, modified slightly to fit local law and practice. Copies of this Attachment are available in the LA/DR/ENG offices.

2. Disbursement

Disbursement of Loan funds for Project Dollar costs will be effected through the A.I.D. Letter of Commitment procedure or through other customary A.I.D. procedures, as appropriate.

Disbursement of Loan funds for Project Quetzal costs will be made from the Special Letter of Credit-generated (1) Quetzal account maintained by the Mission Controller. These local costs are estimated to be approximately \$740,000, and are subject to AID/W disbursement authorization prior to disbursement by the Mission Controller.

3. Reporting

The consultants contracts will include provision for English copies of their Monthly Progress reports to be transmitted to the Mission following review and acceptance by the Planning Council. Draft copies of their Final Reports also will be submitted to the Mission by the Planning Council for comment during the period in which these Reports are being reviewed and accepted. The Mission will forward copies of the Monthly Progress and draft Final Reports to AID/W for comment and, as appropriate, for discussion with other agencies which might be considering financing the projects under study.

The Mission does not intend to request other types of reports directly from the Planning Council, except for Shipping Reports when the importation of commodities is included in a Consultant's contract.

4. Evaluation

The degree of success attained in this Project may be considered the maximum possible if all

(1) or occasionally from Loan repayments in Quetzales received by the Embassy D.O., as mentioned in Section II-D-3.

studies result in the financing and execution of successful projects. Barring this utopia, a short-term indicator will be the amount of project financing supported by the feasibility studies which report positively. Setting aside the costs of prefeasibility surveys and the studies which report negatively (and their immeasurable contribution to the process of national resource allocation), an indication of the amount of investment to follow the positive feasibility studies should become available shortly after their completion. If (1) investment of from thirty-three to fifty times the cost of the studies is sought (i.e., the studies costing 2% - 3% of the project), and (2) perhaps 80%-90% of the Loan is employed in feasibility studies (as distinguished from prefeasibility surveys) with a 90% of the studies reporting positively, then (3) a resulting investment range of \$48 Million - \$82 Million would indicate a successful Project. If the 1970-72 Project implementation schedule is adhered to, this information should become available in 1972-73.

C. Conditions and Covenants

There are no Conditions proposed to be met prior to the signing of the Loan Agreement.

There are no non-standard Conditions Precedent to Initial Disbursement proposed.

There are no Final Conditions Precedent or non-standard covenants to the Loan Agreement proposed.

The following Conditions Precedent to Financing Each Individual Subproject will be retained from Loan 520-L-008: evidence that the Subproject is of a priority nature in the Planning Council's program of needed surveys and studies; A.I.D. approval of the

contractor selected for contract negotiations; A.I.D. approval of the negotiated draft contract, including a detailed scope-of-work and cost breakdown.

Section IV - ISSUE: FINANCING LOCAL-CURRENCY COSTS

In response to the CAEC comment on this point, a strong and detailed justification of local-currency financing, including an investigation of additionality possibilities, appears in Section II-D-3 of this Loan Paper. The Mission considers this financing justified.

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AID-DLC/P-848
June 23, 1969

PART THREE: ANNEXES

Annex I - Approval of IRR and Director's Certification

- Exhibit 1 - Approval of IRR
- Exhibit 2 - Director's Certification

Annex II - Project Details

- Exhibit 1 - Table of Studies Financed Under 520-L-008
- Exhibit 2 - Map of 520-L-008 Studies Area
- Exhibit 3 - Members of Planning Council
- Exhibit 4 - Signoff: ILB
- Exhibit 5 - Signoff: IBRD
- Exhibit 6 - Signoff: EXIM
- Exhibit 7 - Planning Council Organization Chart
- Exhibit 8 - Planning Council Secretariat Organization Chart
- Exhibit 9 - Resumé of Planning Council Secretary-General
- Exhibit 10 - Derivation of Import Propensity Factor

Annex III - Statutory Checklist

Annex IV - Draft Loan Authorization

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AID-DLC/P-848

Annex I, Page 1 of 3
Exhibit 1, Page 1 of 2

APPROVAL OF IRR

STATE 49922 sent April 2, 1969 advised the Mission that the "LA Bureau reviewed and approved subject IRR March 18. Final Loan Paper should include specific comments and justification on following points: ..." The text of the six points and the Mission's response thereto follow:

1. Need thorough evaluation of studies funded under first loan, likelihood of project financing resulting therefrom and likely lender.

RESPONSE: Section I-B-1-b of the Loan Paper responds specifically to this point.

2. The argument in IRR to permit financing final engineering is weak. Final engineering does not fit within definition feasibility study nor is it included in 611 exemption which permits obligating funds to finance feasibility studies on basis representative list. Therefore do not see possibility meeting 611 requirements for final engineering in this project. If USAID has argument to overcome legal objections, it may offer it in Loan Paper. Otherwise, this element should be omitted from Intensive Review. In any event approval finance final engineering studies is unlikely.

RESPONSE: This element was omitted from the Intensive Review.

3. Loan Paper will need strong and detailed justification, including additionality possibilities, for financing local currency.

RESPONSE: This is treated in Section II-D-3 of the Loan Paper.

4. Loan Paper should include finding that CABEI funds not available.

RESPONSE: The Mission reviewed CABEI's current reports of fund availabilities and consulted with members of ROCAP concerning study-financing possibilities during 1970-71. The conclusion reached by the Mission was that CABEI funds cannot reasonably be expected to be available for the financing of this Project.

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Annex I, Page 2 of 3
Exhibit 1, Page 2 of 2

5. Suggest new loan rather than addition to present loan.

RESPONSE: A new Loan is requested.

6. In planning GOG cash input, if any, Mission should consider difficulties inherent in mixing U.S. loan and GOG funds for small individual studies and should investigate feasibility using GOG contribution finance specific studies involving 100 percent local cost.

RESPONSE: There will be no GOG cash input to the Project.

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ANNEX I, Page 3 of 3
EXHIBIT 2, Page 1 of 1

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Deane R. Hinton, the principal officer of the Agency for International Development in Guatemala, having taken into account, among other things, the maintenance and utilization of projects in Guatemala previously financed or assisted by the United States, do hereby certify that in my judgment Guatemala has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project, Second Feasibility Studies and Surveys.

This judgment is based upon the improving implementation record of AID-financed projects in Guatemala and the planning which has gone into this new project.

(sign)



(date)

June 6, 1969

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PERFORMANCE UNDER PREVIOUS LOAN
520-L-008 - \$2,000,000
Authorized: 6-26-64 Signed: 9-1-65

I. STUDIES CONTRACTED

<u>Study</u>	<u>Firm</u>	<u>Contract Size & Date</u>	<u>Dollars</u>	<u>Quetzales</u>	<u>Completion Date</u>	<u>Estimated Project Cost & Funding Source</u>	<u>Project Timing</u>
Water: Xaya-Pixcaya, Guatemala City	Parsons	\$ 32,000 5-19-67	\$ 24,000	Q 8,000	Nov., 1967	\$ 13,000,000 IBD	1970-74
Pacific Port Economic Supplement	CONLAT	14,706 1- 5-68		14,706	May, 1968	15,000,000 IBRD	1971-73
Telecommunications	Page	230,370 3-22-68	221,333	9,037	Dec., 1968	12,000,000 IBRD	1969-73
Roads: San Felipe "T"	F. R. Harris	155,270 3-18-68	67,350	87,920	May, 1969	16,000,000 IBRD	1969-72
Roads: Four Northern	L. Berger	819,992 7-24-68	478,967	341,025	March, 1970	40-80,000,000	1971-83
Total Under Contract:		\$1,252,338	\$791,650	\$460,688			

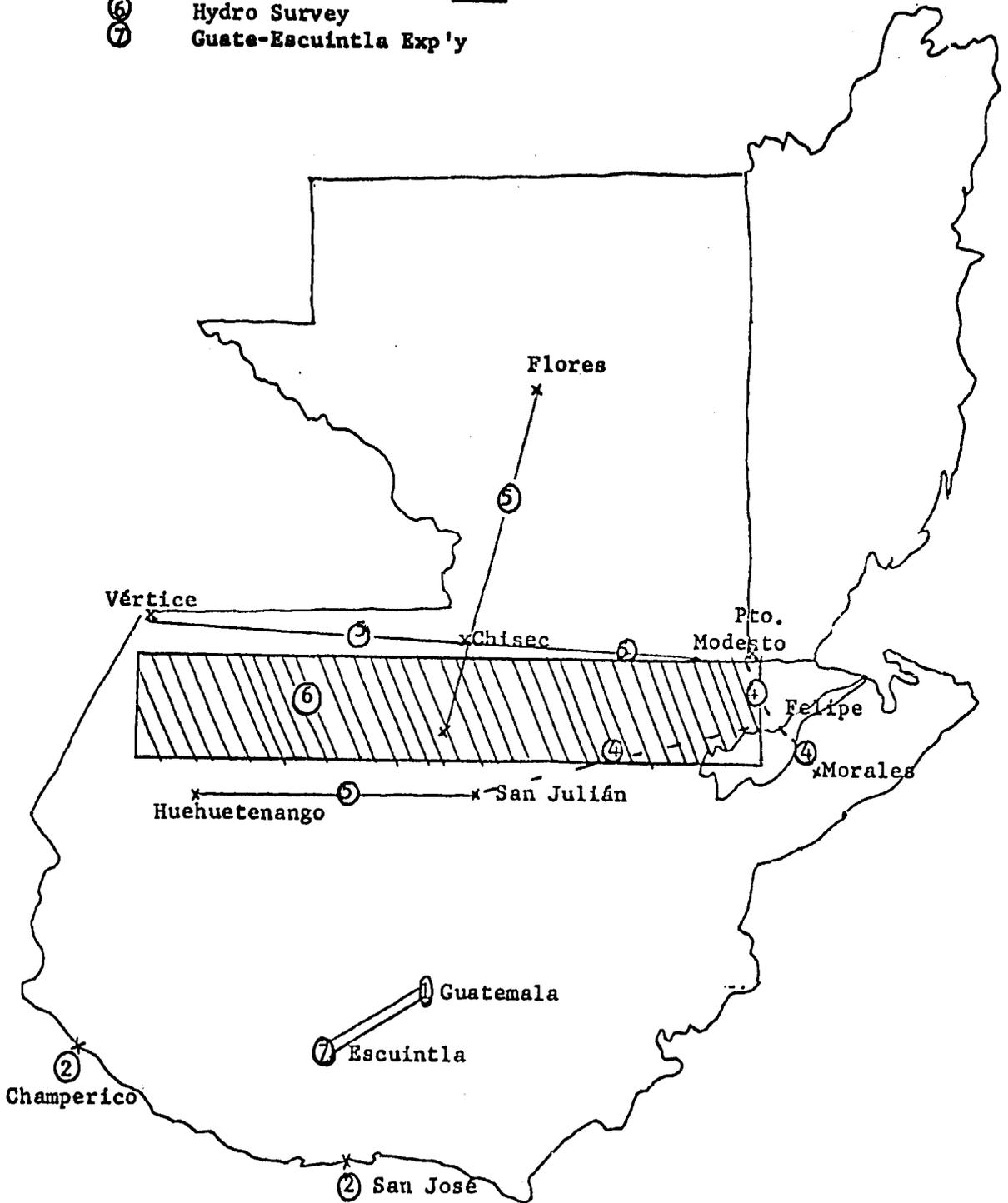
II. PROPOSALS IN CONTRACT NEGOTIATIONS

<u>Study</u>	<u>Est. Cost</u>	<u>Firm Selected</u>	<u>Est. Contract Date</u>	<u>Est. Completion Date</u>	<u>Estimated Project Cost</u>	<u>Project Timing</u>
Northern Hydro Survey	\$350,000	Harza Eng.-Louis Berger	Aug. 1969	Aug. 1970	---(1)	--- (1)
Guatemala-Escuintla Expressway	\$375,000	Louis Berger	Aug. 1969	May 1970	\$30,000,000	1972-74

(1) This survey will produce the studies leading to projects for the middle and late 1970's.

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- ① Kayá-Pixcayá
- ② Pacific Ports
- ③ Telecommunications (whole country)
- ④ San Felipe "T" - - - -
- ⑤ Four Northern Roads _____
- ⑥ Hydro Survey
- ⑦ Guate-Escuintla Exp'y



FEASIBILITY STUDIES' LOCATIONS

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ANNEX II, Page 3 of 11
Exhibit 3, Page 1 of 1

Members of the National Economic Planning Council

Ing. José Luis Bouscayrol
Minister of Economy

Lic. Mario Fuentes Pieruccini
Minister of Finance and
Public Credit

Ing. Oscar Castañeda Fernández
Minister of Communications
and Public Works

Sr. Francisco Montenegro Girón
Minister of Agriculture

Dr. Ricardo Asturias Valenzuela
Minister of Public Health
and Social Welfare

Dr. Carlos Martínez Durán
Minister of Public Education

Lic. José Luis de la Roca S.
Minister of Labor and Social
Service

Lic. Héctor Mansilla Pinto
Minister of Government

Lic. Gil Arturo Gonzales S.
Minister of Foreign Affairs (actg.)

Gral. Doroteo Reyes
Minister of National Defense

Lic. Francisco Fernández Rivas
President of the Bank of
Guatemala

Lic. Adolfo González Rodas
President of the National
Institute for Production

Sr. Antonio Nájera Saravia
Presidential Delegate

Sr. Ramiro Samayoa Martínez
Presidential Delegate

Srita. Mélida Muralles Soto
Director of Institution for
Children and Family Welfare

Lic. Oscar de León Aragón
Secretary General of the
National Economic Planning
Council

Guatemala, June 4, 1969

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INTER-AMERICAN DEVELOPMENT BANK
WASHINGTON D. C. 20577

May 14, 1969

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ANNEX II, Page 4 of 11
Exhibit 4, Page 1 of 1

CABLE ADDRESS
INTAMBANC

Mr. Jerzy Z. Mirski
Acting Assistant Director
Office of Development Resources
Bureau for Latin America
AID
Department of State
Washington D.C., 20523

Dear Mr. Mirski:

In reply to your letter of April 14 concerning a proposed Guatemalan loan to assist in financing a feasibility studies and general surveys project, I would like to note that the Bank would not be interested in financing this particular project.

As you may know, the Bank has authorized up to \$ 60,000 in technical assistance to aid in strengthening the ability of the Guatemalan Government to prepare agricultural projects. The government of Guatemala has also indicated to the Bank that it would be interested in receiving technical assistance in order to enhance its capacity to prepare industrial projects. In addition, the government of Guatemala is also requesting technical assistance in global and sectoral planning from the UNDP. Thus, the Bank is greatly interested in seeing that the National Planning Council, which would be the recipient of this proposed AID loan, coordinate the technical assistance it is currently receiving or applying for from AID, the Bank, and the UNDP so that these resources are used effectively.

Please let me know if I can be of any further assistance to you in this matter.

Sincerely yours,

Alfred C. Wolf
Program Advisor

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Assn Code 202 • Telephone: EXecutive 3 6370 • Call Address: INTBAFRAD

April 29, 1969

Mr. Jerzy Z. Mirski
Acting Assistant Director
Office of Development Resources
Bureau for Latin America
Agency for International Development
Washington, D.C., 20523

Dear Mr. Mirski:

I write to acknowledge receipt of your letter dated April 14, 1969, with which you attached preliminary comments from the USAID Mission in Guatemala regarding a proposal for a loan to assist in financing a feasibility studies and general surveys project.

While we are not interested in financing this project, I would like to convey our interest in the content of the studies proposed. I would, therefore, appreciate it if you would keep us informed of the progress of these studies as a number of them relate to projects that we either already have in our lending program, or are ones that affect institutions with whom we are working very closely.

With kind regards,

Sincerely yours,

A handwritten signature in black ink that reads "E. Peter Wright". The signature is written in a cursive style and is positioned to the right of the typed name.

E. Peter Wright
Deputy Director
Western Hemisphere Department

MINUTES

Export-Import Bank - AID Liaison Group

811 Vermont Avenue, N. W. - Room 1263

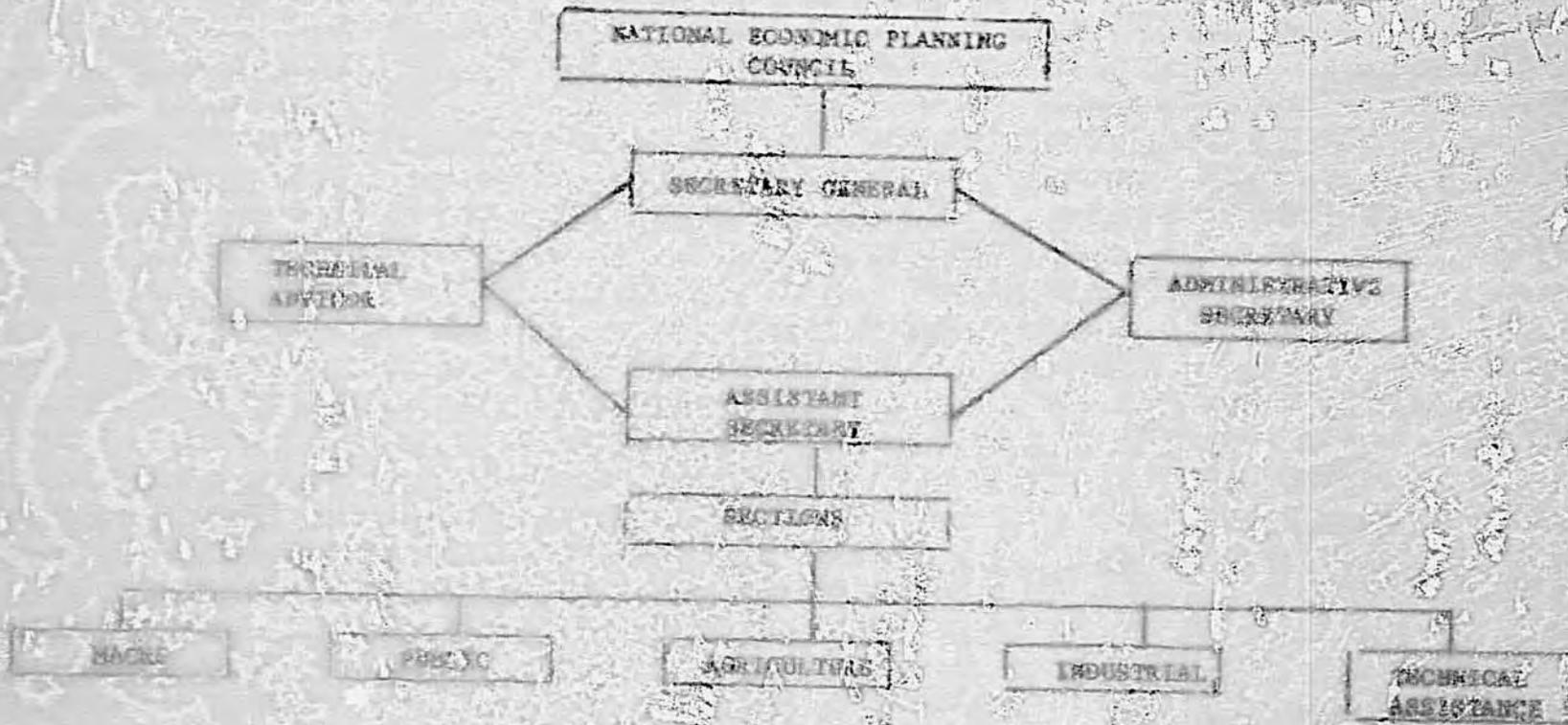
May 6, 1969

PRESENT: Export-Import Bank
Seymour Pollack

AID
Paul Boeker

Guatemala - Government of Guatemala \$1 million
(Feasibility Studies)

The Bank representative indicated that the Board had reviewed this proposal and decided that it was not interested in considering it due to the nature of the activities to be financed and the likelihood that the loan would be used in substantial part to cover local currency costs. (See agenda of 5-6-69)



MEMBERSHIP OF THE NATIONAL ECONOMIC PLANNING COUNCIL

BANKING INSTITUTIONS

PRESIDENT OF THE BANK
OF GUATEMALA

--
PRESIDENT OF THE
NATIONAL PRODUCTION
INSTITUTE

STATE MINISTRIES

AGRICULTURE
COMMUNICATIONS AND
PUBLIC WORKS
ECONOMY
PUBLIC EDUCATION
NATIONAL DEFENSE
INTERIOR
TREASURY
FOREIGN RELATIONS
PUBLIC HEALTH AND
SOCIAL WORK
LABOR

SPECIFIC MEMBERS

3 MEMBERS OF THE
EXECUTIVE

--
SECRETARY OF
SOCIAL WELFARE

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ANNEX II, Page 8 of II
Exhibit 8, Page 1 of 1

C U R R I C U L U M V I T A E

Licenciado Oscar de León Aragón

UNIVERSITY EXPERIENCE

Lawyer and Notary 1947

Masters Degree in Economics
University of Michigan (August 15, 1953)

Professorship in Economics, Administrative Law
and Public Finance, School of Legal and Social Sciences

Presently Part-time Professor, School of Legal and Social Sciences

Present Vice President of The Guatemalan College of Lawyers

PUBLICATIONS

United Fruit Company Contracts, and the Dockage Companies
in Guatemala. (1949)

Compendium of Central American Legislation about Stocks, Bonds,
and Corporations (1966)

OTHER EXPERIENCE

Congressman (1945-1947)

Labor Judge (1947-1949)

Legal Advisor to the Customs Service and Aviateca (1949-1950)

Interventor for International Railroads of Central America
(1953-1954)

Director of National Mortgage Bank representing the Banking
and Monetary Board (1954)

Legal Advisor to the Ad-hoc Commission for the Study of the
Stock Market in Central America (1964-1965)

Secretary General of the National Planning Council (1965-present)

DERIVATION OF IMPORT PROPENSITIES

I. Imports of U.S. Origin as % Total Guatemalan Imports

<u>Year</u>	<u>% of Market</u>
1965	42.0
1966	41.1
1967	40.5
1968 (1st. half)	<u>42.8</u>
Ave	41.6

II. Regression results over the 1956-1965 period give a marginal propensity to import out of GNP of .45. See Alan Cohen; El Desarrollo en Guatemala; (Guatemala: INAD, 1969).

III. CURRENT ACCOUNT BALANCE OF PAYMENTS
 (Millions of Quetzales)

<u>Year</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>	<u>Debit Credit</u>
1950	89.0	85.3	- 3.7	104.3
1951	92.2	90.1	- 2.1	102.4
1952	86.9	100.0	12.6	87.3
1953	100.5	104.5	4.0	96.2
1954	111.0	110.0	- 1.0	100.9
1955	118.1	115.3	- 2.9	102.5
1956	156.2	135.8	-20.4	115.0
1957	170.8	131.8	-39.6	129.0
1958	174.8	131.0	-43.8	133.4
1959	157.0	131.3	-25.7	119.6
1960	163.7	137.7	-26.0	118.9
1961	159.6	143.3	-16.3	111.4
1962	169.3	145.0	-24.2	116.7
1963	219.7	189.1	-30.6	116.2
1964	254.9	204.9	-50.0	124.4
1965	282.9	234.1	-48.8	120.8
1966	294.2	277.1	-17.1	106.2
1967 <u>1/</u>	318.1	250.1	-68.0	127.2
1968 <u>1/</u>	334.1	285.1	-48.9	117.2

1/ Preliminary

IV. The exchange expenditure to exchange earnings ratio, i.e. the debit/credit ratio, has average 1.2 in recent years.

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ANNEX II, Page 11 of 11
Exhibit 10, Page 2 of 2

The U.S. share of the Guatemalan import market is 42%.
Thus, the propensity to import U.S. goods and services
out of export earnings is $.42 \times 1.2 = .504$.

- V. The marginal propensity to import out of GNP is .45;
.45 times the U.S. market share of .42 gives the mar-
ginal propensity to consume U.S. goods out of GNP = .2

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AID 1240-2 (1-69)

June 23, 1969

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer, or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1968.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1969.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA 8.208; 8.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(1) The GOG is initiating substantial new programs designed to increase food production and improve food storage and distribution facilities. Two of the proposed sub-projects of this Loan, agricultural and export markets and production studies will have a direct bearing in increasing food production storage and distribution. (Part II-Sec. A2 and I B2).

(2) The steady flow of new plant investment with EXMIBAL's (International Nickel's) \$100-Million-plus project on Lake Izabal the largest single project, demonstrates that the GOG has created a favorable climate for foreign and domestic private enterprise and investment.

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ANNEX III, Page 2 of 19

AID 1240-2 (1-69)

(3) Increasing the public's role in the developmental process.

(3) The proposed studies (Part II Sec. B2a) will lead to improved planning and identification of worthwhile development projects that when implemented will have the effect of increasing the public's role in the developmental process (e.g., agricultural sector projects

(4) (a) Allocating available budgetary resources to development.

(4) The GOG allocates a significant portion of its national budget to activities related to development.

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 18.) and intervention in affairs of other free and independent nations. (See also Item No. 17.)

(b) Guatemala does not appear to be making unnecessary military expenditures nor preparing to intervene in the affairs of any other free and independent nation.

(5) Willing to contribute funds to the project or program.

(5) The GOG is making a cash contribution of \$225,000 annually for Planning Council operations. The non-availability of local or other financing and the importance of this program in the future development of Guatemala is a major justification for AID financing including local-currency financing. (Part II, Sec. IB4 and Sec. II B2 and 3).

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ANNEX III, Page 3 of 19

AID 1240-2 (1-69)

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

B. Are above factors taken into account in the furnishing of the subject assistance?

(6) Guatemala has initiated a long-range program of economic, social, and political reforms and is in the process of starting a 3-year tax improvement program assisted by another AID Loan (520-L-014).

(7) Guatemala has been adhering to the principles of the Act of Bogota and the Charter of Punta del Este.

(8) In following a course of political stability and attempting to promote econ. development, Guatemala is taking action to induce its own citizens to repatriate capital.

(9) The GOG has begun a comprehensive modernization and expansion of the entire educational system; has improved its public health services; is carrying out a program of public works, particularly water projects, in municipalities throughout the country; and is making a determined effort to see that the political campaigns underway continue in an orderly manner and lead to elections in March 1970.

B. Yes.

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AID 1240-2 (1-69)

Treatment of U.S. Citizens

2. FAA §.620(c). *If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*
 3. FAA §.620(e)(1). *If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*
 4. App. B.106. *If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U.S. citizens generally, what steps (will be) (have been) taken during loan negotiations to influence elimination of such distinctions?*
2. The Borrower is not known to be indebted to any U.S. citizen in any such manner.
 3. The GOG (including government agencies of subdivisions) has not taken any such action since January 1, 1962.
 4. No case is known of attempts by Guatemala to create such distinctions in the granting of rights to U.S. citizens.

AID 1240-2 (1-69)

6. FAA §.620(o); Fishermen's Protective Act. §.5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*

a. *has any deduction required by Fishermen's Protective Act been made?*

b. *has complete denial of assistance been considered by A.I.D. Administrator?*

5. The GOG has not sized or imposed any penalty or sanction against any U.S. fishing vessel on account of its fishing activities in international waters.

a. N.A.

b. N.A.

Relations with U.S. Government and Other Nations

6. FAA §.620(d). *If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?*

7. FAA §.620(j). *Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?*

6. This loan is not for a productive enterprise.

7. Guatemala has not permitted this and has taken adequate measures to prevent such damage or destruction.

AID 1240-2 (1-69)

8. FAA §.620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
8. The GOG has initiated this investment guaranty program.
9. FAA §.620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
9. No.
10. FAA §.620(t). *Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
10. Guatemala has maintained diplomatic relations with the U.S.
11. FAA §.620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?*
11. Guatemala is not delinquent on its UN obligations.
12. FAA §.620(a); App. §.107(a) and (b). *Does recipient country furnish assistance to Cuba, sell strategic material to Cuba, or permit ships or aircraft under its flag to carry cargoes to or from Cuba.*
12. Guatemala complies with sanctions against Cuba and has taken appropriate steps to prevent trade with Cuba.

AID 1240-2 (1-69)

13. FAA §.620(b). *If assistance is to a government, has Secretary of State determined that it is not controlled by the international Communist movement.* 13.. The Secretary has so determined.
14. FAA §.620(f), App. §.109. *Does recipient country have a communist government* 14. No.
15. FAA §.620(i). *Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression.* 15. No.
16. FAA §.620(n); App. 107(b) and 116. *Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?* 16. Available information reveals no case of trafficking or permitting of trafficking by Guatemala.
- Military Expenditures
17. FAA §.620(s). *What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? Is U.S. P.L. 480 or development assistance used for military purposes? Are country's resources devoted to unnecessary military expenditures to a degree which materially interferes with* 17. Approximately 8.8-10.8% of the budget goes for military expenditures. About 1.5% of foreign exchange resources is spent on military equipment. Guatemala has no P.L. 480 program. Considering the military needs of Guatemala, Guatemala does not appear to be devoting an unnecessary percentage of the national budget to defense.

AID 1240-2 (1-69)

its development? (Consideration of these points to be coordinated with PPC/MAS.)

17. FAA §.620(v). App. §.119. *How much spent by country during current U.S. fiscal year for sophisticated military equipment purchased since January 1, 1968? Has corresponding amount been deducted from current OYB, or is the weapons purchase determined by the President to be important to U.S. national security? (Responses to these questions to be coordinated with PPC/MAS.)*
18. Guatemala has purchased no sophisticated military equipment.

CONDITIONS OF THE LOAN

General Soundness

19. FAA §.201(d). *Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.*
19. The proposed Loan is legal under the laws of Guatemala and the US and its terms are reasonable for Guatemala at this time.
20. FAA §.251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner.*
20. The activity has been found economically and technically sound. (Part II, Secs. IC1 and LIC). Satisfactory assurances have been received that Loan funds will be used in an economically and technically sound manner.

.....

AID 1240-2 (1-69)

21. FAA §.251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
21. Guatemala is current in meeting its external debt service obligations. It appears reasonably certain that Guatemala will repay the Loan. The country's foreign exchange position warrants the conclusion that dollars will be available as needed for repayment (Part II Sec. II D4).
22. FAA §.611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
- 22(a) N.A. (b) A reasonable estimated of the cost to the U.S. of the activity to be financed has been obtained.
23. FAA §.611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?
- Congressional ratification is necessary. The stated interest of the COG in this project and the soft terms of the Loan are the bases for an expectation that ratification will be completed with reasonable promptness.
24. FAA §.611(e). If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
24. Yes, on May 23, 1969 (Annex I).
25. FAA §.251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
25. Financing for this activity is not available from other free-world sources including private sources within the U.S. (Part II. Sec. I B4, Sec. II D2, 3, 5).

AID 1240-2 (3-69)

Loan's Relationship to Achievement
of Country and Regional Goals

26. FAA §. 207; §. 251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.
26. (a) The effect on democratic economic political and social institutions is of an indirect nature. Identification of worthwhile development projects is a necessary precondition in the development of Title IX activities (Part II, Sec. 1A1, IB1C, IC1 and 2); (b) By identifying worthwhile projects in the agricultural sector; (c) By improving availability of trained manpower in development planning and implementation (Part II) and through the association of Guatemalan and U.S. consulting firms. (d) little direct effect; (e) Loan is expected to result in more effective and rational program development and implementation, thus positively affecting all these areas.
27. FAA §. 309. Is project susceptible of execution as part of regional project? If so why is project not so executed?
27. This project is consistent with the host country's development plan and the AID program (Part II Sec IC3), and its execution is essential to the realization of long-range development objectives (Part II Secs. IA1, IB1C, IC1 and 2).
28. FAA §. 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
28. This project is consistent with the host country's development plan and the AID program (Part II Sec IC3), and its execution is essential to the realization of long-range development objectives (Part II Secs. IA1, IB1C, IC1 and 2).

29. FAA §.281(d)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

29. Insofar as an improvement in development planning and implementation in Guatemala is essential to economic development this project will contribute to the achievement of self-sustaining growth.

30. FAA §.281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.

30. This may be an effect of specific projects brought into being through these studies.

31. FAA §.281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

31. The Studies to be initiated are for the purpose of identifying national needs and capacities, and to propose how to utilize Guatemala's resources on a priority basis.

AID 1240-2 (1-69)

32. FAA §.601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
32. (a) Studies will deal with Export Markets and Production, Chemical Industries, and Agricultural Marketing and Livestock. Findings could result in projects that will have significant effect on increasing international trade (Part II Sec. IE2 and IC4). (b) In identifying potential areas of investment, the loan contributes to fostering private initiative and competition. (c) Activities of these groups will increase insofar as financing is required for projects stemming from these studies. (d) See "b" above. (e) See response to No. 26. (f) N.A.
33. FAA §.619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
33. Guatemala is not a newly independent country.
34. FAA §.251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.
34. This activity is consistent with the findings and recommendations of CIAP in its 1969 review, which calls for more and better planning and project preparation. (Part II Sec. IC2).
35. FAA §.251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.
35. Some indirect assistance to the cooperative movement may occur in the rural development which should follow the studies on agricultural production and marketing.

AID 1240-2 (1-69)

36. FAA §.209; §.251(b)(8).
Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

36. No direct relevance; however to the extent that these studies help strengthen Guatemala economically, the project will help make economic and political integration feasible.

Loan's Effect on U.S. and A.I.D Program

37. FAA §.251(b)(6); §.102.
Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

37. This project will have no foreseeable adverse effects on the US economy or areas of labor surplus. Assistance will be furnished in a manner consistent with improving the US balance of payments position. Expansion of production as a result of these studies will create a greater demand for US capital goods. US balance of payments should receive further relief from the project as Guatemala's GNP increases (Part II Sec. IC1, 3, 4, and Sec. IID1, 36).

38. FAA §.601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

38. US private trade and investment abroad will be indirectly encouraged through development of additional possibilities via the import components of the projects identified by the studies, and the new areas open for investment.

AID 1240-2 (1-69)

39. FAA §.601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*
39. Yes; procurement of engineering and consultant services financed under the loan will be limited to the US and the CACM. (Part II, Sec. III-B-1).
40. FAA §.602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.*
40. Through the publication of proposed procurement in the Commerce Business Daily and AID Small Business Circular as specified in the AID Capital Projects Guidelines, US small business will be permitted to participate equitably in the furnishing of goods and services.
41. FAA §.620(h). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?*
41. The Loan Agreement will provide that assistance provided by this loan will not be used in a manner which promotes or assists foreign aid projects of communist bloc activities.
42. FAA §.621. *If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*
42. The Loan will finance the procurement of goods and services from private enterprises on a contract basis. No utilization of the services of other Federal Agencies is foreseen. (Part II, Secs. II-A and -B, and Part II, Sec. III-B).

AID 1240-2 (1-69)

43. FAA §.252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.
43. All the loan will finance procurement of goods and services from private organizations in the U.S. or CACM (Part II Sec. III-B-1).

Loan's Compliance with Specific Requirements

44. FAA §.201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?
44. Yes (Part I, 2).
45. FAA §.608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.
45. Loan agreement will so require.
46. FAA §.604(a); App. §.108. Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?
46. Procurement financed under the loan will be from the U.S. and CACM countries (Part I; Part II Sec. III-B-1).

AID 1240-2 (1-69)

47. FAA §.604(b). *What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?*
47. No bulk commodity procurement is contemplated under this loan.
48. FAA §.604(d). *If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?*
48. Guatemala does not so discriminate. The Loan Agreement will so provide.
49. FAA §.604(e). *If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?*
49. None anticipated.
50. FAA §.611(b); App. §.101. *If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?*
50. Loan is not for construction projects.
51. FAA §.611(c). *If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?*
51. No construction contracts will be financed.

AID 1240-2 (1-69)

52. FAA §.620(a). *What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?*
52. The Loan Agreement will preclude such use of loan funds.
53. FAA §.612(b); §.636(h). *Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.*
53. See Section II-D-3.
54. App. §.104. *Will any loan funds be used to pay pensions, etc., for military personnel?*
54. No.
55. App. §.111. *Compliance with requirements for security clearance of U.S. citizen contract personnel.*
55. These requirements will be complied with (Part II, Sec. III-B-1).

AID 1240-2 (1-69)

56. App. §.112. *If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?* 56. Yes (Part II Sec. III)
57. App. §.114. *Will any loan funds be used to pay U.N. assessments?* 57. No.
58. App. §.115. *Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).* 58. Reg. 7 will be complied with.
59. FAA §.636(i). *Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?* 59. No. (Part I)
60. App. §.401. *Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?* 60. No.

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AID 1240-2 (1-69)

ANNEX III, Page 19 of 19

61. FAA S.620(k). *If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?*

Not for purpose of construction of a productive enterprise.

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LOAN AUTHORIZATION

D R A F T

Provided from: Alliance for Progress Funds

GUATEMALA: Feasibility Studies and Surveys (Second)

Pursuant to the authority vested in the Deputy U.S. Coordinator, Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of Guatemala ("Borrower") of not to exceed two million United States dollars (\$2,000,000) to assist in financing the United States dollar and local currency costs of general surveys, pre-feasibility and feasibility studies which are included in the program of the National Economic Planning Council; this loan to be subject to the following terms and conditions:

1. Interest and Terms of Repayment:

- (a) Borrower shall repay the loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the loan interest of two percent (2%) per annum during the grace period and three percent (3%) thereafter.

2. Other Terms and Conditions:

- (a) Equipment, materials and services (except shipping and marine insurance) financed under the Loan shall have their origin in and be procured from the United States or the member countries of the Central American Common Market ("CACM"). Shipping financed under the Loan shall be procured from the

United States and marine insurance financed under the Loan shall be placed in the United States with a company authorized to do a marine insurance business in any state of the United States.

- (b) United States dollars utilized to finance local currency costs shall be made available through Special Letter of Credit procedures and shall be used only for procurement of equipment, materials, and services in the United States.
- (c) All projects shall be subject to prior A.I.D. approval.
- (d) Unless A.I.D. otherwise agrees in writing, A.I.D. and Borrower shall jointly hold a formal review and evaluation of the progress of the Project no later than twelve (12) months after execution of the Loan Agreement. Such reviews, unless otherwise agreed to in writing by A.I.D., will be held annually.
- (e) This loan will be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U.S. Coordinator
Alliance for Progress

Date