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ACTION MEMORANDUM FOR THE DEPUTY U.S. COORDINATOR

FROM : IA/DR, Frank B. Kimball *Frank B. Kimball*

SUBJECT: A.I.D. Loan 525-L-031 - University of Santa Maria La Antigua

Problem: Borrower has requested that the Loan Agreement be amended to provide for a reduction in the amount of the loan from \$1.3 million to \$1 million and in the amount of Borrower's contribution from \$575,000 to \$340,000. This reflects a proposed scaling down of the scope of the project from the four specialized buildings originally planned to a single, large all-purpose building containing the essential facilities for an acceptable academic program. The essential purposes of the project remain the same. An amended Loan Authorization is required before the Loan Agreement may be so amended.

Discussion: The GOP is cognizant of the need for another university to augment and complement the University of Panama. It has, therefore, supported USMA's past and present plans for expansion and has guaranteed the subject loan; we expect similar support in the future. The Embassy concurs in this evaluation. We shall obtain a reaffirmation of the GOP guaranty for the revised project and loan.

The University of Santa Maria La Antigua (USMA) has conceived this project as the first phase of a long-term comprehensive development program. The program, when eventually completed, will consist of 19 buildings with 29,000 square meters of floor area, and will accommodate an enrollment of 2,500 full-time resident students.

The original A.I.D. loan of \$1.3 million was signed in May, 1969, and provided for the construction of four buildings on a new 78.5 acre campus: a classroom building, science building, administration building, and student center. In addition, the loan provided for the cost of consultant services on higher education and business management. As its contribution to the project, the USMA was to invest \$940,000 of which \$575,000 was to be in the form of cash or materials. However, because the University was not able to provide its full contribution of \$575,000 in cash or materials, USAID gave notification of intention to terminate the loan on April 18, 1972. The notice contained a provision that if, at some future date, the University could demonstrate its ability to overcome its recurrent operating deficits and raise sufficient liquid capital to meet its part of a modified construction program, and could also demonstrate that the new facilities were economically viable, A.I.D. would consider a new loan application.

Since that time, USMA has reevaluated its financial situation, made some necessary administrative and organization changes, and improved the quality of its leadership. In June 1972, the University requested that the termination be held in abeyance, and consideration be given to a revision of the project. The loan was, therefore, not terminated.

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In its modified proposal, the technical assistance component of the original loan (already provided) remains essentially the same. USMA has reduced the scope of the project by postponing construction of those facilities that are not considered critical to maintaining an acceptable academic program: construction of the student center has been deferred and a single all-purpose building, substantially larger than the previously planned classroom building is planned for the necessary administrative, classroom, and laboratory space.

The following Table I shows the original project financial plan:

TABLE I

<u>ITEM</u>	<u>TOTAL COST</u>	<u>LOAN</u>	<u>USMA</u>
Technical Assist.	\$ 90,000	\$ 90,000	-
Land	340,000	-	\$ 340,000
Site Development	100,000	75,000	25,000
Building Construction	1,075,000	500,000	575,000
A&E Services	170,000	170,000	-
Furn. & Equip.	315,000	315,000	-
Contingencies	150,000	150,000	-
	<u>\$2,240,000</u>	<u>\$1,300,000</u>	<u>\$ 940,000</u>

The construction and related costs of the proposed facility to be financed under this modified project are tabulated in Table II below:

TABLE II

<u>ITEM</u>	<u>TOTAL COST</u>	<u>LOAN</u>	<u>TOTAL USMA</u>	<u>USMA*</u>
Technical Assist.	85,000	85,000	-	-
Land	271,000	-	271,000	271,000*
Site Development	167,000	76,000	91,000	25,000*
Bldg. Construc.	551,000	340,000	211,000	-
A&E Services	239,000	239,000	-	-
Furn. & Equip.	237,000	174,000	63,000	-
Contingencies	86,000	86,000	-	-
	<u>\$1,636,000</u>	<u>\$1,000,000</u>	<u>\$636,000</u>	<u>\$296,000*</u>

*Already owned or expended by USMA.

The USMA contribution still outstanding is, therefore, \$340,000.

It may be noted that, aside from a bookkeeping reallocation of site costs between land and site development, the major cost changes are: Building Construction, down \$524,000; Furniture and Equipment, down \$78,000; Contingencies, down \$64,000; and A&E, up \$69,000. This modified proposal will necessitate further loan disbursements of only \$743,000, because \$190,000 for A&E services and \$67,000 for technical assistance from the Southwest Alliance for Latin America (SALA) have already been incurred under the original loan.

Presented below is a revised table indicating USMA's primary and secondary resources available for this project. The table is based on the latest reports from the University regarding its current financial condition.

<u>Remaining USMA Contribution:</u>	<u>\$ 340,000</u>
<u>Primary Resources:</u>	
Cash Balances in Construction Fund - 11/30/72	\$102,000
German Bishops Cash Pledge	50,000
Firm Material Pledges	<u>132,000</u>
 Total Primary Resources:	 \$284,000
 Shortfall in Primary Resources:	 <u>56,000</u>
 <u>Supplementary Resources:</u>	
Banco Nacional Line of Credit (5 yrs. 8%)	\$300,000

The cash balances in the construction fund are pledged against a bank overdraft of \$92,000. The University plans to draw approximately \$200,000 of the Banco Nacional line of credit to: (1) finance repayment of the bank overdraft, thus releasing the funds in the construction account; (2) repay an outstanding short-term loan (\$49,000); and (3) provide the portion of USMA's local contribution requirement (\$56,000) not covered by the primary resources. USMA will still have a cushion of \$100,000 from the Banco Nacional line of credit which could be used to cover any pledge shortfall or cost overrun. However, the USAID does not expect any such occurrence in this instance, as all primary and secondary resources available to USMA are firm and the cost estimates have an adequate contingency factor built in.

Although the scope of the first phase of USMA's long-range construction program has been reduced, the original goals of the program have not been otherwise affected. USMA now plans to expand their educational facilities by constructing additional units as the need for them arises and as the University has the financial resources to pay for them.

USMA has programmed a three-phase building construction program to be performed at five year intervals beginning in 1978, utilizing its own funds and Banco Nacional credit. This will be possible because the University is projected to be in a substantially stronger position, both from a financial and a student enrollment standpoint. Debt servicing requirements after 1976 will consist of amortization of a loan for land purchase, the A.I.D. loan, and interest expenses on bonds for an annual total of \$82,000. Additional annual debt servicing capacity, subsequent to 1976, is calculated at \$112,000. Banco Nacional financing at 8%, five-year terms, of the science building in 1978, and additional buildings at five year intervals thereafter is possible, based on these financial resources. Additional resources to add a margin of safety would consist of increased revenues through expanded enrollment in the years subsequent to 1976 and increased annual cash and material donations above the currently estimated \$79,000. Although its budget and cash projections are tight, USAID believes that the University can continue to exist as a viable institution, and at the same time undertake the financial load resulting from construction of the new campus. The constructive cooperative attitude of the USMA people constitutes a major factor in this evaluation, along with its ability to run a reasonably effective and successful institution even under the present circumstances of an inadequate, overcrowded and poorly located building. Furthermore, in order to improve financial management and insure proper implementation of the project financial plan, the University will employ a capable business manager, whose salary will be payable for 18 months under the loan.

The \$300,000 in surplus loan funds will be deobligated.

In addition to reflecting the modifications of the loan, the attached amended Loan Authorization updates the original Authorization by untying to Code 941 countries and eliminating Special Letter of Credit procedures for local cost financing.

Recommendation: That you execute the attached Amended Loan Authorization and Delegation of Authority.

Attachments:

As stated

LA/DR:PWenger:em:4/10/73

Clearances:

LA/DR:MDagata(draft) MDagata

LA/DR:FWSchieck FWS

LA/DR:THazard(draft)

ARA/LA/PAN:RHechtman(draft)

ARA/LA/PAN:LJHorwitz(draft)

PPG/DPR:AHandly AHandly

GC/LA:BGair (phone)

SER/CONT:CFlinner(info)