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

PD-AAB-501-B

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AID-DLC/P-1073

February 13, 1973

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: CABEI: Highway Infrastructure Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$25,000,000 to the Central American Bank for Economic Integration to provide continuing support to the Central American Fund for Economic Integration in order to assist in financing the United States dollar and local currency costs of a program of regional highway construction and improvement.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Friday, February 16, 1973.

Rachel R. Agee  
Secretary  
Development Loan Committee

Attachments:

Summary and Recommendations  
Project Analysis  
ANNEXES I-XI

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Highway Infrastructure

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AID-DLC/P-1073  
February 13, 1973

CENTRAL AMERICAN FUND FOR ECONOMIC

HIGHWAY INFRASTRUCTURE

PART ONE - SUMMARY AND RECOMMENDATIONS

1. BORROWER:

The Borrower will be the Central American Bank for Economic Integration (CABEI), a multinational public development banking institution created by the governments of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua ("Member Countries"). The loan funds will be part of the Central American Fund for Economic Integration ("Fund"), established by CABEI Resolution AG-1/65 of April 10, 1965. The purpose of the Fund is to meet the investment needs of the public sector in order to promote and strengthen the economic integration and the balanced development of Central America.

2. LOAN:

Amount: Not to exceed twenty five million U.S. dollars (\$25,000,000).

Terms: Repayment in dollars within 40 years, including a grace period of 10 years, at an interest rate of 2% per annum during the grace period and 3% per annum thereafter.

3. PURPOSE: The purpose of the Program is to stimulate the further economic integration of Central America by promoting its physical integration. A regional transportation system, facilitating the movement of people and commerce between areas and

countries, is a pre-condition to economic integration and a stimulus to further integration. The Program provides for improving the existing regional highways and the construction of regional highways that will further integrate new areas with significant resources into Central American Common Market activities.

The proposed loan will also support CABEI and enable it to continue the planning, evaluating, financing and administering of infrastructure projects on the basis of regional needs. CABEI is the leading public financial institution in the region and one of the strongest cohesive forces in the Central American Common Market region.

Finally, the proposed loan will address one of the region's most pressing problems -- unemployment. The construction industry is a large employer of labor both directly and indirectly. The industry is beginning to show some signs of underutilized capacity. This loan will help maintain the capacity and skills built up over a period of years as a result of CABEI's expanded highway program.

#### 4. PROGRAM DESCRIPTION:

The Program consists of providing additional resources to CABEI to permit it to continue financing the Central American Regional Highway System. CABEI would utilize these resources to extend long term loans to member governments for the construction and improvement of eligible highway projects. The AID loan would finance dollar and local costs of engineering and construction services.

CABEI has presented an illustrative list of six projects for financing costing \$31.25 million. Two of the projects consist of major improvements to

the Interamerican Highway and the other four will open up major agricultural areas of regional importance and will be major highways of the future. All projects were originally recommended in the Central American Transportation Study 1964-1965 and have been subjected to either feasibility or pre-feasibility studies.

5. BACKGROUND:

Before the Common Market came into existence, the economy of each C. A. country was based on agricultural production geared to markets outside the region. As a result, the economic infrastructure, including the road system, was oriented to supporting the exploitation of a few rich agricultural areas and to facilitating commerce abroad. With the advent of the Common Market, intra-regional trade developed and boomed, from \$33 million in 1960 to \$299 million in 1970. In the process, the lack of an adequate regional road network was highlighted. An approach to the problem was made in 1963 when a regional system was officially established consisting of 13 highways. This was later expanded in a major study financed by AID (The Central American Transportation Study 1964-1965) to include roads into areas which were calculated to contribute to the progress of Central America as a region.

While the individual C. A. countries had assigned a high priority to a regional highway system, it became evident that construction and improvement of highways required heavy investments that would increase the demand on already strained national budgets. Consequently, CABEI initiated a program of regional project selection and construction based on loans from outside the region and contributions from the individual countries. This approach has been successful. The Fund for Economic Integration

was established in 1965. The fund has obtained six AID and IDB loans which, together with complementary internal financing, CABEI has used to finance 38 projects. All available funds are now committed. Although much has been done, many high priority road projects remain to be done. The proposed loan will permit CABEI to continue the road program until and IDB loan becomes available in 1975. This is planned to be the last A.I.D. highway loan.

6. TOTAL FUNDING:

The total program funding is as follows:

	<u>U.S.</u>	<u>Local</u>	<u>Total</u>
	(Millions of US\$ equivalents)		
AID Loan	16.80	8.20	25.00
CABEI Members	<u>-</u>	<u>6.25</u>	<u>6.25</u>
	16.80	14.45	31.25

The Central American Bank will contribute \$6.25 million by means of a new call of capital from the member countries. This contribution maintains the 1 for 4 ratio (\$1 in contribution for \$4 in loan funds) under the last AID and IDB infrastructure loans. The AID loan will also finance approximately 56% of the local costs of the Program.

7. ALTERNATIVE SOURCES:

In response to written inquiry, both the EXIM Bank and the IBRD replied that they were not interested in considering this loan. Extensive discussions have been held with the IDB in view of their current two-phase loan program to CABEI

for highway infrastructure. While the First Phase of their loan is committed, the IDB is not prepared to consider the Second Phase until 1975 and has no objection to AID proceeding in the interim.

The proposed AID loan will maintain CABEI's road program until the Second Phase IDB loan of \$15 million becomes available. Private lending is not available for Programs of this nature.

8. STATUTORY CRITERIA:

All statutory criteria have been met. (See Annex I).

9. VIEWS OF ROCAP:

ROCAP fully endorses this Program. One of the U.S. Government's basic policies in Central America is to foster the economic integration of the five countries of the CACM. This Program fully supports that policy.

10. LOAN ADMINISTRATION

Loan funds will be utilized to procure engineering or construction services from the U.S. or selected less developed countries (Code 941) and from the member countries.

Contracts will establish dollar costs and local currency costs. Disbursements for dollar costs will be made utilizing standard AID letter of commitment procedures. Disbursements of loan funds for local costs will be made in accordance with standard ROCAP procedures.

11. ISSUES:

A. BORDER CROSSINGS: There are at present two border

crossings (CA-3 and CA-6), both along the Honduras/Nicaragua border, involving AID-financed highways which do not permit the free flow of tourist and commercial traffic between the two countries. Consequently, the benefits (regional and local) anticipated in building the roads are not being obtained. Both countries point out that they do not yet have appropriate physical facilities to house customs and immigration personnel as well as the necessary legislation to designate the crossings as official points of entry. However, both are committed to correct this problem in the near future. CABI believes that the main problem is that the two governments did not face up the border-crossing situation on a timely basis. Consequently it is recommended that two conditions be included in the loan agreement to assist CABI in encouraging all governments to resolve this type of problem. The first requires that actions be initiated to establish an operational border point of entry/exit on existing roads prior to approval of any subloan to the country involved. The second condition requires that future subloans involving a border crossing provide for the establishment of an operational border point of entry/exit on a timely basis.

## 12. RECOMMENDATIONS:

On the basis of the Capital Assistance Committee conclusions that the Program is technically, economically, and financially sound, it is recommended that a loan to the Central American Bank for Economic Integration for an amount not to exceed \$25,000,000 be authorized subject to the following conditions:

a) Interest and Terms of Repayment

Borrower shall repay the loan to AID within forty (40) years from the first disbursement under the loan, including a grace period of ten (10) years. Borrower shall pay to AID in U.S. dollars on the disbursed balance of the loan interest of 2% per annum during the grace period and 3% per annum thereafter.

b) Conditions Precedent

1) Prior to the first disbursement or issuance of any commitment documents under the loan, except as A.I.D. may otherwise agree in writing, the Borrower shall furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(i) Evidence that Borrower has called an additional amount of authorized capital from the member countries of Borrower ("Member Countries") to contribute to the Fund the equivalent of six million two hundred fifty thousand U.S. dollars (\$6,250,000) to be utilized in carrying out the loan program ("Member Country Contribution").

(ii) Evidence that arrangements have been made between Borrower and Member Countries to pay their respective contribution to the Fund.

(iii) A revised and current detailed statement of any changes in the standards, policies and procedures presented pursuant to A.I.D. loan Agreement 596-I-003 Section 3.01(c) to be followed by Borrower in the administration of the Fund.

(iv) A detailed outline developed in consultation with the Central American Common Market Secretariat ("SEMIC") and approved by Borrower's Board of Directors, indicating the individual sub-project that have priority for financing with the proceeds of this loan.

2) Borrower shall in form and substance satisfactory to A.I.D. and prior to the signing of each subloan agreement or modification thereof, submit each subproject to A.I.D. for approval accompanied by:

(i) A certification that Borrower has found the project to be economically justified and technically sound and feasible after an objective and comprehensive appraisal of the subproject and that the Board of Directors of Borrower has approved the subloan; and

(ii) A sub-project execution plan and country maintenance program to be prepared by each sub-borrower.

(iii) For all sub-projects leading to or from a national border evidence that (a) appropriate arrangements have been made to provide customs and immigration facilities, and (b) the sub-borrower has initiated any other steps necessary, including legislative approval, to ensure the establishment of a fully operational border point of entry/exit upon completion of the sub-project.

(iv) A statement that the subloan agreement will include a covenant that the effect of the sub-project upon the natural environment shall be taken into consideration prior to, during, and after the implementation of the project, and that Borrower and the Member Country shall cooperate to minimize any harmful effects upon the environment.

c) Other Conditions

1) Except as A.I.D. may otherwise agree in writing, all initial subloan agreements for highways to be financed under this Loan shall be signed within 18 months from the date of signing of this Loan Agreement. The time limitation of this condition does not affect amendments to subloans under this Loan or previous A.I.D. integration loans.

a) Contributions

1) Except as A.I.D. may otherwise agree in writing, the ratio of A.I.D. funds to Member Country contributions which are allocated to and disbursed for each sub-project shall be at the rate of four (4) to one (1).

- 2) Member Country contributions to the Fund shall be freely available for all aspects of the Program.
- 3) Borrower shall continue to work in coordination with other regional institutions (i) to strengthen Member Country highway maintenance programs, (ii) to improve border crossing procedures, including effective measures which will reduce the time and costs of such crossings, and (iii) for the adoption of regional highway standards and weight control.
- 4) Borrower shall include in each subloan agreement covenants satisfactory to A.I.D. concerning Member Country highway maintenance programs, budgeting and execution capabilities of Highway Departments including acceptance of Borrower financed consultation services if required.
- 5) Unless A.I.D. otherwise agrees in writing, CABEI shall not approve any subloans to any sub-borrower who, having received previous financing from Borrower for a highway project directly leading to or from a national border, does not maintain a border point of entry/exit on such highway, until steps necessary to establish an operational border point of entry/exit have been initiated.
- 6) Borrower will submit to A.I.D., one year after meeting the conditions to initial disbursement and annually thereafter until the Loan is fully disbursed, a report on the actual progress of the program and an evaluation of its economic impact. Borrower also agrees to furnish to A.I.D. such evaluations of the economic impact of highways constructed with A.I.D. Loan Funds as A.I.D. may request during a five-year period after final disbursement under the Loan.
- 7) With a view toward achieving maximum employment in road construction in Central America, Borrower covenants that it shall, using funds other than loan funds or its contribution to the program, undertake a research project to determine the circumstances under which increased degrees of labor input relative to capital can be practically achieved in road construction in Central America consistent with sound technical criteria and acceptable costs. Borrower further covenants to submit the results of its findings to A.I.D. within one year from the date of signing of the Loan Agreement.

and, thereafter, to consult with A.I.D. on ways and means of undertaking a pilot project to test the research results and implementation proposals if such a pilot project is agreed by the parties to be feasible.

Capital Assistance Committee

Engineer: Robert Davis, ROCAP  
Economists: Robert Maushammer, USAID/H  
Clark Joel, ROCAP

Loan Officers: Robin Gomez, LA/DR  
Warren Wolff, ROCAP

Drafted by: Davis/Maushammer/Joel/Wolff/Gomez

January 31, 1973

Reviewed by: Donald Finberg, ROCAP/DD  
Robert R. Parker, ROCAP/ADO

Approved by: Oliver L. Sause, ROCAP/DIR

## PART TWO - PROJECT

### Section I. BACKGROUND

#### A. BORROWER

##### 1. Legal Status

CABEI is an autonomous international public development bank initially created in December 1960, by the governments of Guatemala, El Salvador, Honduras and Nicaragua. Subsequently, in July 1962, the Government of Costa Rica became a member of the Bank.

##### 2. Purpose

It was established by the five member governments of the CACM for the purpose of promoting and strengthening Central American economic integration and the balanced development of its member countries. To accomplish its purpose CABEI is undertaking and promoting investments in public infrastructure projects and in private industries that are regional in nature. Its activities have been broadened to include the financing of medium-income housing projects; and more recently, special emphasis is being given to non-traditional export industries and private tourism development.

##### 3. Organization and Management

CABEI is governed by the provisions of its Charter and By-Laws which establish its organizational functions. Its principal office is in Tegucigalpa, Honduras, with liaison offices in the other four CACM countries. The Bank currently has a permanent staff of 247 employees. A general description of the organizational structure of CABEI follows: (See Organization Chart and biographic data of Board Members; Annex II.)

a) Board of Governors

The highest authority of CABEI rests with its Board of Governors and consists of two representatives from each of the five member countries -- one, the Minister of Economic Affairs and the other the President or Manager of the Central Bank. The Board of Governors ordinarily meets once a year.

b) Board of Directors

The Board of Directors is the top executive and administrative body of CABEI. It consists of one director from each member country elected by the Board of Governors. The Directors are appointed for a term of five years and may be re-elected for successive terms. This Board is a continuing body and its members have offices in their own country and at the Bank's headquarters.

c) The President

The Board of Governors elects one Director to serve as President. He is the organization's legal representative and its highest-ranking officer. The office is currently held by Dr. Enrique Ortez Colindres, a highly respected Honduran lawyer, who was initially appointed to serve out an unexpired term in May 1968 and was elected in November of 1972. Prior to 1968 Dr. Ortez had served the Bank as Vice-President and Honduran Director.

d) The Vice-President/Director

The Vice-President is nominated by the President and appointed by the Board of Governors, and must be a member of the Board of Directors. He is the President's alternate. This position is currently held by Dr. Hector Villagrán, Guatemalan Director.

(ii) Industrial Department

Evaluates feasibility studies of industrial projects and supervises the execution of such projects and/or industry studies. Maintains statistical data on the various industrial activities in Central America and provides technical assistance to prospective borrowers in preparing loan applications.

(iii) Agricultural Department

Evaluates, promotes and supervises projects designed to hasten agricultural development of the region. Encourages the development of production, transport and storage. Seeks to stimulate agricultural trade within the member countries, exports outside the region and production of raw materials for CACM agro-industries.

(iv) Housing Department

Serves as a source of financing for Central American institutions engaged in home mortgage lending. Secures necessary resources to finance housing programs; promotes improvements to and expansion of the construction industry at regional level.

(v) Economic Research and Development Department

Compiles, collects and interprets basic Central American trade, economic and financial data. Responsible for maintaining connections with national planning institutions, development banks, financial institutions, chambers of commerce and industry, and other groups engaged in financial and economic affairs in the region. In order to promote regional economic activities; identifies and promotes investment opportunities in Central America with special emphasis on export diversification and tourism promotion, and provides information to investors from the

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region and abroad and to potential borrowers. The staff of this department now consists of two professional economists, two engineers, a chemist and various sub-professional assistants. It is being augmented by a food specialist, a project development officer and, of great importance, a tourism specialist.

(v1) Infrastructure Department

Responsible for managing the Central American Fund for Economic Integration. This department is staffed by eleven professional engineers, sub-professional support staff, an economist and an auditor. Projects financed by the Fund include all infrastructure projects of regional significance -- airports, roads, bridges, electric power plants, waterways, etc. The department handles all evaluation, planning, supervision and financial administration dealing with such projects. It also contributed greatly in developing the proposed loan and will have primary responsibility in executing the project.

- Offices

The following units report directly to the Offices of the President and Executive Vice-President.

(i) Administrative Office

The functions of this unit consists primarily of management activities such as purchasing, personnel management and other administrative matters.

(ii) Public Relations Office

Performs duties appropriate to the public relations function.

(iii) Secretariat Office

Organizes and exercises management control of document distribution and correspondence. Is responsible for administration of the library, central files and official records of CABEI.

(iv) Legal Affairs Office

Prepares legal reports, draws up contracts, opinions and other legal documents in connection with the operations of CABEI.

(v) Internal Audit

This unit reports to the Board of Directors and to the Offices of the President and Executive Vice-President. It verifies compliance with policy and procedure and audits the accounts and financial statements.

4. C.A. Fund for Economic Integration

The proposed loan will replenish the Bank's Central American Fund for Economic Integration ("the Fund"), established in March of 1963 by the Presidents of the Central American Republics and the President of the United States "for the purpose of fulfilling additional investment needs of the public sector which tend to promote and strengthen the economic integration and balanced development of Central America". According to the statute establishing the Fund, the Bank manages the Fund and exercises proprietary and other rights over its resources as a part of CABEI's general assets. The operations of the Fund are administered under separate guidelines and books (financial statements) from CABEI's other operations.

The Bank is authorized to administer the Fund with resources obtained from each member country and through

external borrowings. It may extend loans to member country governments in the following fields:

- a. Transportation.
- b. Telecommunications.
- c. Electric power generation and distribution and transmission lines interconnections.
- d. Infrastructure works or services for industrial development (industrial parks).
- e. Installations for technological education centers.
- f. Natural resources investigation and evaluation, including cadastral surveys.
- g. Storage of grain and other food products.
- h. Soil irrigation, drainage and conservation, including reforestation.
- i. Prevention and control of pests in agricultural and forestry production.
- j. Agricultural development, including colonization and settlement.
- k. Tourism development, and
- l. Other development fields agreed to by the member country governments, which tend to fulfill the objectives of the Fund.

CABEI's Infrastructure Department is responsible for reviewing and processing all loan requests received from member country governments for financing public investments and feasibility studies under the Fund, and for implementing and monitoring loans after they have been

authorized by the CABEI Board. CABEI will finance up to 100% of regional infrastructure projects. For such public sector financing the following loan terms will apply:

a. Interest Rates

- (i) Tourism infrastructure and highways: 5-1/4%.
- (ii) Electrification, telecommunications, silos, ports, international airports and higher education: 5-3/4%, or 1% above CABEI's cost of borrowed funds, whichever is higher.

b. Amortizations Terms

- (i) Tourism infrastructure and highways: 20 years including a five-year grace period on the repayment of principal. Under certain conditions when justified CABEI may extend loans up to 30 years.
- (ii) Electrification: 15 years including a four-year grace period.
- (iii) Telecommunications and silos: 12 years including a three-year grace period.
- (iv) Ports, airports and higher education; 20 years including a five-year grace period.

The Infrastructure Department determines project eligibility and examines and evaluates all loan applications in collaboration with other technical CABEI offices. Once an evaluation has been completed the project is submitted to the Board of Directors for final approval. Following is a typical list of the various actions which have to be taken by CABEI and the Member Countries to execute subloans and construction contracts:

- a. Submission of subloan application, and evaluation and preparation of technical data.

- b. Board of Director's resolution authorizing the subloan.
  - c. Preparation of draft loan agreement by CABEI's Legal Office.
  - d. Negotiation and signing of the subloan agreement.
  - e. Ratification by the Congress concerned of the signed loan agreement.
  - f. Selection of consultants to review plans and specifications and to supervise construction; prequalifications of contractors. Both of these steps are normally taken simultaneously and have to be approved by CABEI and ROCAP.
  - g. Review by the consultant of plans and specifications; call for tender, analysis of bids, recommended award, approval by CABEI and ROCAP.
  - h. Signing of the contract between the borrowing Government and successful bidder (contractor).
  - i. Mobilization by the contractor of equipment and preparation before start of construction.
- As a result of past delays in Member Country processing and implementation of infrastructure loans, CABEI now provides technical assistance to the Member Countries to accelerate the preparation of loan applications, bid documents and technical submissions, etc. This has actually reduced the processing time considerably.

**B. CABEI PERFORMANCE TO DATE**

**1. Lending Resources**

The source, composition and growth of CABEI's lending resources are shown in the following table (millions of US\$):

	<u>June 62</u>	<u>June 66</u>	<u>June 72</u>	<u>%</u>
AID Loans (and grants)	64.4	114.4	144.4 <sup>1/</sup>	44.7
IDB Loans	14.2	42.2	61.3	19.3
Lines of Credit	----	34.5	73.2	22.6
Paid-in Capital	17.0	22.0	32.0	9.9
Surplus/reserves	---- <sup>2/</sup>	---- <sup>2/</sup>	11.4	3.5
	<u>95.6</u>	<u>213.1</u>	<u>322.3</u>	<u>100.0</u>

1/ Includes \$1.9 million in grant funds.

2/ CABEI had accumulated losses of \$115,853 and \$44,508 in 1962 and 1966 respectively.

The AID and IDB loan categories are further broken down in Table I-4. The lines of credit are shown in Annex IV.

**2. Lending Activity**

Over the past eleven years of operation CABEI has approved 435 loans totalling \$27.8 million. During FY 72 CABEI approved 60 loans totalling \$61.6 million while in FY 71, the bank approved 80 loans totalling \$52.8 million. The bank has historically lent in three basic fields: industry, infrastructure and housing; and it processes loans through three funds each of which is administered separately and has its own accounting: (i) the Ordinary Fund for industrial, export-oriented, limited infrastructure and feasibility study projects, (ii) the Integration

TABLE I-1. ACCUMULATED APPROVED LOANS  
(6/30/81 = 6/30/72; US\$000)

Country	Sector						Total	%	
	Industrial		Infrastructure		Housing				
	No.	Amount	No.	Amount	No.	Amount			
Guatemala	50	20,165.7	14	42,295.0	5	2,025.0	75	64,485.7	27.7
El Salvador	45	14,857.6	17	29,872.8	3	2,411.0	65	47,141.4	23.8
Honduras	75	26,000.5	45	48,631.0	10	5,008.5	130	79,640.0	25.8
Nicaragua	59	25,738.7	22	30,324.3	6	4,257.2	87	60,320.2	21.2
Costa Rica	47	12,888.0	21	30,400.0	4	10,700.0	72	53,988.0	21.2
Central America									
America	216	110,420.5	119	171,424.1	30	24,401.1	415	306,245.7	100.0

Source: CIBSI

Fund for public infrastructure projects, and (iii) the Housing Fund for secondary mortgage market operations. The distribution of approved loans by field and country, are shown in Table I-1.

Overall, CIBSI has approved 216 industrial loans amounting to about \$103 million. The Bank estimates that this activity has generated about \$200 million in total private investment in the region during the past eleven years, \$177 million from sub-borrowers and \$103 million in loans from CIBSI. In addition, it provides 23,000 jobs and earnings/savings in foreign exchange amounting to \$148 million. During its eight years of activity in housing, CIBSI has approved 30 loans aggregating \$29.5 million, 62% of which was approved in the past two years. This activity has provided assistance to 27 mortgage financing institutions and resulted in the construction of 5,373 housing units. In the field of infrastructure CIBSI has approved 119 projects since inception amounting to \$196 million. As shown in Table I-2, this has been allocated primarily to highways - 75%, followed by telecommunications - 8%, and electric power 7%.

The Member Governments contribute about 25% of this amount, with the balance financed from external loans to CABEI, primarily from AID and IDB. Nineteen projects totalling \$40 million were approved in FY 72 in comparison to 15 projects for \$20 million in the previous fiscal year.

TABLE 1-2. INFRASTRUCTURE LOANS  
(US \$ Millions)

	No.	Amount	%
Highways	67	148.0 <sup>1)</sup>	75.7
Telecommunications	6	15.4	7.9
Electric Power	12	14.2	7.3
Canals	5	5.4	2.7
Ports	6	4.6 <sup>2)</sup>	2.4
Airports	5	2.9 <sup>3)</sup>	1.5
Education	5	1.7	.8
Drains	1	1.4 <sup>4)</sup>	.7
Reservoirs	6	1.2	.6
Others	4	1.0	.5
	<u>119</u>	<u>195.4</u>	<u>100.0</u>

1/ US\$ 1 million = 200,000,000  
2/ US\$ 1 million = 5,000,000,000  
3/ US\$ 1 million = 200,000,000  
4/ US\$ 1 million = 200,000,000

TABLE 1-3. ACCUMULATED DISBURSMENTS  
(6/30/62 = 6/30/72; US\$Mill)

	Estimated		Actual		Remaining		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Guatemala	22,710.0	16.7	22,329.0	22.1	2,385.0	22.8	27,024.0	22.0
El Salvador	22,722.0	20.7	9,390.0	9.3	2,000.0	22.0	27,022.0	22.0
Honduras	22,822.0	20.8	11,045.0	11.5	2,220.0	22.0	29,512.0	23.4
Nicaragua	22,770.7	20.8	10,450.0	12.0	2,700.0	22.0	29,970.7	24.3
Costa Rica	22,420.7	22.0	14,770.0	24.2	2,000.7	20.4	29,490.7	24.0
Others								
Total	72,225.6	100.0	58,024.0	100.0	14,305.7	100.0	72,225.6	100.0

Source: CABEI

### 3. Disbursements

During FY 72, disbursements totalled \$42.5 million, second only to the record year of FY 71 which saw \$47 million disbursed under unusual activity in the infrastructure sector. As shown in Table I-3, total disbursements since inception of the Bank amounted to \$193.5 million or approximately 60% of total approved loans. By field of lending the Bank has disbursed 74% of its approved industrial loans, 56% of approved housing loans and 52% of approved infrastructure loans.

### 4. Integration Fund Resources

The majority of CABEI's infrastructure projects have been financed from the Fund for Economic Integration. In the seven years of its operation the Fund has attracted external resources totalling \$119 million (3 AID loans - \$85.0 million and 3 IDB loans - \$34.1) and internal counter-part contribution from member countries of \$27.4 million. In addition, it has generated surplus/reserves of \$4.0 million, for a total resource base of \$150.5 million (see Annex VII, Item A for the present and future composition of Fund resources).

At the present moment, all the Fund's resources have been committed so that further lending activity will have to await new resources. The Bank has approved loans utilizing Fund resources as follows: 47 highway loans <sup>1/</sup> amounting to \$138.6 million, 2 airport loans for \$2.1 million, 1 inland waterway project for \$1.5 million, 1 port facilities project for \$3.1 million, 1 silo project for \$1.0 million and a power project for \$6.1 million. The precise status of the AID and IDB loans to the Fund, as well as other AID and IDB loans to the Bank is given in Table I-4.

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<sup>1/</sup> CABEI has approved a total of 67 highway loans (Table I-2); 47 of these from the Integration Fund and 20 from the Ordinary Fund.

Cumulative disbursements from the Fund as of June 1972 total \$76.4 million (Annex VII, Item A) or approximately 51% of subloan commitments, leaving \$74.0 million undisbursed. The Bank expects that \$57.9 million will be disbursed over the next 18 months, leaving \$2.5 million under present AID supported programs (008) and \$13.6 million under IDB and Fund programs. In analyzing Fund disbursements four facts stand out. The first is the long lead time before construction actually starts under approved loans because of the international nature of CABEI. As shown on page 9, a minimum period of eleven months elapses from the time a subloan is approved before construction starts. This is the time necessary to process an application, negotiate and sign a loan, and select a contractor. This lapse is even more significant when it is realized that the Fund has sharply increased its lending in the last 4 years - lending at an average annual rate of 19 loans or \$33 million versus 9 loans or \$16 million over the previous 4 years. Consequently, the bulk of its approved loans have or are just entering their full disbursement phase. This lead time is also an important consideration in CABEI planning because it means that the Bank, once it has an assured source of lending resources, must plan its construction program at least 1 year ahead. Secondly, public infrastructure projects require long construction periods in comparison to housing or industrial projects and disbursements are tied to progress payments under construction contracts. Thirdly, the existing loans will have been significantly drawn down in the next 18 months just when the proposed loan will enter into full disbursement. Fourthly, the disbursements rate has increased significantly over the last 4 years as follows (million of US\$):

<u>Cumulative to</u> <u>June 1968</u>	<u>Annual</u> <u>1968/69</u>	<u>Annual</u> <u>1969/70</u>	<u>Annual</u> <u>1970/71</u>	<u>Annual</u> <u>1972/73</u>
10.3	11.3	17.9	35.6	25.9

Consequently, while a significant pipeline, in terms of undisbursed funds, exists, it does not appear unreasonable

TABLE I-4. STATUS OF AID IDB LOANS - As of October 31, 1972 - (In Millions of US\$)

	Authorized Amount		Committed Amt. %		Uncommitted Amt. %		Disbursed <sup>1/</sup> Amt. %		Undisbursed Amt. %	
<u>AID/CABEI: Integration Fund Loans</u>										
006 Infrastructure	\$ 35.0		\$ 35.0	100	---	---				
007 Infrastructure	20.0		20.0	100	---	---	\$34.0	97	\$ 1.0	3
008 Infrastructure	30.0		30.0	100 <sup>2/</sup>	---	---	13.1	66	6.9	34
Total Integration Fund	\$ 85.0		\$ 85.0	100%	---	---	7.0	23	23.0	77
<u>AID, CABEI: Other Loans</u>										
001 Industrial Relending	\$ 5.0		\$ 5.0	100	---	---				
002 Feasibility Studies	2.5		2.5	100	---	---	\$ 5.0	100	---	---
003 Housing	10.0		10.0	100	---	---	2.5	100	---	---
004 Industrial Relending	10.0		10.0	100	---	---	10.0	100	---	---
010 Export and Tourism	30.0		14.3	48	---	---	10.0	100	---	---
Total AID/CABEI Loans	\$142.5		\$126.8	89%	\$15.7	11%	2.9	10	\$27.1	90
<u>IDB/CABEI: Integration Fund Loans</u>										
8/CD Infrastructure	\$ 2.6		\$ 2.6	100	---	---				
132/SF Infrastructure	11.5		11.5	100	---	---	\$ .1	4	\$ 2.5	96
284/SF Infrastructure	20.0		19.7	98	---	---	8.8	77	2.6	13
Total Integration Fund	\$ 34.1		\$ 33.8	99%	\$ .3	2	1.0	5	19.0	95
<u>IDB/CABEI: Other Loans</u>										
33/SF Industrial Credit	\$ 6.0		\$ 6.0	100	---	---				
50/SF Industrial Credit	8.2		8.2	100	---	---	\$ 6.0	100	---	---
93/SF Feasibility Studies	3.0		3.0	100	---	---	8.2	100	---	---
152/OC Industrial Credit	10.0		10.0	100	---	---	3.0	100	---	---
Total IDB/CABEI Loans	\$ 61.3		\$61.0	99%	\$ .3	1%	7.2	72	2.8	28
							\$34.4	56%	\$26.9	44%

<sup>1/</sup> As of September 30, 1972.

<sup>2/</sup> \$2.6 million has not been formally approved by CABEI Board, but projects have been selected and for practical purposes loan is 100% committed.

given the nature of the projects and the lead times involved. It compares with disbursements rates of other international lending agencies. This is not to say that the Bank will not have to maintain a watchful eye on the situation and continue to provide assistance when required to keep their sub-projects moving.

5. Capacity of CABEI

CABEI has established itself within a relatively short period of time as an important and highly regarded regional development banking institution. As outlined in Section V, the Bank as of June 30, 1972 had assets of \$197.5 million, cumulative net earnings of \$11.4 million, and an outstanding loan portfolio of \$156.5 million. The Bank, and more specifically the Infrastructure Department through the Integration Fund, has had extensive highway lending experience - 47 projects totalling \$138.6 million. It has demonstrated ability to plan, elaborate and supervise projects. When problems have inevitably arisen, the Bank has worked actively with the governments involved to find solutions. At the same time the Bank enjoys an excellent reputation throughout Central America and has clearly gained the confidence of its member governments as demonstrated by the not insubstantial financial support they have provided to the Bank. In FY 1972 AID conducted a major audit of the Bank's activities, the emphasis being placed on CABEI management capacity and utilization of AID loan funds rather than on verifying the accuracy of its financial accounts. (This is performed adequately each year by Price Waterhouse and Company, CABEI's Auditors, who have given an unqualified opinion of CABEI's financial statements since 1967.)

The AID Audit (Report No. 1-596-72-57 dated January 13, 1972) gave a clean bill of health to the Bank and had this to say concerning the Bank's infrastructure activities:

"As of June 30, 1971, CABEI had made available to the CACM countries \$122 million for the financing of 32 infrastructure projects, of which \$58 million had been disbursed. Prior to 1966, the amount which had been loaned totalled only \$3 million. This indicates a clear index of the increased growth in recent years for infrastructure loans. As of June 30, 1971, CABEI's financing of regional infrastructure projects represented 48 percent of the total investment of on-going infrastructure projects in the CACM countries.

"The infrastructure projects financed through CABEI have made a substantial contribution to the development of the CACM countries. The CACM countries will ultimately have an interconnecting network of primary highways. At the time of our audit, 200 kilometers of highways had been completed and 800 kilometers were under construction. In addition, other projects are currently in process in such areas as electric energy, seaports, airports, canals, grain silos, railroads and aerial navigation.

"The Infrastructure Department of CABEI is heavily oriented towards the development function. Five supervisory engineers are assigned to the department to assist in the planning, design and supervision of infrastructure projects. Three technical advisors, who report directly to the President of CABEI, are primarily charged with the planning of future infrastructure programs for CACM countries. The Infrastructure Department maintains a continuous surveillance of on-going projects through engineers from the headquarters office in Tegucigalpa and from the Branch Office in El Salvador. On site supervisory and monitoring inspections of infrastructure projects average about ten visits per year. The technical assistance made available by ROCAP and CABEI has, we believe, made a significant contribution to the development of the infrastructure projects in Central America."

The Audit contained a number of specific recommendations all of which were responded to and satisfactorily cleared. The responses are contained in ROCAP's report dated July 25, 1972.

CABEI has averaged an annual approval rate of 19 infrastructure projects for \$33 million during the past four years. This compares with an annual average of 9 projects for \$16 million over the previous four-year period.

As stated previously, the Integration Fund's resources of \$119 million are totally committed. Sub-loans are now in the disbursement phase. Disbursements during the past two years reached \$61.5 million which amounts to 62% of total infrastructure disbursements. This work is handled by the Infrastructure Department which consists of eleven professional engineers, sub-professional support staff, an economist and an auditor.

Thus, the proposed \$31.25 million Highway and the \$20 million Tourism Infrastructure loan programs are well timed in that they give the Bank's experienced Infrastructure Department the necessary resources to maintain the momentum of its current level of sub-loan activity. The five-year projections (Annex III, Exhibit 2, Item C) of the Fund show that CABEI expects to commit and disburse \$68 million in new sub-loan activity, \$51.25 million under A.I.D. programs and \$17 million from other resources (largely IDB) to continue the financing of the Regional Highway Network. Considering that the Bank committed about \$60 million over the past two years alone (\$20 million in FY 71 and \$40 million in FY 72), CABEI and ROCAP consider the present staffing of the Infrastructure Department to be adequate to administer the two new A.I.D. loans.

The responsibility for implementing the Tourism Infrastructure Loan will be shared by the Infrastructure Department and the Economic Research and Development Departments. The latter currently consists of two economists, two engineers, a chemist and various sub-professional assistants. CABEI is adding two new positions to this staff, a Project Development Officer and a Tourism Specialist, to take on the additional work load of the Tourism Loan. CABEI has also established a Tourism Executive Committee, consisting of the Executive Vice President, the Legal Counsel and Heads of the Infrastructure and Economic Research and Development Departments. The Committee will focus on all aspects of this new activity giving special attention to staffing needs.

Lastly, CABEI is well aware of the importance of adequate staffing, and is continually adding new personnel on all levels as it takes on new programs. To illustrate, the number of CABEI employees increased from 168 in 1968 to 247 in 1973 representing a 47% increase over the past five years.

Section II - THE PROGRAM

A. GENESIS

Since the creation of the Integration Fund for Economic Development in 1965, CABEI has obtained \$119 million in external loan resources for the Fund to finance regional infrastructure projects. These include three AID loans and three IDB loans. The remaining uncommitted funds under the last AID loan (signed April 1969) and under the last IDB loan (IDB 280/SF-CA, signed May 1971) were committed in approved subloans<sup>1/</sup> in July of 1972. This last IDB loan had been negotiated with an informal understanding that there would be a Second Phase consisting of \$15.0 million providing that several conditions<sup>2/</sup> relating to the First Phase had been met. While it was recognized that two of the conditions--the 60% disbursement target and completion of the Transportation Study--would delay the timing of CABEI's highway program, the Bank had had expectations that

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<sup>1/</sup> Except for \$2.6 million of the AID loan which had not received formal Board approval and \$400,000 under the IDB loan. (See Section I.B.4).

<sup>2/</sup> The five conditions are not found in the loan agreement but are contained in the internal IDB loan paper and have been communicated to CABEI informally in meetings. Summarized they are:

- (i) All conditions of First Phase fulfilled.
- (ii) The First Phase must be 100% committed.
- (iii) The First Phase must be 60% disbursed.
- (iv) The updating of the C.A. Transportation Study must be completed.
- (v) Adequate provision must be made for Second Phase member country contribution.

once substantial progress was made in the program and all other conditions met, these two conditions could be modified. Therefore, ROCAP initially considered a fourth AID loan for FY 74 based on the expectation that funds under the Second Phase of the IDB loan would be available. It became clear in September 1972 that the IDB would not modify these two conditions and that there would be a delay until 1975 before the Second Phase would be considered. Consequently, there would be a lapse of some 35 months (24 months until the Second Phase loan agreement is signed and 11 months for processing sub-loan agreements and selecting contractors) before construction could be initiated again for new highway projects. CABEI then decided to advance their request to AID for a new loan to cover the gap until the IDB resources become available. ROCAP subsequently submitted an IRR in November 1972.

B. DESCRIPTION

The program consists of providing additional resources to the Central American Fund for Economic Integration to continue financing the C.A. regional highway system. CABEI would utilize these resources to extend long term loans to member governments for the construction and improvement of eligible highways. The AID loan would finance dollar and local costs of engineering and construction services.

In order to be able to respond to the high priority assigned to the regional highway program by its member countries, CABEI has undertaken since the mid-1960's an intensive program of project identification, study and elaboration, coupled with promotion of both regional and outside financing. As a result, the Bank has on hand some twenty-five highway projects totalling close to \$100 million available for financing. The loan program calls for the execution of six high priority projects with a total cost of \$31.25 million

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which have been tentatively identified. All are projects or segments of road projects recommended in the C. A. Transportation Study 1964-1965. Prefeasibility or feasibility studies have been carried out on all projects. They are:

<u>Country</u>	<u>Project</u>	<u>Cost (Millions SUS)</u>		
		<u>Total</u>	<u>Local</u>	<u>Foreign</u>
GUATEMALA	Morales/San Felipe/Modesto Méndez	3.50	1.75	1.75
EL SALVADOR	San Salvador/Río Lempa	6.30	2.50	3.80
HONDURAS	La Ceiba/Elíxir	8.50	4.25	4.35
NICARAGUA	Las Mercedes/San Benito	3.00	1.40	1.60
NICARAGUA	Acoyapa/Km. 60	4.00	1.20	2.80
COSTA RICA	Costanera Sur: Agujas/Loma	5.95	3.35	2.60
TOTAL		31.25	14.45	16.80

- Morales/San Felipe/Modesto Méndez - Guatemala - CA-13  
The project consists in paving 68.3 kilometers of a two lane highway linking San Felipe and the river port of Modesto Méndez with CA-9 at Morales.
- San Salvador/Río Lempa - El Salvador - CA-1. The project consists of the relocation, improvement and paving of 82 kilometers of a two lane segment of the Interamerican Highway.
- La Ceiba/Elíxir - Honduras - CA-13. The project consists of reconstruction of 38 kilometers, new construction of 37 kilometers and paving of all 75 kilometers of the regional highway CA-13 linking Elíxir with La Ceiba.
- Las Mercedes/San Benito - Nicaragua - CA-1. The project consists in the relocation and paving of 22 kilometers of the Interamerican Highway between Las Mercedes, outside of Managua, and San Benito.

- Acoyapa/Km. 60 - Nicaragua. The project consists of the construction of 65 kilometers of a new all-weather road from Acoyapa to the Teperaguzapan River along the north coast of Lake Nicaragua.

- Agujas/Loma - Costa Rica. The project consists of constructing a 47 kilometer segment of all-weather road forming part of the Southern Coastal Highway which serves as an alternate route to the Inter-american Highway between Esparta and Palma Sur.

The six projects are in the process of being analyzed by AID, and the Bank. In addition CABEI is requesting specific endorsement of each subloan project by the Member Country involved. Any project not meeting either the Bank's or AID standards or which can not be finalized in a timely manner will be eliminated and an alternative selected. Final approval by AID of a project for financing under the loan will be a condition precedent to commitment of loan funds utilizing the same procedure now employed under Loan 008. In addition to the above projects eight alternatives amounting to \$27.60 million have been preliminarily identified (see Annex VII, Item I).

### C. PROJECT SELECTION

The foundations of the C.A. Highway System were established in a regional meeting of Ministers of Economy and of Public Works in Guatemala in 1963. Thirteen highways in five countries totaling 5,550 kilometers were designated Central American Highways (CA). In 1964 and 1965, CABEI sponsored an integrated study, financed by AID, of the Central American transportation sector - the Central American Transportation Study 1964-1965. This amplified the original system to include roads that open up an isolated area and in a major way contribute to the progress of Central America as a whole. The study also recommended 71 specific

projects. Based on the study, CABEI added 10 more highways (each of which is recommended in the study) to the original thirteen. In addition, CABEI examines proposals from member governments and from SIECA. In determining the eligibility of these last projects for financing as regional highways, CABEI has established the following criteria:

- i) Highways crossing a border and linking two or more countries.
- ii) National highways whose traffic is substantially affected by the activities of the Common Market.
- iii) Highways located in areas of a country that should be integrated into the Central American economy.
- iv) National Highways that link areas of substantial national resources, whose exploitation would have a direct impact on the Central American Common Market.
- v) National highways that connect the regional highway system with major ports.

The above criteria reflect the fact that a large element of judgment enters into the determination of a project as having regional significance as opposed to only local impact. There exists no clear cut answer for making such a determination. In effect, the Central Americans, through the Board of Directors of CABEI, determine what is regional.

As a practical matter, however, and as can be seen in Table II, all of CABEI's highway construction projects have been selected from among those in the C.A. Transportation Study. In addition, the proposals and feasibility studies will be carefully reviewed by ROCAP and will be subject to ROCAP approval prior to authorization by CABEI. In line with the Program Rationale (see Section III-D), ROCAP will exercise approval authority consistent with one of the following criteria:

1. The proposed road must be an essential element in the development of new lands or resources--agricultural, livestock, mineral, tourism or industrial--having high potential regional significance.

2. The proposed construction of any new integration road must be justified in terms of inability of the existing road network to carry the growing traffic load; or in terms of substantial savings in user costs.

3. To qualify for reconstruction or improvement, the road must be a section of an existing integration highway; or alternatively, the feasibility study must establish that the reconstruction will promote the development of new lands or resources in accordance with criterion 1.

D. STATUS OF ROAD PROGRAM

The status of the Central American Highway System is given in Table II-1. The length of the system currently totals 7,289 kilometers of which 5,195 kilometers or 71% are considered "in service" (all-weather road). Some 202 kilometers were being improved with another 711 kilometers requiring improvement. Under construction were another 985 kilometers with studies completed or underway for another 1,712 kilometers. Of the original 13 highways consisting of 5,550 kilometers in 1963, 4,721 kilometers or 85% are considered "in service".

The current status of CABEI road construction program (as of December 1972) can be seen in Table II.2. The Bank has financed 31 projects <sup>3/</sup> costing \$136.7 million and involving 1,296 kilometers. Twelve projects totaling 580 kilometers have been completed. Another 13 projects amounting to 571 kilometers are under construction, and 5 projects totaling 134 kilometers are in the preconstruction phase. It is interesting to note that in FY 1966, CABEI had one active project (construction and preconstruction) of 11 kilometers. The Bank gradually

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<sup>3/</sup> These are road projects which in many cases are each made up of several subloans. In addition, loans for feasibility studies and highway marking/control devices are not included. Consequently, there will be a difference here with number of projects and amounts indicated in other sections.

built the road program up over the next 5 years so that in FY 1971 it had 24 active projects totaling 1,047 kilometers. A detailed breakdown of the AID-financed projects is given in Annex VIII.

As can be seen in Table II-1, the timing of the proposed loan is excellent. By June 1973, six more projects will have been terminated. The five projects currently in the preconstruction phase will by then move into their construction phase. The proposed AID loan will then be available for making new loans, followed in 1975 by the Second Phase of IDB 280/SF-CA.

TABLE II-1 STATUS OF THE CENTRAL AMERICAN REGIONAL HIGHWAY SYSTEM  
May 1972 (Kilometers)

Road	Total Length	Length in Service	U/Improve ment	Req. in Movement	In cons truction	In Study
CA-1	2,000	2,000	155	452	413	-
CA-2	622	622	-	40	-	-
CA-3	239	239	-	-	45	-
CA-4	386	386	-	-	-	-
CA-5	439	439	-	155	-	-
CA-6	189	99	-	-	-	90
CA-7	203	-	-	-	39	75
CA-8	149	149	-	-	-	-
CA-9	414	414	-	-	-	-
CA-10	116	116	-	-	-	-
CA-11	121	-	-	-	-	121
CA-11-A	158	-	-	-	-	158
CA-12	122	57	-	-	65	-
CA-13	392	209	-	-	155	33
CA-14	129	99	-	-	80	-
CA-15	450	-	-	-	-	450
CA-16	255	255	-	-	129	-
CA-17	170	111	47	64	59	90
Acoyapa-San Carlos	130	-	-	-	-	130
Tuma-Siuna	120	-	-	-	-	120
Naranjo-Los Chiles	140	-	-	-	-	140
Costanera Sur	240	-	-	-	-	240
Morales-Modesto Méndez	65	-	-	-	-	65
San Felipe-Estor	40	-	-	-	-	-
	7,289	5,195	202	711	985	1,712

Source: CABEI

**TABLE II-2 PRESENT STATUS OF HIGHWAY PROGRAM**  
**CENTRAL AMERICAN FUND FOR ECONOMIC INTEGRATION**  
 December 31, 1972

Road	Project	Funds	Country	Length Kms.	Millions	Start	Comple- tion
<b>COMPLETED PROJECTS</b>							
CA-1	Portazuelo-Las Mercedes	IDB	Nicaragua	7	1.5	Apr-60	May-71
CA-1	La Unión-Front, Honduras	AID	El Salvador	41	2.4	May-69	May-72
CA-1	El Coco San Ramón, S. III	AID	Costa Rica	43	14.1	Feb-69	Dec-72
CA-3	Pto. Real-F, Hond, S. I-II	AID	Nicaragua	43	4.2	Mar-66	Oct-69
CA-3	Pto. R. Guasale	AID	Hond-Nic	-	0.2	Jan-70	Oct-70
CA-3	Cholet-Front, Nicaragua	AID	Honduras	45	3.3	Mar-70	May-72
CA-6	Ocotal-Las Manos	AID	Nicaragua	24	3.3	Nov-69	Jan-72
CA-10	Ocot. -Front, Guatemala	AID	Honduras	22	2.7	Jan-69	Dec-71
CA-12	Padre Miguel-Anguatú	IDB	Guatemala	22	3.5	Aug-68	Jan-70
CA-13	Tela-La Ceiba, Sec. I	AID	Honduras	100	11.5	Jan-69	May-72
CA-14	El Rancho-S. A. Elena- Cobán-Salamá (Pav.)	AID	Guatemala	106	17.0	Dec-66	Jan-72
CA-16	San Benito-Runa, Sec. I Pav.	AID	Nicaragua	87	2.4	Dec-68	Jan-70
				<u>590</u>	<u>69.2</u>		
<b>PROJECTS IN CONSTRUCTION</b>							
CA-1	S. Benito-San Benito	IDB	Nicaragua	69	4.8	Aug-72	35%
CA-1	La Cuchilla-Km. 35	AID	El Salvador	13	2.9	Jan-70	95%
CA-1	Km. 35-El Portazuelo (Grage)	IDB	El Salvador	32	4.6	Jul-71	80%
CA-1	Arizono-H. Arizono	AID	Costa Rica	42	4.3	Oct-70	70%
CA-1	Río Negro-Arizona	AID	Costa Rica	27	1.8	Aug-71	65%
CA-6	Danií-Las Manos	AID	Honduras	34	2.1	Apr-70	95%
CA-6	Teg-Danií, Sec. II	AID	Honduras	27	3.2	Jan-72	28%
CA-7	Gotera-Portavieja	AID	El Salvador	39	4.6	Jul-71	80%
CA-12	Santa Ana-Anguatú	IDB	El Salvador	65	4.0	Feb-72	36%
CA-13	Pto. Cortés-F, Guatemala	IDB	Honduras	59	5.6	Jan-69	80%
CA-14	S. A. Elena-Cobán (Pav)	AID	Guatemala	(40)	3.9	Mar-72	28%
CA-16	San Benito-Runa S. II	AID	Nicaragua	67	2.7	Jan-72	85%
CA-16	San Benito-Runa S. III	AID	Nicaragua	40	3.3	Mar-72	35%
				<u>571</u>	<u>44.1</u>		
<b>PROJECTS IN PRE-CONSTRUCTION</b>							
CA-1	Liberia-Penas Blancas	IDB	Costa Rica	77	4.6	Feb-73	
CA-1	Corridoral-Tres Rios	IDB	Costa Rica	7	4.9	Mar-73	
CA-1/3	Interconexión CA-1/CA-3	CABEI	Guatemala	11	5.5	Apr-73	
CA-6	Teg-Danií, Sec. III & Sec. I	AID	Honduras	62	3.4	Feb/Jun-73	
CA-13	Entre Rios-F Road.	IDB	Guatemala	21	1.0	Feb-73	
				<u>188</u>	<u>22.4</u>		

Section III - ECONOMIC ANALYSIS

A. CENTRAL AMERICAN ECONOMY<sup>4/</sup>

1. Trends in output and incomes

The formation of the Central American Common Market in the late 1950's was followed by a period of rapid economic growth. The GDP for all Central American countries combined increased at an average annual compound rate of 6% (in constant 1960 prices) over 1960-66, which compares with an average annual rate of growth of only 4.8% over 1955-60. This rapid growth is attributed in large part to the stimulus provided by the CACM to intraregional trade, the development of a manufacturing industry in Central America, the stimulus to foreign and domestic investment provided by the formation of the Common Market and to the rapid increase in the quantity and value of the area's exports of primary products.

There has been some deceleration in the growth rate of GDP over 1966-71 as compared with 1960-66. The average annual compound growth rate, measured in terms of constant 1960 prices, declined from 6.0% during 1960-66 to 5.4% over 1966-71. The growth rate of real per capita income declined from an average annual rate of 2.6% to 2.1% between these periods. However, the growth performance was far from uniform among the five countries. The average annual growth rate of real per capita income over 1969-71, for example, ranges from a very low of 0.2% in El Salvador to a relatively high 2.4% in Costa Rica and 3.0% in Guatemala.

Looking at the growth trend over the last five years (1966-71), it was found that value added by manufacturing industry, public utilities and banking have grown more

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<sup>4/</sup> See Annex V for tabular data.

rapidly than the GDP, while the agricultural sector has grown somewhat more slowly. Specifically, value added by agriculture increased at an average annual rate of only 4.4%, compared with 7.1% for manufacturing industry. The slower relative growth of agriculture, still the employer of about two thirds of the region's labor force, suggests that economic growth may have been accompanied by a widening disparity of incomes during the last decade.

The development of manufacturing industry since the formation of the CACM has been remarkable. Over the eleven year period 1960-1971, value added by manufacturing has increased much more rapidly than GDP (8.3% versus 5.7% a year). As a result, the proportion of value added by manufacturing to the GDP has increased from 13.2% in 1960 to 17.2% in 1971. Here again, there has been a deceleration in the growth rate in recent years. Value added by manufacturing increased at an average annual rate of 9.3% over 1960-66 and fell back to 7.9% over 1966-69 and 5.9% over 1969-71.

The agricultural sector shows no clear trend. The average annual growth rate dropped from 4.6% over 1960-66 to 3.7% over 1966-69, then rose to 5.4% over 1969-71. The behavior of value added by agriculture highlights the area's still considerable dependence on the production and export of a few primary products -mainly coffee, cotton, bananas and sugar. In recent years, the rapid growth of meat production has contributed to the growth and limited diversification of the agricultural sector.

Investment, both public and private, received a substantial stimulus from the development of the CACM. In recent years, however, private investment has slackened owing to the Salvador-Honduras war and the uncertainties generated by the de facto withdrawal of Honduras from the free trade aspects of the CACM and the resulting disruption in the flow of intraregional trade.

## 2. Employment and Under-employment

There are no reliable measures of unemployment in Central America, but it is known to be substantial. In a recent study, SIECA estimated open unemployment at 8 to 15% of the labor force. Underemployment and disguised unemployment are widespread in both rural and urban areas, and are believed to amount to a multiple of open unemployment. The slowdown in the growth rate of GDP and investment in recent years suggests that the employment situation is unlikely to improve unless special measures are adopted to cope with the problem. In rural areas, much of the labor force finds gainful employment only a few months per year. Urban unemployment is aggravated by migration from rural areas where productivity and earnings are much lower. If unemployment is not to worsen beyond politically acceptable limits, Central American countries, in addition to embarking on programs to stimulate output and exports, must at the same time encourage the growth of the more labor intensive sectors.

## 3. Intraregional Trade

Intraregional exports increased dramatically over 1960-77. Over this period, the average annual compound growth rate was 21.4%. This very rapid growth is attributable mainly to the removal of tariff barriers for almost all products originating in Central America, somewhat higher tariffs on imports from the rest of the world, the substantial boost to manufacturing industry and investment provided by the Common Market, and to the substantial expansion of the regional infrastructure, particularly its highway network.

Intraregional trade consists mostly of manufactured goods. In 1971, CA\$210 million out of a total intraregional trade of \$276 million, or 76%, consisted of manufactured goods. Total intraregional exports of manufactured goods increased from only CA\$14 million

in 1960 to CA\$209.6 million in 1971. Practically all manufactured exports are intraregional, i.e. Central America exports almost no manufactured goods to the rest of the world.

Intraregional trade has slowed in recent years. The average annual growth rate declined from 32.2% over 1960-66 to 9.6% over 1966-71. This decline was inevitable due to the fact that intraregional trade started from a very low base in 1960; but it was also due to the El Salvador-Honduras conflict, the subsequent cessation of trade between these two countries, the closing of the Pan American Highway to Salvadoran goods, and the non participation of Honduras in the CACM from December of 1970.

Prospects for intraregional trade in coming years are in part dependent on Honduras' participation in the CACM and on the re-structuring of the Common Market. SIECA has advanced a bold proposal calling for the elimination of remaining barriers to full intraregional trade, the creation of a customs union, the strengthening of the integration institutions, and full integration of monetary, fiscal and balance of payments policies. If the proposal is implemented with full Honduran participation, rapid growth of intraregional trade can be expected.

#### 4. Balance of Payments

Over 1966-71, merchandise imports rose more rapidly than exports. As a result, the area's trade deficit increased from \$11 million to \$76 million. The area's deficit on services (\$236 million) is triple the size of its trade deficit. Over the period 1966-71, the total deficit on current account increased from \$172 million to \$249 million. However, most of the increase in the current account deficit took place in 1971, a year of low coffee prices. Improved prices for coffee in 1972, as well as strong world demand for the area's

other primary products suggest that the area's balance of payments situation will be stronger in 1972.

Analysis of the evolution of the current account on a country-by-country basis indicates that the deterioration in the current account deficit between 1966 and 1971 was due in large part to Costa Rica's difficulties. Its problem calls for the implementation of a comprehensive stabilization program.. For the rest of Central America, there appears to have been no significant deterioration in its balance of payments situation over 1966-71, and prospects are for an improved situation in 1972. However, the area's balance of payments is subject to a continuing vulnerability to world market conditions for the region's major primary products, and there is a pressing need to diversify the sources of foreign exchange.

#### 5. Fiscal Situation

All Central American countries are collecting sufficient revenues to cover their current expenditures and leave a modest surplus to help finance their investment expenditures<sup>5/</sup>. The surplus in the current budget for all Central American countries combined increased from CA\$56.4 million in 1966 to CA\$73.5 million in 1971. Over 1966-71, current revenues increased at an average annual rate of 8.0%. Unfortunately, current expenditures increased slightly more rapidly (8.4%).

Public investment spending increased substantially in recent years. Total Central Government capital expenditures increased from CA\$131 million in 1968 to CA\$244 million in 1971, or by 86% over this three-year period. The 1971 capital budget was financed as follows:

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<sup>5/</sup> Excepting Costa Rica in 1969 and 1971. In these years, Costa Rica's current budget was balanced, while it showed a small surplus in other years.

Foreign Loans	CA\$82 million
Surplus in Current Budget	74 "
Government bonds	58 "
Domestic loans	22 "
Other sources	8 "

Thus, next to foreign loans, the surplus in the current budget is the main source of financing of the combined Central Government's capital expenditures in 1971.

The major fiscal problems facing the Central American governments are: a) the rapid growth of current operating expenditures that necessarily accompany accelerated economic development; b) losses in revenues from import duties resulting from economic integration and tax exemptions; c) the need to have a substantial public investment program to provide essential physical and social infrastructure and to develop agriculture. In recent years, several of the Central American countries have enacted general sales and excise taxes and raised income taxes and property valuations to increase tax collections.

#### 6. External Debt Service Charges

Public foreign borrowing for development finance has risen at rates considerably above those of either GDP or exports. Such a trend toward expansion of public debt is normal for a region going through a period of accelerated economic development. However, one might ask whether this rapidly rising trend can continue for many more years without raising debt service to a level that would put uncomfortable pressure on the area's balance of payments. A look at the region as a whole reveals the increase in debt servicing (interest and amortization) payments resulting from earlier borrowing. Over the four-year period 1966-70, these charges increased at an average annual rate of 15%. As a percent of exports of goods and services, these charges increased from 5.6% in 1966 to 7.4% for 1970. In 1970, rates of 9% to 11% prevailed for Costa Rica, Nicaragua and Guatemala.

Projections undertaken by SIECA indicate a continuation of this rising trend through 1980. Thus, the area --and particularly Costa Rica, Nicaragua and Guatemala-- would be well advised to limit borrowing to long-term loans on concessionary terms to the extent possible and to place greater emphasis on investments that raise their foreign exchange earnings or reduce their import requirements.

TABLE III-1 Central American Road Network: 1960 and 1971  
(in kilometers)

<u>1960</u>						
<u>Country</u>	<u>All Weather Roads</u>			Unim- proved	Total	Percent
	Paved	Gravel	Earth			
Costa Rica	1,040	2,192	- 1/	15,360 1/	18,592	38
El Salvador	1,035	389	3,499	3,544	8,467	17
Guatemala	1,278	5,074	-	5,648	12,000	25
Honduras	160	2,240	720	200	3,320	7
Nicaragua	830	702	1,054	3,578	6,164	13
Total	4,343	10,597	5,273	28,330	48,543	100
<u>1971</u>						
Costa Rica	1,485	5,112	-	14,500	21,097	33
El Salvador	1,207	1,544	1,539	4,405	8,695	13
Guatemala	2,333	6,653	1,382	1,850	12,218	19
Honduras	949	1,991	486	5,140	8,566	13
Nicaragua	1,260	1,210	4,050	7,550	14,070	22
Total	7,234	16,510	7,457	33,445	64,646	100

1/ Source shows these as 10,720 km. for all weather earth roads and 4,640 km. for unimproved roads, which, being inconsistent with data for 1971, were reclassified as being all unimproved roads.

Source: 1960: International Road Federation, as quoted in SIECA's 1962 Central American regional highway program study.

1971: International Road Federation data.

B. ROLE OF ROAD TRANSPORTATION IN THE C.A. ECONOMY

The dramatic growth of internal and foreign trade evident in GNP and export-import data presented above and in Annex V was made possible by significant improvement in Central American infrastructure over the period. The transportation network--like telecommunications--has undergone a thorough transformation wherein the length of the overall road network (regional and national) has increased by a third and all-weather roads have grown by over 50 percent (see Table III-1). The upgrading and expansion of the network are evident in these data.

From 1964 to 1970, the percentage of intra-CACM foreign trade going by land increased from 65 percent of total trade to 94 percent, and the weight from 475,600 metric tons to 786,300 metric tons, an increase of 65 percent. (Road transportation had been up to 875,200 metric tons in 1968.) This is shown in Table III-2. Exports to and imports from outside the region are still almost entirely by sea, however, but even these reach their internal destination mainly by road.

The international movement of passengers is a second indicator of the growth of use of land transportation in the region. Current statistical information on visitor arrivals is available for Costa Rica and Guatemala. It shows that total arrivals between 1966 and 1971 increased at an annual compound rate of 11.5% in Costa Rica and 11.4% in Guatemala. Visitor arrivals by land accounted for 62% of all arrivals to Guatemala in 1971 and 54% of all arrivals to Costa Rica. (See Table III-3.) While there are no direct estimates of cargo or passengers involved in domestic transportation, there was a dramatic increase in the number of vehicles passing traffic counting stations on major roads around the six principal cities of Central America (the five capitals plus San Pedro Sula, Honduras), as shown in Table III-4.

TABLE III-2. TRANSPORT OF CENTRAL AMERICAN TRADE: 1964-70  
(Thousands of metric tons)

Year	Road		Sea		Other <sup>1/</sup>		Total Tons
	Tons	%	Tons	%	Tons	%	
1964	475.6	65	243.3	33	16.3	2	735.2
1965	592.6	79	142.1	19	11.7	2	746.4
1966	577.2	89	59.6	9	15.0	2	651.8
1967	741.3	90	58.9	7	22.3	3	822.5
1968	875.2	95	20.9	2	25.2	3	921.3
1969	810.1	94	9.7	1	47.0	5	866.8
1970	786.3	94	7.2	1	42.9	5	836.4

<sup>1/</sup> Consists of rail, air and ferry transportation.

Source: SIECA, as published in its Programa de Integración Física, Volume 5 of El Desarrollo Integrado de Centroamérica en la Present Decada; October, 1972.

Based on all of the above indicators, we can say that domestic and international road travel is clearly rapidly expanding in Central America. The road network was a necessary precondition for this phenomenon.

TABLE III-3. Total Visitor Arrivals in Costa Rica and Guatemala: 1966 and 1971

	1966	1971	Average Annual Compound Growth Rate
Costa Rica, Total	98,907	170,396	11.5%
By land	N/A	91,645	
Other	N/A	78,751	
Land as % of Total	-	53.7%	
Guatemala, Total	139,307	238,797	11.4%
By Land	82,648	147,687	12.3%
Other	56,659	91,110	10.0%
Land as % of Total	59.3%	61.8%	

Source: Costa Rica: Memoria Anual 1971, Instituto Costarricense de Turismo, and SITCA.

Guatemala: Boletín de Estadísticas de Turismo, Instituto Guatemalteco de Turismo (INGUAT)

TABLE III-4. Total Annual Average Daily Traffic Counts  
Around Principal C. A. Cities

<u>City</u>	<u>1964</u>	<u>1970</u>	<u>Compound Growth Rate</u>
San Jose, Costa Rica	15,500	56,898	24%
San Salvador, El Salvador	16,800	40,794	16%
Guatemala, Guatemala	5,500	17,859	22%
San Pedro Sula, Honduras	1,000	3,300 <sup>1/</sup>	27%
Tegucigalpa, Honduras	1,800	2,600 <sup>1/</sup>	13%
Managua, Nicaragua	3,900	27,866	39%

<sup>1/</sup> Estimated 1969

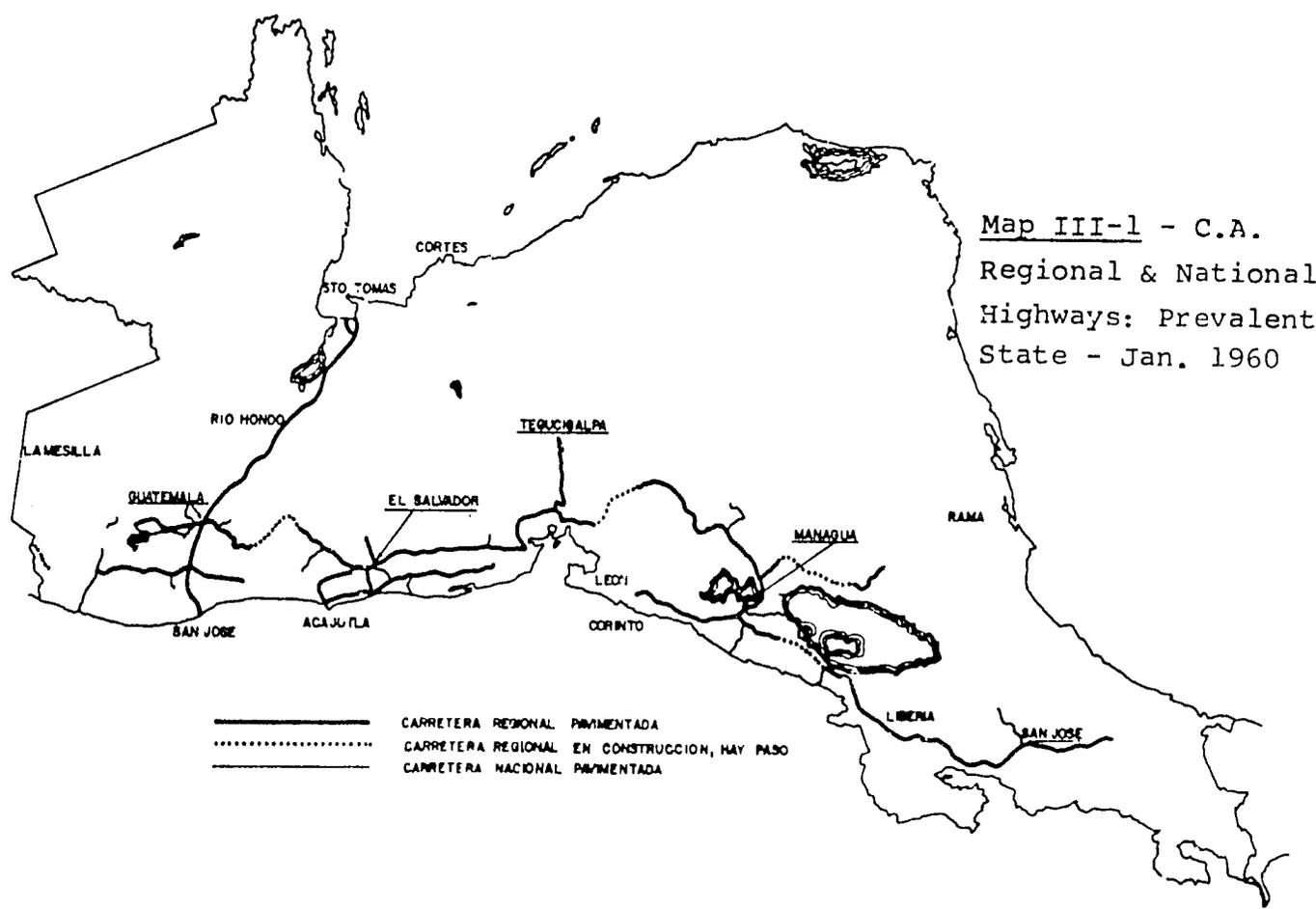
Source: 1964: data estimated from C.A. Transport Study, pp. 200-201.

1970: data from SIECA, op. cit., place facing p. 16.

C. ECONOMIC IMPACT OF THE FUND

CABEI has allocated \$195.5 million or about 60% of its total financing (in terms of approved loans) to infrastructure and \$150.5 million of this has been financed from resources of the Fund for Economic Integration. The most important use of the Fund's resources in terms of financial allocations has been highway construction which received \$136.7 million or 91% of all Fund loans, including \$81.4 million of AID support. A summary of the status of these loans is presented in Table II-2, Section II. The highway construction portion of the Fund's portfolio is analyzed below.

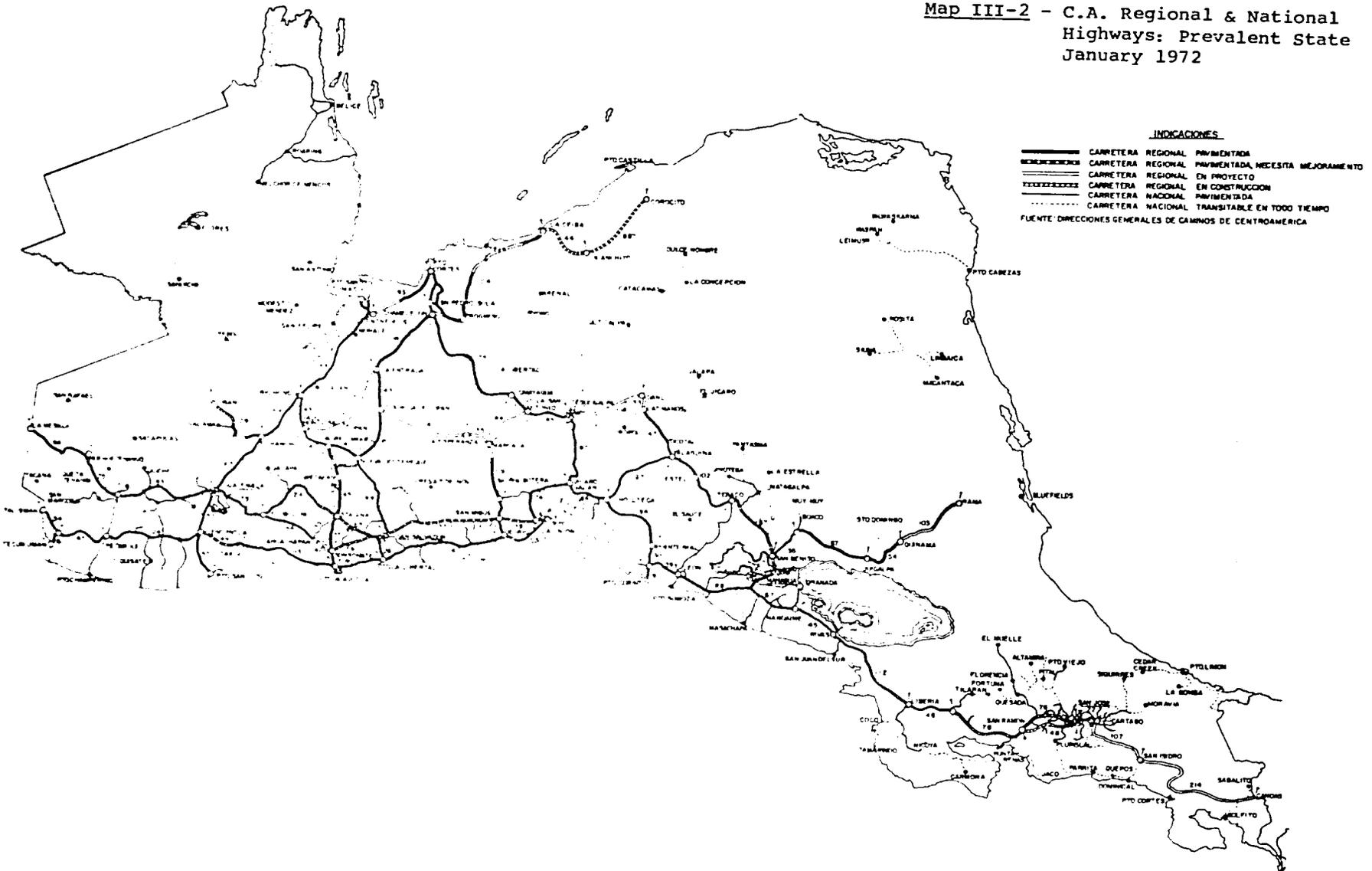
Map-III-1 demonstrates, with ample clarity, the situation in 1960, that is, when the 2900 kilometers network of regional roads consisted of little more than the original Pan American Highway. By 1972,



however, the system had grown into an impressive network--almost doubled in length, well articulated and much more adequate in terms of national and regional integration. The extent of this transformation is evident in comparing the 1960 map with that for January, 1972 (see Map III-2). The basic shape of the regional road network came as a result of the first meeting of the ministers of Economy and of Public Works in 1963. At this meeting, the selection of the 13 constituent roads was approved along with a work plan for 1963-69. The work plan, derived from a 1962 study by SIECA and CABEI, was later modified by the results of the Central American Transportation Study 1964-65 which was the basis for AID loan involvement with the Fund.

Of the 2,400 kilometers added to the network of regional roads since 1960, 580 kilometers have been completed with financing from the Fund. Another 571 kilometers are presently under construction, and construction of 184 kilometers will begin shortly. Table II-2 gives a listing of the individual projects. The reader will note that of the 31 projects, one was completed in 1969, three in 1970, two in 1971 and six in 1972. Because these additions are so recent, one would have difficulty assessing the impact of the Fund in terms of GNP and other macroeconomic target variables. In fact, since the Fund and national efforts (some with bilateral financing) were both important parts of the overall effort, often working on directly complementary projects, to distinguish their individual impacts may not be possible. However, it is clear that the additions to the system financed through the Fund and other sources have given the following major benefits to the region which the Pan American highway did not accomplish: (1) the system now links the areas of highest population density in the central portion of Guatemala with both El Salvador and Honduras; (2) it connects the important agricultural region of southern Guatemala with the road network;

Map III-2 - C.A. Regional & National  
Highways: Prevalent State  
January 1972



(3) it links the Atlantic coast ports of Cortés, Honduras and Santo Tomás, Guatemala with the most important and densely populated agricultural zones in El Salvador and, in general, reduces travel distances to other ports; (4) incorporates the north coast region of Honduras, the central plateau of Costa Rica and the Pacific coast region of Nicaragua into the rest of the isthmus economy; and (5) perhaps most importantly, it has helped the agricultural development and the use of natural resources in most of the areas of influence of the various projects.

The overall effect has been to greatly expand the geoeconomic space of Central America. Stated another way, it has caused a significant decrease in the economic distances within Central America. SIECA recently estimated that it now costs on the average about 3.6 ¢ per ton/km. to move the goods entering intraregional trade and that about 6.5 percent of the final selling price of those commodities was due to the transport cost of the finished goods. While we have no firm date for comparison, it is generally believed that comparable figures were 50 percent higher only four or five years ago.

Road transportation is admittedly only one of the major factors which have attracted new industry in C.A. Nevertheless, it is clear that the rapid growth of intraregional trade could not have occurred without the substantial expansion of the road network; and that the regional development of manufacturing industry was dependent on the rapid growth of intraregional trade. Thus, roads, intraregional trade, investment in manufacturing and the growth of value added by manufacturing industry were all closely linked. It is noteworthy that value added by manufacturing industry increased from CA\$369 million in 1960 to CA\$885 million in 1971 (in constant 1960 prices), an increase of 140% over this 11-year period; while total exports of manufactured goods increased from an almost negligible CA\$14.5 million in 1960 to CA\$235 million in

1970. Roughly 93% of these Central American exports of manufactured goods were destined to countries within the Central American Common Market.

D. PROGRAM RATIONALE

1. Global Rationale

The proposed loan will accomplish the following objectives which constitute the key points of the program's rationale:

a) Open up agricultural lands in coastal areas which are not presently connected with the regional highway network through all-weather roads.

b) Improve, construct and expand the major road network in places where this network has proved inadequate to meet current and expected needs.

c) Provide substantial savings in the form of lower user costs.

d) Strengthen the integration machinery and maintain the momentum of the construction industry.

e) Generate employment.

We shall examine the economic justification of the six projects tentatively proposed by CABEI and show how each of these projects is justified in terms of this rationale. All six projects accomplish objectives d) and e); almost all also achieve objectives a), b) and c), though not in equal measure. In the case of four of the proposed road projects, the opening up of new agricultural area is the primary objective, while the improvement or expansion of the major road network is a secondary consideration. In the remaining two cases the order is reversed as the main justification lies in the reconstruction and improvement of major sections

of the existing intraregional highway system.

The construction of roads to open up underdeveloped areas for agriculture, livestock and mining is in line with the emphasis placed in the FY 1974 Central American Development Assistance Program on the objective of raising the income level of the lower income group and with the closely related objective of developing the rural sector. It is obvious that rural development cannot proceed very far without a network of penetration roads feeding into the major trunk-lines.

Over the past decade, substantial progress has been made in developing the urban light manufacturing sectors of the C.A. countries. Now begins the infinitely more difficult process of integrating the rural economies, first with the rest of their respective national economies, and then with the regional economy. The construction of a road network providing access to rural areas is an essential element in any rural development program and will help to ensure that economic development is regionally balanced within and between countries.

The second objective is almost equally important. Many of the major roads linking the Central American countries were built 20 to 25 years ago. They are not adapted to today's needs, let alone future requirements. The present road system is not uniformly adequate for the demands placed on it. The geometric and metrical design criteria used for the older sections, combined with heavier than expected traffic densities, have led to deteriorated road surfaces which in turn have necessitated high maintenance outlays and have occasioned high user costs. Moreover, the location of certain roads has not always led to the most efficient movement of passengers and goods, and the lack of alternative routes has had the effect of unnecessarily congesting traffic flows through and around major cities.

The inadequacy and state of disrepair of the intraregional highway network was emphasized in the 1964-65 TSC Consortium Study on Central American Transportation Needs, by the various Central American governments in filing project proposals with CABEI, as well as in the various feasibility studies that we have examined in connection with the proposed utilization of the proposed loan.

There can be little doubt that the demands placed on the regional highway system will continue to expand rapidly in future years. We have already noted that intraregional trade increased at an average annual compound rate of 21.4% since 1960, and that total visitors arrivals over 1966-71 in Costa Rica and Guatemala increased at an average annual rate of 11.5%.

Moreover, there is already evidence of congestion on the major roads in and near the capital cities and major urban areas.

## 2. Project Rationale

CABEI has submitted a list of six projects, with alternatives, for financing under the loan. The feasibility studies for all projects will be subject to a thorough review prior to final approval of the projects by AID. This section examines in a preliminary fashion, the rationale for selecting each project for further consideration. We shall discuss first the two projects whose major justification is their contribution to the continued development of the major road network linking to C.A. countries: the San Salvador-Rio Lempa road in El Salvador; and the Las Mercedes-San Benito road in Nicaragua. Both of these involve the reconstruction, realignment and repaving of key sections of the Pan American Highway. The other four projects are justified primarily in terms of opening up new lands and of providing the basis for the exploitation of undeveloped resources.

a. El Salvador: The San Salvador - Rio Lempa Project

The project involves the reconstruction and paving of a vital stretch of the Pan American Highway which connects the capital of San Salvador to the important cities of San Vicente, San Miguel, and Sirama (near the major port of La Unión). The bases for our analysis is the Central American Transportation Study and a prefeasibility study issued by the GOES in May of 1970.

The study of the GOES noted the inadequacy and poor condition of the road. It was built 25 years ago to specifications which are no longer adequate for today's traffic. The road was found inadequate with respect to width, thickness of pavement, minimum distance between horizontal curves and minimum horizontal clearance on bridges. Moreover, it is in an advanced condition of disrepair which entails high maintenance costs. The reconstruction of this road entails the construction of a new stretch extending from Km. 3 East of San Salvador to Km. 15 and from Km. 45 passing 2 Kms. South of San Vicente and rejoining the present road at Km. 80 after traversing an important irrigated area. The pre-feasibility study of the GOES indicates that this new road would promote the development of an important agricultural area and would also result in user savings owing to flatter terrain and to substantial improvement in alignment.

The GOES study estimates the benefit-cost ratio for the Cojutepeque - San Vicente - Jucuapa road reconstruction project (of which the proposed project is part) at 2.88 on the basis of an assumed twenty year lifetime and an annual discount rate of 8%. These are conservative assumptions since the calculation of the benefits considered only savings in user costs, ignoring intangible benefits such as impact on output in the zone of influence or value of time saved. This benefit-cost

ratio is very close to the ratio arrived at by the TSC Consortium study for the 166 Km. section connecting San Salvador and Sirama.

b. Nicaragua: The Las Mercedes - San Benito Project

The Las Mercedes-San Benito road is part of the Pan American Highway. The reconstruction of this road was given high priority by the TSC Consortium which noted in 1965 that the road was in a bad state of disrepair. The feasibility study for the Mercedes-San Benito Section undertaken for the Ministry of Public Works by an engineering consulting firm<sup>6/</sup> in June of 1972 reached the same conclusion, noting the narrowness of the road, its bad condition, the high incidence of accidents and the high current costs of vehicle operation. While the road was adequate for the traffic requirements at the time of its construction (about 25 years ago), it does not meet current needs.

The major points of the justification of this project can be summarized as follows:

- a) The road section is a vital part of the Pan American Highway.
- b) The road is in a bad state of disrepair; its design, alignment and construction are not adequate for today's needs.
- c) The road falls far short of the standards for the Pan American Highway and acts as a bottleneck to Central American traffic.

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<sup>6/</sup> Lamarre Valois International Limited and Cisneros and Conrado Co., Ltda.

d) The alternative selected (a new road to the north of the present highway close to the Lake of Managua) will provide better access to the Lake and is expected to promote tourism.

e) The benefit-cost and rate of return calculations are favorable. On the assumption of a twenty-year life time of the road and a discount rate of 8% a year, the benefit-cost ratio is estimated at 1.23, while the internal rate of return was estimated at 10.4%. These estimates are probably conservative, since only savings in user costs were considered in estimating the benefits. Moreover, the estimation of benefits assigns no residual value to any of the construction elements (grading, drainage, etc.) at the end of the road's "useful life", and assigns no value to the savings in time, operating costs and accidents resulting from the fact that the proposed alternate road by-passes the city of Tipitapa.

c. Guatemala: The Modesto Méndez-Morales Project

The project calls for the paving of a 69 kilometers dirt road already in existence. Major considerations justifying the project are:

(1) The road will contribute significantly to opening up the Petén area. The continuation of the road to the north leads directly to Flores. The road from Modesto Méndez to Flores is presently a dirt road which will eventually be paved. The Petén has excellent forest resources. Major products with excellent potential include lumber, beef, milk, bananas and rice.

(2) It is expected that the Modesto Méndez-Morales road will be a link in a major extension of CA-13, eventually extending all the way from Flores in Northwest Guatemala to Puerto Castilla, Honduras. The road would pass through Modesto Méndez, Morales, Puerto Cortés, Tela and La Ceiba. The construction of the Entre Ríos-Frontera portion in Guatemala is slated to begin shortly.

The La Ceiba-Elixir portion in Honduras, listed as d. below, will complete the last link.

(3) It is anticipated that the project will also contribute to the promotion of tourism to Tikal.

d. Honduras: The La Ceiba - Elixir Project

This project involves the reconstruction and paving of the road linking La Ceiba and Jutiapa, and a new road from Jutiapa to Elixir. At Elixir, the road will feed into the Sabá-Elixir bridge crossing the Rio Aguán and link up with the Aguan valley road.

A feasibility study for a road linking La Ceiba and Puerto Castilla (through Jutiapa, Ilamapa and La Brea) which includes, but is considerably longer than, the proposed section, was undertaken by a firm of consulting engineers (MKE)<sup>7/</sup> for the Government of Honduras in 1969. While the location of the road studied in the feasibility study differs somewhat from the one that the government now proposes to build, the analysis in the study is still considered relevant to the justification of the reconstruction of the La Ceiba-Elixir Road.

The major considerations justifying the project are as follows:

(1) The road will cut through to the middle of the Aguan Valley which is one of Honduras' most fertile agricultural areas. The area offers excellent potential for the growing of bananas, rice and African palm, and for cattle raising and it is expected that a substantial proportion of the area's agricultural production can be exported. The project is considered critical to the

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<sup>7/</sup> McCreary - Koretsky Engineers.

development of the Northeast zone of Honduras, which is also the site of a major IDB colonization project.

(2) The road will constitute an important link of the coastal highway connecting San Pedro Sula to Puerto Castilla. As such, the road should be considered part of an Atlantic Highway which would eventually serve the Atlantic Coast of Guatemala and Honduras, just as the Litoral Highway will serve the Pacific Coast.

(3) The project is also expected to result in substantial savings in user transport costs, estimated at 30% in the case of passengers and of at least 25% for merchandise.

A benefit-cost calculation relating to the full length of the road linking La Ceiba to Puerto Castilla was undertaken by McCreary-Koretsky Engineers. A separate benefit-cost ratio for the La Ceiba-Elixir road is not yet available. The MKE feasibility study estimates the benefit-cost ratio for the La Ceiba-Puerto Castilla road at 1.23 on the basis of a projection of benefits and costs over a 15-year period, and discounting them to 1974 (assume to be the first year following completion of construction) at an annual rate of 6%. In calculating the benefits, the study estimated that the project would raise the average annual growth rate of value added by agriculture from an historical 3.0% to 6.4%. Thus, the project is expected to more than double the growth rate of the area's GDP. However, the arbitrary cut off of the benefit cost calculation after only 15 years from the time of completion of construction causes the 1.23 B-C ratio obtained to appear rather conservative.

e. Costa Rica: The Costanera Sur Project (Agujas-Loma Section)

This project involves the construction of an unpaved 47 kilometers road section along the Pacific Coast that will open up the coastal areas and eventually provide an alternate route to the Pan American Highway connecting Esparta and Palmar Sur. At present, there is only a dirt road running from Esparta to Dominical which needs to be reconstructed, realigned, widened and eventually paved. The present project covers only the Agujas - Loma stretch of that road, though it is expected that eventually the road will extend all the way from Esparta to Palmar Sur.

The road's major justification is that it will open up the southern coastal area of Costa Rica which produces - and has excellent potential for the additional production of - bananas, sugar, cattle and lumber. There is at present no convenient way of bringing this output to market. The proposed road will greatly facilitate the shipment of the area's export products to Puerto Golfito in the East and to Puntarenas in the West while products destined for the domestic market would go to San José and the Central plateau through the Pan American Highway which would link up with the Costanera Sur Highway at Esparta.

A second basic justification of this road is the substantial saving in user costs resulting from: (a) the fact that the Costanera Sur road will be significantly shorter, when completed, than the Esparta - Palmar Sur section of the present Pan American Highway; the distance from Esparta to Palmar Sur along to Costanera Highway will be only 222 kilometers on the new road, as against 335 kilometers for the Pan American Highway, a saving of 113 kilometers; and (b) the road will traverse far less mountainous terrain than the Pan American Highway.

The feasibility study for this road was recently (1062) undertaken by the Ministry of Transportation and Public Works of the Government of Costa Rica.

The study estimated the internal rate of return on the reconstruction of Esparta-Loma stretch (which includes the proposed Agujas-Loma section), at 12.9%. The rate of return on the reconstruction of the whole Costanera Sur road was estimated at 10.8%.

f. Nicaragua: The Acoyapa Road Project

This project calls for the construction of a new unpaved road starting at Acoyapa and continuing south for 60 kilometers along the east shore of Nicaragua almost halfway to San Carlos near the Nicaragua-Costa Rica border. It is expected that the road will be extended to San Carlos sometime in the future and eventually link up with a new road in Costa Rica between Muelle San Carlos and the Nicaraguan border.

The proposed project would facilitate the development of a large area now almost completely without means of transportation--the Rio San Juan Department. It will also eventually serve as an alternate route to the Nicaraguan border. At the present moment, there is only one highway connection between Nicaragua and Costa Rica across the 300 kilometers of common boundary, and that one is at the extreme western end.

The area's current agricultural production and population density are low. However, the region is

endowed with rich timber resources and good lands and is a good potential producer of wood, cattle and basic grains (including rice, corn and ipecac, a medicinal root). The economic feasibility of the project hinges mostly on the area's agricultural potential and on its ability to attract settlers once the road is built, rather than on savings in user costs. A feasibility study conducted for the Department of Public Roads of the Government of Nicaragua by Consulint America indicated that the project enjoys a favorable benefit cost ratio of 1.26, on the basis of a 20-year life and an annual discount rate of 10%. The project's internal rate of return was estimated at 12%. In calculating these rates, the cost of the road as well as the private investment required in the region were considered.

The calculation of benefits based on the development of new natural resources is admittedly subject to a wide margin of error and to the procedure used to estimate such benefits will be critically examined prior to AID approval of subloan.

E. LABOR ASPECTS

1. Impact on Employment

The feasibility studies for the various projects to be financed by CABEI contain no estimate of the impact

of these projects on the level of employment. To determine what the effect might be, we have examined the relation between annual expenditures on road projects and the direct employment effects in the case of five road projects recently completed in Central America for which data were available. The projects are the Nueva Ocotepeque-Frontera road in Honduras, the Santa Elena-Coban road in Guatemala, the Tela-La Ceiba road in Honduras, the Santa Ana-Mopan-Anguiatu road in El Salvador and the Choluteca-Frontera road in Honduras. Our objective was to arrive at an expenditure/employment coefficient.

The procedure used was as follows: we estimated first the total annual expenditure for each of the various projects. The year chosen was one of peak construction activity. We then calculated average employment during that year for each project by averaging monthly employment figures. Thus the average employment figures avoid the distortion associated with seasonal peaks and troughs in construction activity. The results are presented in Table III-5. Note that the variation in expenditure per worker is not too wide-ranging, from \$3,305 in the case of Nueva Ocotepeque-Frontera road to \$5,685 for the Tela-La Ceiba road, with the average at \$4,273 and a median of \$4,113 for the five road projects. Admittedly, the sample is too small for these to be statistically reliable indicators. To be on the conservative side, we will assume in our employment estimate of the proposed loan that one direct job in construction will be generated by each \$5,000 in total annual project expenditure.

In estimating the indirect employment effect, we have taken account only of the employment impact of the project on the production of construction materials (cement, pipes, etc.) manufactured off-site, and have neglected the multiplier effects in other industries.<sup>8/</sup> In estimating the

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<sup>8/</sup> Increased incomes and expenditures by construction workers will generate additional income in other sectors of the economy which will be associated with additional employment. These indirect employment effects were not considered in our estimate.

employment effect in the construction materials industry, we have applied the rule of thumb that one indirect job will be created for every three direct jobs in road construction. The calculation based on these assumptions is as follows:

Total expenditures under Highway Infrastructure Loan  
(including non-AID financing) \$31.8 million

Expenditures per year  
(Assuming a three-year average  
construction period) \$10.6 million

Direct employment effect

$\frac{10,600,000}{5,000} = 2,120$  full time construction jobs over  
three-year construction period.

Direct plus indirect jobs in construction industry:

$2,120 \times 1.33 = 2,820$  full time jobs per year over three-  
year construction period, or 8,460 man-  
years of employment generated by the  
proposed loan.

TABLE III-5. Annual Expenditures per Worker in Road  
Construction in C.A.

	Expenditures 1 year (US\$)	Employment	Expenditures per worker (US\$)
Nueva Ocotepeque-F (Hond.)	1, 219, 718	369	3, 305
Sta. Elena-Coban (Guat.)	1, 562, 947	463	3, 376
Tela-La Ceiba (Hond.) <sup>1/</sup>	2, 870, 837	505	5, 685
Sta. Ana-Metapan-Anguiatu <sup>2/</sup>	976, 233	206	4, 739
Choluteca-Front. (Hond.)	925, 348	225	4, 113
The 5 Projects	7, 555, 083	1768	4, 273

<sup>1/</sup> Based on 11 months.

<sup>2/</sup> Based on 8 months.

SOURCE: Progress reports sent to ROCAP by the construction  
contractors.

## 2. Labor Intensity

Labor intensity is a relative thing. To determine the extent to which labor intensive methods are used in the construction industry in Central America compared with the U.S., we have examined the payrolls of contractors on four different road projects, averaged the results, and compared these with a "typical" payroll of a contractor operating in the U.S. The results are summarized in table III-6. The methodology used is as follows:

(i) The work staff was grouped in the seven different categories shown in the table. Each figure represents the average number of workers employed during the following four months: January, April, August and December. The year selected was the year of peak construction activity for each project.

(ii) The source of the Central American data were the monthly reports of the construction contractor to ROCAP. In the case of the United States, we used as the basis of our estimate the labor schedule contained in R. L. Peurifoy's textbook on Construction Planning, Equipment and Methods, 9/

Since that schedule was designed for the relocation of a highway stretch only 0.6 miles in length, the ROCAP engineer felt that the estimated manpower requirements were unduly low, and raised them by 50% to make them comparable with the Central American roads in the table. The schedule appearing in the last column of the table incorporates this adjustment. While we have attempted to be objective and conservative in the presentation of data, the reader should nonetheless bear

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9/ McGraw Hill Book, Inc., 1956, Page 17.

Table III-6 Employment in Road Construction

(Average of 4 month in year of peak construction)

Construction and Paving  
Projects

	Sta. Elena-Cobán Guatemala (50 miles)	Sta. Ana-Metapán Anguatú El Salvador (36 miles)	Choluteca-Frontera, Honduras (28 miles)	Nueva Ocotepeque, Frontera Honduras (14 miles)	Average for the 4 Pro- jects	A.U.S. Project (8.6 miles)
TOTAL	<u>478</u>	<u>255</u>	<u>257</u>	<u>486</u>	<u>369</u>	<u>158</u>
1. Engineers, topographers, chainmen and level rod- men	27	17	11	13	17	} 15
2. Supervisor, office per- sonnel, watchmen and time-keepers	52	32	34	59	44	
3. Machine operators and helpers	64	36	64	53	54	
4. Mechanics, carpenters, oilers, plumbers, elec- tricians, masons, etc.	142	45	35	62	71	
5. Drivers	13	24	21	12	17	38
6. Laborers and helpers	161	91	87	275	154	54
7. Others (laboratory workers cooks, warehouse keepers, etc.)	19	10	5	12	12	<u>1/</u>

1/ Included under category 2.

Source: For C.A. Projects: Progress reports sent to CABEI by the supervising consultant. For the U.S. Project: "Construction Planning, Equipment and Methods" R.L. Peurifoy, plus a 50% adjustment suggested by ROCAP engineer.

in mind that the figures for the U.S. are estimates rather than hard data. 10/

The analysis suggests that the labor intensity of construction projects in Central America is, on the average, about 2.3 times that of the United States. The coefficient ranges from 1.6:1 for the Santa Ana-Metapan road in El Salvador to 3.1:1 for the Nueva Ocotepeque-Frontera road.

The question is often raised as to what can be done to induce contractors to employ more labor-intensive construction methods in order to come to grips with the unemployment problem. The Mission's Economic Advisor has discussed this question with the Chief Engineer of a road building contractor, as well as with engineers on the AID staff. The answers generally given were: (1) construction methods employed in Central America already are considerably more labor-intensive than in the United States, a view confirmed by the data presented in table III-6. Most of the operations that can be done by hand (without raising costs substantially) are being done by hand already; (2) construction operations presently handled by equipment could not be executed manually without greatly increasing costs, reducing quality or significantly expanding the duration of the construction period. It was pointed out that operations that could not be done manually except at substantially increased costs include major excavation, crushing, hauling, placing and finishing the subbase, paving, sealing and drilling. Consistency in meeting standards would be difficult with-in a greater range of labor intensity.

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10/ The Mission would welcome a review by AID/W Engineers of the labor utilization estimate for similar projects in the U.S.

11/ Nello L. Teer International, Inc.

The scope for substitution of machinery by manual labor in road projects may be much more limited than is often assumed by economists, as suggested in a recent study of alternative maintenance methods in Central America.<sup>12/</sup> The study examined the cost of using both labor intensive and capital intensive methods in various phases of maintenance work, including clearing and cutting brush and grass, routine surface maintenance, sealing of paved roads, and reshaping of ditches and shoulders. Two interesting conclusions emerged from the study. The first is that maintenance operations in El Salvador (and presumably in the rest of Central America) are highly labor intensive by U.S. standards. The second is that for all the maintenance operations described, the cost of doing the operations by hand was significantly higher than the cost of performing the same operations by mechanized means, given the actual costs and productivity of labor and capital in the area. The results are shown in Table III-7.

It should be remembered that this study deals with maintenance, not road construction; but maintenance is precisely the area where we would expect to find that labor intensive methods are most likely to be competitive with mechanized methods. The fact that they do not appear to be competitive is indeed disappointing.

We do not consider this study conclusive. However, we think that considerably more empirical information should be collected on the feasibility of substituting

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<sup>12/</sup> Labor Intensive Versus Mechanized Highway Maintenance Operations, by Robert N. Panfil, Bartkus and Associates Incorporated, San Salvador, November, 1971.

TABLE III-7. Cost of Various Maintenance Operations

<u>Operation</u>	<u>Cost Per Km. or Hectare</u>		<u>Cost Ratio (1):(2)</u>
	<u>Labor Intensive Method (1)</u>	<u>Capital Intensive Method (2)</u>	
Clearing and Cutting Brush and Grain	\$12.80/Hect.	\$ 5.81/Hect.	2.20
Routine Surface Maintenance	\$76.00/Km.	\$ 21.00/Km.	3.62
Sealing of Paved Roads	\$1,020.00/Km	\$768.00/Km.	1.33
Reshaping of Ditches and Shoulders	\$130.00/Km	\$ 42.00/Km.	3.10

labor for capital on construction jobs in Central America before we can insist that contractors employ more labor intensive techniques. In particular, it would be necessary to determine which phases of construction work could be made more labor-intensive without raising costs, lowering quality or lengthening the construction period to an unacceptable degree. These three considerations all translate into using more resources to do a given job, that is, fewer roads can be built with a given amount of money. The required research should explore the feasibility of capital-labor substitutability--but should keep in mind that there is a trade off, in effect, between roads and employment.

F. IMPACT ON U.S. ECONOMY/CONSISTENCY WITH CIAP

The proposed loan will have a favorable impact on the U.S. economy. Bidding on all consultant and construction contracts under the loan will be open to U.S., selected less developed country, and CACM country firms either

individually or as members of joint ventures. CABEI has financed in the past 4 years, either individually or U.S. members of joint ventures, consultant contracts with 6 different U.S. firms and construction contracts with 14 U.S. contractors--several working on more than one job. In addition, it is expected that a significant portion of loan funds will go directly towards financing U.S. construction equipment regardless of the nationality of the contractor.

The proposed loan program is not in conflict with CIAP. Although CIAP does not publish a regional study, the CIAP representative in attendance at the DAEC meeting in which the IRR was presented supported the proposal on the grounds that it would stimulate economic integration and assist in alleviating unemployment in the region.

G. SUPPORT OF REGIONAL INSTITUTION

The proposed loan will also continue to support one of the most important and dynamic regional institutions--CABEI. CABEI has developed a system of planning, evaluating, financing and administering infrastructure projects on the basis of regional rather than individual country needs. Such a system requires a significant relinquishment of national in favor of regional interest, in terms of money and of sovereignty. It also offers assurance that a real effort will be made to achieve balanced development in Central America. In spite of the many problems which have beset the Common Market in general, CABEI has continued to function effectively and has become one of the most important cohesive forces in the market.

SECTION IV - ENGINEERING ANALYSIS

A. TECHNICAL DESCRIPTION OF PROJECT

Illustrative List of Road Projects  
to be Financed Under Integration Fund

<u>Country</u>	<u>Description</u>	<u>Amount Subloan</u>	<u>S t a t u s</u>	
			<u>Feas. Studies</u>	<u>Final Plans</u>
1. Guatemala	Morales/Modesto Méndez CA-13, Paving, 68 Kms	\$ 3.50	Completed (1970)	Est. 8/73
2. El Salvador	San Salvador/Río Lempa CA-1 - Reconstr. 82 Kms	6.30	Est. 7/73 (Pre-Feasi- bility 1970)	Est. 12/73
3. Honduras	La Ceiba/Elíxir CA-13, Reconstr., and new construction, 75 Kms	8.50	Est. 5/73 (Pre-Feasi- bility 1969)	Est. 10/73
4. Nicaragua	Las Mercedes/San Benito CA-1, New, 22 Kms	3.00	Completed (1971)	Est. 3/73
5. Nicaragua	Acoyapa/Km 60 New, Unpaved, 65 Kms	4.00	Completed (1971)	Est. 3/73
6. Costa Rica	Costanera Sur - Agujas/Loma New - Unpaved - 47 Kms	5.95	Completed (1969)	Est. 4/73
Total		\$ <u>31.25</u>		

Note: See Annex VI for Location Maps

PROJECT DESCRIPTIONS

1. GUATEMALA - MORALES/MODESTO MENDEZ, CA-13

The project highway extends 68.3 Kms from the Atlantic Highway, CA-9, near Morales to the port of Modesto Méndez on the Sarstún River. The project consists of 1) placing base material and 2) asphalt paving of the two-lane existing dirt road, which was completed in 1970 by the Highway Department in cooperation with the Guatemalan Army Engineering Corps. In addition to the construction of the road the GOG purchased a ferry boat to enable traffic to cross the Dulce River at San Felipe. Eventually a bridge will be needed at this point, but until such time as traffic densities indicate one is necessary the existing ferry service is considered adequate. The highway has been designed to regional highway standards and will be constructed using Guatemala Highway Dept. construction specifications.

A feasibility study and design review was completed in 1969 by F. R. Harris - Consultores Asociados de Centroamérica. Plans and specifications have not yet been started by the Highway Department but CABEI estimates they can be completed within 6 months.

The project highway is an important link in Highway CA-13 which was designated as an integration road in 1963. The regional characteristics of this highway which will eventually extend 900 Kms from Flores in Guatemala to Puerto Castilla in Honduras, and interconnect Highways CA-9 in Guatemala and CA-5 and CA-4 in Honduras are readily discernible.

	L.C.	F.C.	Total
Estimated Cost:	\$1.75	\$1.75	= \$3.50 Million

2. EL SALVADOR - SAN SALVADOR/RIO LEMPA (CA-1)

The project highway extends 82 Kms from Km 3 East of San Salvador to the Lempa River. The project consists of the reconstruction and improvement of 40 Kms of existing two-lane highway and the relocation and construction of 42 Kms of new highway. Included will be a) widening of the right-of-way b) improvement of the horizontal and vertical alignment c) widening and reinforcing of drainage structures and d) construction of new earthwork, drainage structures and pavement.

The Inter American Highway in El Salvador was one of the first sections of that highway to be built. The original surfacing and base are not adequate for present day traffic demands and the pavement has long been showing signs of increasing degrees of failure. The reconstructed and new highway will be designed to Regional Highway Standards constructed using Federal Highway Administration (FP-69) standard specifications and will be adequate to support traffic volumes for the next 20 years.

A pre-feasibility study which was completed in 1970 by the Highway Department recommended the relocation of 30 Kms of road between Kms 45 and 80 and recommended further studies. CABEI has already put \$380,000 at the disposal of GOES to complete feasibility studies, plans and specifications. It is estimated that study and plans can be completed by December 1973.

3. HONDURAS - LA CEIBA/ELIXIR (CA-13)

The project highway extends 75 Kms from La Ceiba on the Atlantic Coast, through Jutiapa to Elíxir which is located just North of the river in the Aguan River Valley. The project consists of the reconstruction and improvement of 38 Kms of existing dirt road from La Ceiba to Jutiapa and the construction of 37 Kms of new paved road from Jutiapa to Elíxir. Included will be a) improvement of horizontal and vertical alignment b) widening and reinforcing of drainage structures c) construction of new earthwork, drainage structures and pavement. The highway will be designed to Regional Highway Standards and will be constructed using Honduras Highway Dept. construction specifications.

A pre-feasibility study which was completed in 1969 by McCreary/Koretsky Engrs. recommended the construction of roads from La Ceiba to Puerto Castilla and La Ceiba to Olanchito. Approximately \$200,000 are needed in order to complete feasibility studies, design and plans. The GOH has IDB funds to do this work. It is estimated that study and plans can be completed by October 1973.

The project highway is an important link in Highway CA-13 which was designated as one of thirteen C.A. integration roads in 1963. The highway will connect to the USAID/Honduras Aguan Valley Road project which is presently under construction from Savá to Cerocito. The construction of this road will give Honduras a 500-Km all-weather road from the Guatemalan border to Puerto Castilla and is another step toward an Atlantic Coast Highway which would link four of the five C.A. countries.

	L.C.	F.C.	Total
Estimated Cost:	\$4.25	\$4.25	= \$8.50 Million

4. NICARAGUA - LAS MERCEDES/SAN BENITO (CA-1)

The project highway extends 22 Kms from Las Mercedes Airport Northeast to San Benito. The project consists of the construction of a new two-lane highway located parallel to the existing highway, between the shores of Lake Managua and the existing road. The new road will also require the construction of a bridge over the Tipitapa River.

The existing highway is part of the original Inter American Highway which was constructed some twenty years ago. Traffic has increased to about 3,000 V.P.D. and will continue to increase at an average rate of 6%. The existing surface and base are showing signs of failure because of this volume of traffic. The new highway will be designed to Regional Highway Standards and will be designed to carry a traffic volume of 12,000 V.P.D. in 1997. It will be constructed to Federal Highway Administration (FP-69) standard specifications.

The feasibility study, design, plans and specifications are being completed at this time by the joint venture of Llamane Valois International Ltda. y Cisneros/Conrado Cía. Ltda. With the situation in Managua being what it is, it is impossible at the time this is being written to predict precisely when these plans will be completed but we do expect them by the end of March 1973.

The project highway is an important link in Highway CA-1 which was designated as an integration road in 1963. The reconstruction of this section of the Inter American Highway is part of an overall plan to improve CA-1 from the Honduras border to Costa Rican border.

	L.C.	F.C.	Total
Estimated Cost:	\$1.40	\$1.60	= \$3.00 Million

5. NICARAGUA - ACOYAPA/KM 60

The project highway extends 65 Kms from the Rama Road, CA-16 at Lovaga through Acoyapa and then Southeast, parallel to the shores of Lake Nicaragua to Km 60. The project consists of the construction of the first section of the Acoyapa/San Carlos Road. Included will be a) right-of-way delineation b) earthwork c) drainage structures and d) subbase. The highway will not be paved during this phase but will be designed to Regional Highway standards.

Construction will be governed by Federal Highway Administration (FP-69) standard specifications.

A feasibility study was completed in 1971 by Consulin America S.R. Ltda. in cooperation with the Highway Department. Final design, plans and specifications are expected to be completed in March by the same firm.

The project highway when completed will connect to the planned Costa Rican highway from Terrón Colorado to Los Chiles and will provide an alternate route between Managua, Nicaragua and San Jose, Costa Rica and a by-pass for traffic not wishing to pass through Managua.

	L.C.	F.C.	Total
Estimated Cost:	\$1.20	\$2.80	= \$4.00 Million

6. COSTA RICA - COSTANERA SUR - AGUJAS/LOMA

The project highway extends 47 Kms along the Pacific Coast, from the Agujas River Southeast to Loma. The project consists of the construction of the first phase of the Costanera Sur highway. Included will be a) right-of-way delineation b) earthwork c) drainage structures and d) subbase. The highway will not be paved during this phase but will be designed to Regional Highway standards.

It will be constructed under Federal Highway Administration (FP-69) construction specifications.

A feasibility study was completed in 1969 by the Highway Department. Final design, plans and specifications are expected to be completed in April by the same group.

The project highway is the first section to be constructed of a highway along the Pacific Coast which will eventually extend 222 Kms from Esparta (located on CA-1, 15 Kms East of Puntarenas) South-east to Palmar Norte (Located on CA-1, 5 Kms East of Puerto Cortés). When completed it will provide an alternate route for Interamerican Highway traffic wishing to by-pass San Jose. This route will be 113 Kms shorter than existing highway CA-1.

	L.C.	F.C.	Total
Estimated Cost:	\$3.35	\$2.60	= \$5.95 Millions

B. TECHNICAL FEASIBILITY OF THE PROJECT

1. Capacity of CABEI

The general capacity of CABEI to administer the loan has been reviewed in Section I.B. The technical staff of the Infrastructure Department has had extensive experience administering the execution of highway projects and has proven to be well qualified to regulate and monitor the expenditure of loan funds. The Infrastructure Department now consists of eleven professional engineers, an economist, an auditor and a sub-professional staff of draftsman and secretaries. All personnel are considered to be of the highest professional caliber in their respective fields.

CABEI has, during the past years made excellent progress in standardizing procedures and developing uniform policy for the administration and supervision of loan projects. A listing of these guidelines appears in Annex VI Item O.

2. Capacity of the Sub-Borrowers

In Nicaragua and Costa Rica, the Federal Highway Administration has been providing technical assistance to the Highway Departments as a result of the construction of the Pan American Highway. In addition, the international lending institutions such as Inter-American Development Bank (IDB), and the World Bank (IBRD) have given technical assistance through special training courses and financial assistance for procurement of equipment to increase the capacity of the various highway departments. Both CABEI and SIECA are assisting all member countries in the organization and staffing of their respective Highway Departments in order to improve the present technical status.

All highway departments have the capabilities of negotiating contracts for engineering services, selecting contractors and supervising projects with the assistance of consulting engineers. Should any weaknesses develop in the future, CABEI's loan agreement require subborrowers to strengthen whenever necessary the capability of their highway departments. Program implementation will be in accordance with procedures now established to carry out the present loan program.

3. Standard Road Classification and Design Criteria

Each of the five member countries has adopted road classification and design standards for new highway construction. Under a CABEI-SIECA agreement CABEI has published "Recommended Geometric Standards", for the Central American Regional Road Program, (based on AASHO standards) which is enjoying wide use among the member countries. In addition, CABEI, SIECA and CEPAL are presently coordinating a study which will propose a standard road classification system and design criteria for Central America.

4. Construction Standards

Costa Rica, Nicaragua and El Salvador use the Federal Highway Administration (FP-69) standard specifications and Guatemala and Honduras use their own specifications which in the main are patterned after and similar to FP-69. Each of the countries write special provisions for each job which modifies the standard provisions to meet the requirements of the particular project. CABEI however stipulates that all specifications used are within the standards required by FP-69.

## 5. Highway Maintenance

The strong growth of the Central American highway system during the past few years has forced the five countries to give the highest priorities to the expansion and improvement of their highway maintenance departments. Technical and financial assistance for the improvement of the physical as well as operating efficiency of the respective highway maintenance departments has been received from AID, EXIM, IDB, IBRD and CABEI. (See ANNEX VI, Item P for a listing of Loans for the Financing of Highway Maintenance in Central America). Most of these loans are relatively recent and are in the early stages of implementation. Guatemala and Nicaragua have good Highway Maintenance Departments and should make good use of new equipment and machinery. Costa Rica is in the process of a complete reorganization of the Highway Maintenance Department, which along with new equipment and shops will make it one of the best in Central America when it is completed this year. El Salvador has recently completed a study which recommended an investment program for the purchase of new highway maintenance equipment and to provide guidelines for a new maintenance program. This study along with loans from EXIM and IDB for equipment should provide the basis for a well equipped and effective maintenance program. Honduras while recently having negotiated a loan with IDB for maintenance equipment, needs technical assistance in order to set up an effective maintenance program. CABEI will urge the use of these funds to engage long term consultants to provide the necessary expertise to assist in this program.

In order to ensure that maintenance is given the high priority required AID included a covenant in the AID 596-L-008 Loan Agreement which requires CABEI to "strengthen its subloan covenants concerning Member Country Maintenance programs and budgeting". In

response, CABEI has included the covenants listed below in all subloans. This loan will maintain these subloan covenants through an appropriate covenant in the new loan agreement.

i) "Allocate, every year, the funds necessary for adequate maintenance for the highway to be constructed and for regional highways already constructed". See Annex VI - Item N which is included as a typical example of a five-year Highway investment plan which includes yearly allocations for highway maintenance. Exhibit A 13/ is an example of an annual maintenance plan with maintenance allocations spelled out on a road by road basis.

ii) "Submit, during the 12 months following the execution of the contract the maintenance plan for the projected highway indicating the funds to be utilized. It is understood that this plan will become effective for immediate execution after the highway construction is completed and before final disbursement is made". Exhibit A is an example of a typical maintenance plan in which Guatemala spells out, road by road, detailed estimates of maintenance expenditures, quantity and condition of equipment, financial status and its program of weight controls and highway marking. Another example of a maintenance plan is included in Exhibit B 13/ Volume 1 Page 40 of a CABEI "Project Paper" on a road in Nicaragua.

iii) "Submit during the six months following the execution of this project a 5-year maintenance plan for the entire operating national highway system, to the bank's satisfaction. The borrower shall make pertinent revisions and make them known to the bank each year". The Bank has accepted Annex VI Item N and Exhibit A, (updated each year) as sufficient evidence that such a plan exists and is being followed.

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13/ Exhibits A and B will be available for examination at Loan Review Meetings.

iv) "The Borrower shall cooperate closely with the Bank in the appraisal that the latter will undertake to evaluate the technical and managing capacity of the departments in charge of the Borrowers highway projects". Exhibit "B" which is a CABEI Project Paper, analyzing and evaluating all aspects connected with a request for a highway construction loan, addresses itself to the capability and capacity of the borrower to manage the project on Page 66 Volume 1. This Paper is a good example of the thorough review to which CABEI subjects all loan requests.

On a regional basis highway maintenance has received considerable attention. The meeting of the Ministers of Finance and Public Works of Central America, celebrated in Guatemala in August of 1963, requested CABEI and SIECA to prepare a study on Highway Maintenance in Central America which was subsequently published in 1965, under the title "Regional Maintenance for Central American Highways". SIECA later revised the study in order to establish a reference for joint activities to be undertaken by the five countries. In 1971, SIECA published the documents entitled "Some Considerations on Highway Maintenance in Central America" and "Bases for the Development of a Work Plan for Highway Maintenance." The first document includes an analysis of the technical, economical and administration problems, as well as general recommendations. The second document proposes the execution of joint work programs, to analyze and resolve highway maintenance problems in the area.

The First Meeting of Central American Highway General Directors took place in September of 1971. During this meeting, the documents published by SIECA were reviewed and several recommendations for the highway regional system were approved. A Work Plan proposed by SIECA at this meeting was also approved and the First Phase of the Plan was put into execution.

In December of 1971, the Board of Directors of CABEI authorized \$40,800 for the financing of the Bank's participation in the Central American Highway Maintenance Plan. This participation consists in contracting two regional experts: one for maintenance and the other one for highway signaling, who together with SIECA technicians form a working team in charge of accomplishing the First Phase of the Work Plan approved in Managua. The aforementioned experts began their activities in Guatemala in May of 1972. The work team collaborates closely with the highway departments in the Central American countries, which at the same time have assigned local coordinators. Meetings between the regional and national groups take place periodically, the last of which was in December of 1972. One of the main objectives of the Plan is the publication of the Central American Highway Maintenance Manual, which was recently completed in its first version and has been discussed on a preliminary basis with the national coordinators during the December meeting. It is expected that the final version of the Manual, including observations and recommendations formulated by each country, will be completed early this year.

C. ENGINEERING PLAN FOR EXECUTION OF PROJECTS

1. Project Selection

The six projects selected to be included in this loan are meant to be illustrative of the type of roads which are considered eligible to be financed under the Highway Infrastructure Loan. Each road listed will be subjected to a thorough economic and technical soundness analysis by both CABEI and ROCAP prior to approval for financing. Should any of the projects not meet the Bank's or ROCAP standards an alternative project will be chosen.

## 2. Engineering Services

Code 941 and Member Country private engineering firms proposed by the subborrowers and approved by both CABEI and AID will be used for the review and final preparation of plans, specifications, and bid documents for the specific projects, together with recommendations to subborrowers for award of contracts, supervision of construction, certification of payments for subborrowers, and recommendations for final acceptance of projects. However, for some of the proposed highway projects the technical staff of the ministry or department responsible for such projects will continue to carry out some aspects of the engineering work attendant to subprojects when its capability can be clearly established by CABEI and agreed to by AID. In all cases, it would be the policy that a private engineering firm would certify to the subborrowers for construction payments and final acceptance of the projects. In the case where a country prepares the plans and specifications with its own regular staff, then the consultant will review such plans and attest to their adequacy.

## 3. Project Construction

Construction contracts for the specific projects would be based on competitive bids, and would be open to Code 941 and Member Country contractors, or joint ventures of both. AID will encourage continued pre-qualification of bidders for construction contracts. Contracts, contractors and key personnel of all contractors will be subject to approval by CABEI and AID.

The proposed work is within the present capability of Central American engineering consultants and construction contractors. However, the volume, is large enough to interest a sufficient number of U.S. firms to provide healthy and cost reducing competition. Since there are no significant limiting factors, there should be no undue delay in construction.

#### 4. Supervision

All construction will be supervised by independent consultants, preferably by the same engineering firm that prepares final plans and specifications, or in the case where a country prepares its own plans and specifications by the firm who reviews and approves such documents. In countries where local highway department inspection is required by law the consultant will advise and assist the highway department to carry out this function. The consultant will however continue to be responsible for certification, reporting and other duties required under the supervision contract.

#### 5. Project Administration

Administration of project will be under control of the respective highway department with the assistance and guidance of the Consultant. CABEI will schedule the submission of progress reports of subborrowers, review them and make appropriate recommendations. AID review and approval of CABEI operations and of contracts, firms and individuals will continue to be necessary to assure that CABEI is implementing the subprojects in a satisfactory manner. A detailed implementation letter will provide CABEI with AID's requirements and CABEI would continue to upgrade its operating standards and procedures. The Operations Department of CABEI assisted by the Infrastructure Department, Treasury-Accounting and Legal Offices, is responsible for financial supervision and disbursement operations.

Guidance to CABEI in conforming with AID requirements and necessary AID approval would be performed by personnel of ROCAP. ROCAP engineers will continue to make regular visits to CABEI to advise on implementation of the subprojects together with field review of subprojects as determined necessary to satisfy AID that CABEI is discharging its responsibilities satisfactorily.

6. Environmental Considerations

The inclusion of Environmental Considerations in all feasibility studies will be required. In those cases where feasibility studies have already been completed, the consulting engineer who is contracted to review plans and specifications will be required to conduct the review with environmental considerations as one of the criteria for approval. Also a condition precedent to the signing of each subloan agreement will require that each subproject be supported by a statement that environmental aspects shall be taken into consideration prior to and during the implementation of each project and that AID, CABEI, and the member country shall cooperate to minimize any detrimental impact upon the natural environment.

Section V. FINANCIAL ANALYSIS

A. FINANCIAL PLAN

1. Total Funding

The cost of the program will total \$31.25 million to be financed as follows:

	<u>U.S.\$</u>	<u>Local</u>	<u>Total</u>
	(Millions of U.S. \$ Equivalents)		
CABEI Members		6.25	6.25
AID Loan	<u>16.80</u>	<u>8.20</u>	<u>25.00</u>
	16.80	14.45	31.25

CABEI's contribution to the project will be the equivalent of \$6.25 million to be provided by Member Countries through a new call for capital. The presently subscribed capital of \$40 million will be increased to \$50.0 million (\$6.25 million for the proposed program and \$3.75 million for the new tourism infrastructure loan) divided evenly among all five countries. Each Member Country will then meet its pledged amount in accordance with a schedule established by CABEI, AID funds, together with the CABEI contribution, will finance the total cost of each subproject on a four to one ratio. In order to assure the integrity of the contribution procedure, the new loan agreement will maintain two conditions found in the last AID infrastructure loan, namely (i) prior to any sub-loan commitment, CABEI shall demonstrate evidence of having called an additional amount of not less than \$6,250,000 of authorized capital and (ii) loan funds and local contribution shall be allocated to, and disbursed for, each subproject on a ratio of four to one.

2. Loan Amount and Terms

In determining the amount of the program, several factors were taken into consideration. First, the

demand, in terms of highway projects ready for financing exceeds the resources that CABEI has now and can reasonably expect to have in the immediate future. Second, momentum has been built up over a five-year span in the Central American highway program in terms of the capacity of CABEI government highway departments, and the Central American construction industry to elaborate, supervise and execute highway projects. This loan provides the range of financing which will maintain this capacity. Third, AID funding availabilities limits the amount that can be devoted to any one project. Although the proposal as originally conceived called for a larger loan, AID budgetary limitations have dictated that the amount of the loan be reduced.

We are proposing maximum development terms to CABEI, calling for repayment within 40 years including a 10 year grace period with an interest rate of 2% p.a. during the grace period and 3% p.a. thereafter. The bank in turn will lend for 20 years, including a grace period of 5 years, at an annual interest rate of 5-1/4% p.a. The long repayment period is required because of the nature of the subprojects to be financed. Infrastructure projects require large amounts of financing and have a long economic life (20 years for roads). The differential generated by the spread in interest rates covers the Fund's administrative expenses, including technical and advisory services, and capitalizes the Fund. (All earnings remain in the Fund as CABEI, a public entity, does not pay dividends.) In order to allow CABEI to capitalize itself, the member governments agreed to allow the Bank to charge them 5-1/4% rather than pass on any softer terms that CABEI might be able to negotiate to the member governments. This is another contribution towards building-up the Bank by the governments which ROCAF would like to continue to support.

### 3. Local Contribution

Under the proposed loan CABEI is contributing \$1 for every \$4 of AID funds. This maintains the 1:4 ratio existing under the last two AID loans and the most recent IDB Integration Fund loan. Member Countries will be called upon to pay in \$8.0 million equivalent in outstanding subscribed capital -- counterpart to existing external financing -- in two installments in April 1973 and April 1974. The two new AID loans (tourism and highway infrastructure) call for another \$10.0 million in new capital contributions. In all, CABEI will be calling on member countries to provide \$18.0 million in new capital over the relatively short term. In addition, the countries are contributing through the interest rate differential mentioned above on external financing and again when paying the interest on their contribution when it is loaned to them. Additional requirements for member contributions will only result in reductions of already inadequate current account surpluses financing internal investment budgets.

Another potential source of local contribution considered were the accumulated earnings of the Fund. However, the Fund's accumulated earnings are limited (\$4.0 million in 1972), and increasing its contribution limits the Bank's ability to attract external financing into the region. CABEI is presently attempting to diversify the Fund from its present concentration on highways and has been building up its retained earnings in order to furnish the counterpart for the external financing that they will be seeking. For example, CABEI is discussing a grain storage project (estimated loan of \$10.0 million) with the IDB in which the local contribution will come out of accumulated earnings; part of the contribution for the AID tourism project will come from accumulated earnings, etc.

#### 4. Local Cost Financing

CABEI estimates that \$14.45 million or about 44% of a total program cost of \$31.25 million will be needed to cover local costs. The member's contribution will finance \$6.25 million of this requirement leaving an estimated \$8.2 million to be financed by the proposed loan. An analysis of the Fund's local currency availabilities clearly shows that the Fund is not generating sufficient local currency to meet its needs and must be able to finance local costs with external funds. As can be seen in Table V-1, a Source and Application of Funds Statement covering a five year period, the Fund will generate a total of \$32.6 million in local currency from income, recoveries, and paid-in capital and will convert another \$54.0 million from AID and IDB loans to cover its costs under their programs. In addition the Fund will have to convert another \$18.4 million to allow it to finance new or expanded future programs. It is clear that increased contributions (paid-in capital) from member countries in the above magnitudes is impossible and consequently local currency requirements must be met through conversion of external credits.

#### 5. Alternative Sources of Financing

The international financial agencies are not prepared to consider this loan proposal. Written inquiry was made of the Ex-Im Bank and the IBRD to determine their interest in the proposed project. Neither the Ex-Im Bank nor the IBRD were prepared to consider a loan for this purpose. The loan has been discussed extensively with IDB representatives because the Bank is currently extending a loan to CABEI to finance the first phase of a highway program (see Section II.A.). It was necessary to clarify and confirm the Bank's decision not to proceed with its second phase until several conditions regarding the first phase had been met. The conditions are such (see Section II.A.) that the IDB does not expect that they will be met prior to 1975 therefore the IDB has no objection to AID proceeding in the interim. Finally, the long term nature and amounts

contemplated in the program precludes financing from private sources.

TABLE V-1

INTEGRATION FUND: SOURCE AND APPLICATION FUNDS  
 (Fiscal Years Ending 6/30/73 to 6/30/77)  
 (Millions of U.S.\$)

	<u>Dollars</u>	<u>Local Currency</u>	<u>Total</u>
<u>BEGINNING CASH</u>	1.4	5.0	6.4
<u>SOURCES OF FUNDS</u>			
Proposed AID loan	16.8	8.2	25.0
Other External Credits	54.1	45.6	99.7
Recoveries	17.3	4.5	21.8
Income from Interest Fees	33.7	9.0	42.7
Other Income	6.2	1.6	7.8
Paid-in Capital	---	17.5	17.5
Total Sources	<u>128.1</u>	<u>86.4</u>	<u>214.5</u>
<u>FUNDS AVAILABLE DURING PERIOD</u>	129.5	91.4	220.9
<u>APPLICATIONS OF FUNDS</u>			
Disbursements to Infrastructure			
Sub-Projects proposed loan	16.8	8.2	25.0
Infrastructure Sub-Projects-CABEI			
Contribution	----	6.3	6.3
Disbursements to other Sub-Projects	65.6	80.9	146.5
Debt Service and Operating Costs	12.8	12.5	25.3
Increase in Other Assets	7.6	1.9	9.5
Total	<u>102.8</u>	<u>109.8</u>	<u>212.6</u>
<u>ENDING CASH</u>	26.9	(18.6)	8.3

Note: Last decimal place not significant due to rounding-off procedure.

Source: CABEI

B. FINANCIAL SITUATION

1. Capital Structure

Authorized Capital:	\$60 million
Subscribed Capital:	\$40 million
Paid-in Capital:	\$32 million

The current remaining unpaid \$8 million in subscribed capital is expected to be paid in by the Member Countries by Spring of 1974 in two installments: \$5 million by April 9, 1973 and \$3 million by April 9, 1974, as obligations (promissory notes) under previous calls of capital. To assure the extra \$6.25 million Member Country contribution for this program and a \$3.75 million contribution for the new AID Tourism Loan, CABEI will request a new call of capital of \$10 million, thereby bringing the Bank's total paid-in capital to \$50 million.

In addition to the above, the Bank's Board of Governors has authorized a guarantee capital of \$40 million designed specifically to support future bond issues of the Bank in international capital markets. This guarantee authority will become effective upon approval by the five member governments.

The guarantee capital is independent of the Bank's ordinary capital: each member country will subscribe \$8 million which will be payable in calls which can be made only at the time and in the amount necessary to meet obligations arising from bond issues made by the Bank. The \$40 million bond issue guarantee capital together with the Bank's authorized capital of \$60 million will give CABEI, in effect, a total authorized capital of \$100 million.

CABEI's financial statements are shown in detail in Annex III. These are:

a) Comparative consolidated balance sheets and profit and loss statements for the past four fiscal years, 1968/69 to 1971/72;

b) Comparative individual balance sheets and profit and loss statements for the Economic Integration Fund for the past four fiscal years, 1968/69 to 1971/72;

c) Projected consolidated balance sheets and profit and loss statements as well as projected individual balance sheets and profit and loss statements for the Integration Fund for the next five fiscal years, 1972/73 to 1976/77;

d) Consolidated cash flow projection and individual cash flow projection for the Integration Fund. The Fund's cash flow is broken down into dollar and local currencies to support the need for financing local costs, and all proposed sub-projects were analyzed with each included in the projections, also broken down into dollar and local currency costs.

## 2. Financial Analysis

### a. Statements

An analysis of CABEI's most recent consolidated statements (covering all three Funds) - as of June 30, 1972 - shows that:

1) The debt-to-equity ratio of the Bank is 3:1 which is very favorable. This ratio will increase to about 5:1 by FY 77 as the Bank takes on more external loans in the future to finance its expanding programs. While this will reduce the favorable ratio now existing, this ratio is still within bounds and in line with the development functions that CABEI was created to perform.

2) Loans outstanding (\$156.5 million) are well secured by mortgages, pledges or guaranties. In line with CABEI policy, all infrastructure loans are dollar obligations of the borrowing CACM Member Country Government, and all private sector loans are secured 150% by mortgages or 100% by commercial bank guaranties.

3) Net income was \$3.4 million for FY 72, representing a 7.4% return on capital. This compares with \$2.8 million for FY 71 and \$2.4 million for FY 70. Surplus, general reserves and retained earnings totalled \$13.6 million in FY 72, compared with \$10 million and \$7.3 million for FYs 71 and 70 respectively.

4) CABEI maintains a substantial working capital ratio (current assets to current liabilities). Currently it is 25:1. It is the Bank's experience that a ratio of 18:1 is needed to effect its subloan disbursements on schedule and to service promptly the loans from its own creditors. Current liquid assets in the form of cash and short term investments are about \$7 million more than what the Bank estimates is normally required. This will level off to the estimated required level for the following reasons:

i) Advance payments of new capital were made by the Member Countries for \$4.5 million during FY 72 as the Bank's contribution to finance infrastructure projects under the Integration Fund; however, these funds were not disbursed on schedule as projects in Costa Rica and El Salvador were not completed in FY 72 as initially planned. On the other hand, disbursements under all three Funds are expected to rise sharply to some \$449.2 million over the next five years, as contrasted to \$150.3 million actually disbursed during the past five years. The effect of this will be to reduce the Bank's liquid assets by around \$3 million during the next five years.

ii) The Bank intends to establish a new Fund for Social Development, and has purposely been building up its liquid assets in order to capitalize the new Fund by initially transferring \$2.5 million from these assets to the new Fund during the current FY.

iii) The Bank's Agricultural Department will undertake specific promotional studies and pilot projects totalling around \$3 million, reflecting Bank policy to give high priority to the region's agricultural needs.

5) As of September 30, 1972, the status of CABEI's delinquent loans is recapped below (figures are in thousands US\$):

<u>Fund</u>	<u>Amount</u>	<u>%</u>	<u>Between 30-90 days</u>	<u>Between 91-180 days</u>	<u>Over 180 days</u>
Ordinary	\$4,523	87	263	540	3,716
Integration	699	13	195	212	292
Housing	<u>        </u>		<u>        </u>	<u>        </u>	<u>        </u>
	\$5,222		458	756	4,008
		100%		9%	14%
					77%

On the above date, loans outstanding totalled \$158 million and delinquencies \$5.2 million. This results in a loan delinquency percent of 3.3% which is well within acceptable limits for a development bank with inherently high risks. Most of the above delinquent loans will be collected. In all cases they are amply secured by mortgages, bank or personal guaranties or, in the case of the Integration Fund, by the governments themselves. In addition, during the past year CABEI increased its General Reserve (to cover possible loan losses) by \$2.8 million, bringing the Reserve to \$8 million. This represents 5.2%

of all outstanding loans, well above the amount of current delinquent loans. CABEI is giving special attention to its delinquencies in the Ordinary Fund (private sector) and is increasing its staff in order to enforce speedier collections and, even more important to give immediate technical assistance to borrowers whose loans become delinquent.

### 3. Financial Projections

The projected financial statements and cash flows for the next five years reflect a substantially higher rate of growth and activity in all areas than occurred during the past five years. Examples of this growth are shown in the following financial indicators:

	FY 72 Actual (Millions \$US)	FY 77 Projected	% Increase
Loans outstanding	156.5	510.5	235
Long term debt	142.0	447.4	208
Paid-in capital	32.0	50.0	59
Reserves, retained earnings, etc.	11.4	44.5	290
Net profit	3.4	9.7	185
Operating income	10.3	32.4	214
Operating expense	2.7	5.7	111
Disbursements	42.5	115.0	171

### 4. Repayment Prospects

CABEI is the largest and most important Central American banking institution, and has received substantial financial and political support from the Central American governments. Reflecting the Member Countries' confidence

in the Bank, Dr. Enrique Ortez Colindres, CABEI's President, was unanimously elected in November 1972 to serve for a five-year term. At the same time the Bank received high praise by its Board of Governors for its impressive accomplishments over the past eleven years and for the rising position of prestige that the Bank is giving to Central America.

The Bank is financially strong with substantial assets and possesses a technically competent, well-trained and dedicated staff. It is and will continue to be responsive to the region's development needs and has demonstrated particular initiative in securing funds from private and public external resources in financing these needs.

All subloans financed by the Integration Fund and from other resources of the Bank are thoroughly analyzed before approval. To protect itself against devaluation risks when financing infrastructure projects under the Fund, such as proposed in this loan program, CABEI requires in its subloan agreements with the Member Countries that disbursements in dollars be repaid in dollars and that disbursements of local currency generated by dollars be denominated and repaid in dollars. Further, all Fund sub-loans made to Central American governments become a dollar obligation of the governments, and AID has the right to demand repayment directly from the government in the event of a default to CABEI. Thus, the Central American governments have a very real stake in the continued success of CABEI. Any inability on the part of CABEI to pay would not only undermine the development of the CACM, but damage each government's own credit standing through default on an international obligation.

In the final analysis, AID's security cannot be in legal protection or in collateral. It lies in the abil-

ity and good faith of CABEI and its Member Countries and in the quality of the projects that the Bank finances. CABEI has demonstrated in its administration of the \$142.5 million in AID loans already approved that it appraises and manages its projects with competence, and ROCAP will continue to monitor CABEI's activities carefully to confirm that the institution's standards are maintained at a high level. The demonstrated ability of the Central American governments through CABEI to make proper investment decisions for the Fund is AID's best security. ROCAP therefore concludes that the repayment prospects of the proposed loan are excellent.

VI. LOAN ADMINISTRATION

A. IMPLEMENTATION PLAN

The execution schedule of the proposed loan program is given below.

- Authorization of Loan: February 1973.
- Presentation of draft Loan Agreement and Implementation Letter No. 1 to CABEI: April 1973.
- Negotiations and Signing of the Loan Agreement: May 1973.
- Terminal Date for Initial Conditions Precedent to Disbursement: June 1973.
- Project Execution Schedule (See Annex VI, Item C): August 1973 to December 1976.
- Project Disbursement Schedule (See Annex VII, Item B): August 1973 to June 1977. (We have added 6 months to accommodate unforeseen processing delays).
- Terminal date for the issuance of commitment documents: December 1976.
- Terminal date for final disbursement: June 1977.

B. CONTROL, MONITORING, AND REPORTING

1. ROCAP

The Assistant Director for Operations will have general managerial responsibility for loan implementation. The Capital Development Officer will be responsible for monitoring loan activities, for assuring compliance with the requirements of the Loan Agreement, for the evaluation of reports from CABEI and for reporting on a continuing basis to AID/W. The Chief Engineer will have primary responsibility for the technical monitoring of the loan. Particular

attention will be given to assure compliance by sub-borrowers with CABEI's standards for project design, execution, maintenance and environmental control. Fiscal control of loan funds will be responsibility of the Controller.

The responsibility of ROCAP for the implementation of the project will include, but is not necessarily limited to, the following:

- a. The monitoring of project activity and of the management by CABEI of the various sub-projects;
- b. Exercising the various approval authorities of ROCAP over sub-projects, consultants, contractors, contracts, changes, etc.; and
- c. Financial control of loan funds.

2. CABEI

The principal operational responsibility for implementation in CABEI will be vested in the Infrastructure Department. Considering the managerial capacity of CABEI and its impressive record over the past eleven years, the implementation of this loan is clearly within the capabilities of CABEI. In the judgment of ROCAP, the objectives of the project have a high probability of being successfully achieved.

C. PROCUREMENT AND DISBURSEMENT

Procurement under the loan program will involve contracting for consultant engineering services and construction services. All contracting will be carried out by subborrowers in accordance with standard AID Capital Projects Guidelines under CABEI

monitorship. Source and origin of all goods and services will be authorized from selected Free World Countries (Code 941) and the borrower country (CACM countries).

All contract costs will be broken down into dollar and local costs. Disbursements for dollar costs will take place under standard AID letter of commitment procedures. Disbursements for local costs financed under the loan will be made in local currency in accordance with standard ROCAP procedures. In addition, CABEI will disburse its own local currency directly to the subborrower for these local costs that it will finance from member contributions.

SECTION VII. ISSUES

A. BORDER CROSSINGS

There are at present two border crossings both along the Honduras/Nicaragua border involving CABEI financed highways which do not permit the free flow of tourist and commercial traffic between the two countries. Consequently, the benefits (both regional and local) anticipated in building the roads cannot be obtained. The two roads involved are CA-3 which runs south from highway CA-1 at Choluteca in Honduras, crosses the border into Nicaragua at Somotillo and proceeds on through Chinandega, Leon and ends in Managua, and CA-6 which begins in Tegucigalpa, Honduras, runs east to Danlí, then south across the border into Nicaragua at Las Manos and connects with highway CA-1 at Yalaguana, Nicaragua.

The Nicaraguan input into the reconstruction of approximately 50 kilometers of CA-3 and 21 kilometers of CA-6 was \$6,843,000 which was partially financed from AID Loan 596-L-006. The work on CA-3 was finished in October 1969; the work on CA-6 was finished in January 1972. The Honduran input into the reconstruction of approximately 45 kilometers of CA-3 was \$3,433,000 which was partially financed under AID Loans 596-L-006, 007 and 008, and was finished in May 1972. The input into the reconstruction of approximately 37 kilometers of CA-6 from Danlí to Las Manos was \$2,900,000, financed under AID Loans 596-L-007 and 008, and was finished in September 1972. The input into the reconstruction of approximately 107 kilometers of CA-6 from Tegucigalpa to Danlí is \$6,600,000, partially financed under AID Loan 596-L-008, and is scheduled to be completed about the end of 1976. This will make the total Honduran input of close to \$13,000,000.

At the CA-3 crossing the border is open to tourist traffic and empty trucks. No commercial vehicle carrying cargo or passengers are allowed through this crossing. Both countries have the same restrictions. At the CA-6 crossing Nicaragua will permit tourists to pass only when carrying a special permit signed by the Director General de Aduanas in Managua. Honduras will pass any tourist vehicles which Nicaragua allows to pass. No commercial vehicles are allowed to cross at this point.

Both countries claim that they do not yet have appropriate physical facilities to house customs and immigration personnel nor the appropriate legislation to designate the crossings as official points of entry. Both Nicaragua and Honduras have only rudimentary facilities at the crossings at the present time. CABEI offered to finance a joint customs facility, but the idea of a joint administration was rejected by both countries. Design work for separate facilities has been initiated. CABEI believes that the main problem is that the two governments have not faced-up to the border crossing situation.

It is therefore recommended that several conditions be included in the new loan agreement regarding border crossings. The first condition is addressed to the past problem.

"Unless AID otherwise agrees in writing, for any sub-borrower who, having received previous financing from Borrower for a highway project directly leading to or from a national border, is not maintaining an operational border point of entry/exit, Borrower shall not approve any sub-loans for financing under this Loan until evidence satisfactory to Borrower and AID that steps necessary to establish an operational point of entry/exit have been initiated."

The second condition is addressed to future sub-loans. "Prior to signing of any sub-loan agreement for a highway project leading directly to or from a national border, Borrower shall submit evidence, satisfactory to AID, that (a) appropriate arrangements have been made to finance any required customs and immigration facility, and (b) the subborrower has initiated any other steps necessary, including legislative approval, to ensure the establishment of an operational border point of entry/exit upon completion of the sub-project.

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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.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1972.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCE

Progress Towards Country Goals

i. FAA § 208; §.26:(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.*

The C.A. countries are making increased and appropriate efforts in this area through agriculture projects which will help increase food production and means for storage and distribution.

Through the CACM and other means the C.A. countries are making positive efforts to create a favorable climate for private investment both on a national and regional basis.

ID 1240-2 (4-7.)

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

The C.A. countries have been working individually and through the CACM to increase the public's role in the development process.

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

The C.A. countries have been allocating considerable available budgetary resources to both national and regional development.

*(b) Diverting such resources for unnecessary military expenditure (See also Item No. 16 and intervention in affairs of other free and independent nations.) (See also Item No. 14.)*

No C.A. country is diverting resources for unnecessary military expenditures, nor is any C.A. country intervening in other countries' affairs.

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

CABEI will make a substantial contribution of funds to the project.

*(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.*

All C.A. countries are making progress toward respect for the rule of law, freedom of expression and of the press, and recognition of the importance of individual freedom, initiative, and private enterprise as is witnessed by the absence of press and other censorship and the encouragement of initiative and private enterprise in agriculture, industry and housing. Some progress is being made in political reforms such as tax collection improvements and land tenure arrangements.

AID 1240-2 (4-72)

(7) *Adhering to the principles of the Act of Bogota and Charter of Punta del Este.* The C.A. countries have been adhering to the principles of the Act of Bogota and the Charter of Punta del Este. Further-  
ance of the CACM is in accordance with the goals therein stated.

(8) *Attempting to repatriate capital invested in other countries by its own citizens.* A major purpose of C.A. integration is to make the Common Market more attractive to Central American capital, establish-  
ment of more viable export industries and the encouragement of tourism should aid in en-  
couraging the return of capital invested elsewhere.

(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.* C.A. integration, is an effective response to the vital economic, political and social concerns of the people in the region and  
to its problems of development, and this loan in particular will provide opportunities for self-help.

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

Yes.

### 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?

There is no evidence of any such debt owed to a U.S. citizen by a C.A. government.

AID 1240-2 (4-7)

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?
- There is no evidence that any such action has been taken by any C.A. governments or their agencies.
4. 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,
- No C.A. country has taken any such action.
- a. has any deduction required by Fishermen's Protective Act been made?
- N/A.
- b. has complete denial of assistance been considered by A.I.D. Administrator?
- N/A.

AID 1240-2 (4-77)

Relations with U.S. Government and  
Other Nations

5. FAA § 620(d). *If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?*
- This assistance is not for a productive enterprise. However, if a problem arises with respect to any proposed sub-project, it will be dealt with in accordance with policies in effect at that time.
6. 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?*
- No Central American country has permitted such action.
7. FAA § 680(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?*
- All Central American countries have signed investment guaranty agreements with the U.S. and have instituted the program.
8. FAA § 680(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
- No Central American country is in default for payments due under any A.I.D. loan.

AID 1240-2 (4-73)

9. FAA § 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
- No Central American country has severed diplomatic relations with the U.S.
10. FAA § 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?
- All Central American countries are current in their U.N. obligations.
11. FAA § 620(v). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?
- No Central American country trades with or assists Cuba in any way nor permits ships or aircrafts under its flag to carry cargoes to or from Cuba.
12. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?
- The Secretary of State has determined that each Central American country is not controlled by the international Communist movement.

AID 1240-2 (4-72)

13. FAA § 620(f). Is recipient country a Communist country? No.
14. FAA § 630(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No Central American country is involved in or is planning such subversion or aggression.
15. FAA § 630(n). 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? No Central American country furnishes goods, or permits ships or aircrafts under its flag to carry goods, to North Vietnam.
16. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? No Central American country has failed to take appropriate steps respecting the sale and transport of narcotic drugs and other controlled substances.

Military Expenditures

17. FAA § 620(a). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

No Central American country spends an excess amount of its country's budget or foreign exchange reserves for military equipment. No Central American country has purchased sophisticated weapon systems.

CONDITIONS OF THE LOANGeneral Soundness

18. FAA § 301(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.
19. 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. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

The proposed terms and conditions of the loan are legal under Central American and U.S. laws and reasonable for Central America at this time.

CABEI has submitted an application for this loan to AID containing strong assurances that the funds will be used in a sound manner.

There appears to be an excellent capacity on the part of CABEI to repay the loan. Moreover, the loan is guaranteed by the Member Countries.

AID 1240-2 (4-72) .

21. 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 United States of the assistance?
- Financial and other plans necessary to carry out the project have been completed. CABEI has the engineering competence to analyze the sub-projects as they are programmed, and selection of the projects will be subject to AID approval. The cost to the U.S. is limited to the level of support to the Fund. Any CABEI commitments to subprojects on which costs exceed loan funds will be the responsibility of CABEI.
22. 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?
- Existing laws pose no obstacle to accomplishing the purposes of the loan.
23. FAA § 611(c). 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?
- The Mission Director has so certified.
24. FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
- No other free world financing appears to be available for this project.

AID 1240-2 (4-72)

Loan's Relationship to Achievement  
of Country and Regional Goals

25. 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.
- The loan will support and further a major institution of Central American regional integration and will provide some of the vital physical infrastructure linking and servicing the region thereby encouraging important areas of economic, political and social development.
26. FAA § 208. Is project susceptible of execution as part of regional project? If so why is project not so executed?
- The project is regional in nature and is being executed and coordinated on a regional basis.
27. 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.
- The activity is closely related to and consistent with other development activities and will directly contribute to the long range objectives of the CACM.
28. FAA § 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.
- The development of the physical infrastructure of Central America is a crucial factor in the CACM's effort to achieve self-sustaining growth.

AID 1240-2 (4-72)

29. FAA § 881(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.
- The loan will directly contribute to the assuring of maximum participation in the task of economic development through assisting public sector institutions and private sector enterprises.
30. FAA § 881(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.
- The program recognizes clearly the particular needs, desires and capacities of the people of the region and indirectly supports and furthers the other goals.
31. 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.
- The loan will directly serve to encourage the flow of international trade and aid private initiative, and will indirectly further efforts of the countries to attain the other goals.

AID 1240-2 (4-72)

32. FAA § 819. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

The assistance is not being furnished to a newly independent country.

33. 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.

The activity is consistent with the finding and recommendations of CIAP.

34. FAA § 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

This activity will have no direct effect on the cooperative movement in Central America.

35. 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.

This assistance will directly encourage regional development programs through increased economic and fiscal stability in the CACM and will thereby also contribute to the economic and political integration in the region.

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

36. FAA § 251(b)(4); § 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.

The loan will have a favorable effect on the U.S. economy. Experience under previous infrastructure loans indicate that a number of United States consultants and contractors will win contracts for carrying out the highway projects. In addition the loan will finance U.S. construction equipment needed by all contractors. Loan proceeds will be furnished in a manner as consistent as possible with improving the U.S. balance of payments position.

37. FAA § 821(2). 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).
- The loan will encourage trade and investment in Central America by providing adequate physical infrastructure in the region--without which neither could take place. Furthermore U.S. firms will be invited to bid on all contracts for goods and services financed under the loan.
38. 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?
- Any engineering or professional services financed under the loan may be provided by U.S. firms or their affiliates.
39. FAA § 822. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.
- U.S. small business will be ensured the opportunity to participate equitably in the furnishing of goods under the loan.
40. FAA § 822(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
- No.

AID 1240-2 (4-72)

30. FAR § 221. 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.

Such technical assistance as may be financed under the loan will be contracted from private enterprise.

31. FAR § 222(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.

All loan funds will go initially to an intermediate credit institution. Subsequently almost all funds will finance C.A. government expenditures for goods and services provided by private enterprise.

Loan's Compliance with Specific Requirements

32. FAR § 201(a). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

33. FAR § 212(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

The loan agreement will so provide.

AE 1240-2 (4-72)

- ... FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? Yes.
46. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? The loan agreement will so provide.
47. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan? Yes.
48. FAA § 604(e). If offshore 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? There will be no offshore procurement of any agricultural commodities financed under the loan.
49. 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? The loan will not finance a water or water-related land resources construction project or program.

AID 1240-2 (4-72)

50. FAA § 611(o). 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? Any construction contracts financed under the loan will be required, through the loan agreement, to be let competitively to the maximum extent possible.
51. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? The loan agreement will preclude such use of funds.
52. 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 United States are utilized to meet the cost of contractual and other services. CABEI is making a substantial contribution of funds to the project. No U.S. owned foreign currency is available for this project.
53. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel? No.
54. App. § 106. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? The loan agreement will so provide.
55. App. § 108. Will any loan funds be used to pay U.N. assessments? No.

AID 1240-2 (4-72)

56. App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (A.I.D. Regulation 7).  
The loan agreement will require such compliance.
57. 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?  
No.
58. App. § 50L. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress?  
No.
59. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million?  
The aggregate value of assistance to the project to be furnished by the U.S. will not exceed \$100 million.
60. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?  
No excess foreign currency is owned by the U.S. in the region at the present time.

AID 1240-2 (4-72)

61. MMA § 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

The loan agreement will so provide.

BOARD OF GOVERNORS

Guatemala

Lic. Carlos Molina Mencos  
Board President,  
Minister of Economy of Guatemala

Accountant Augusto Contreras Godoy  
President of the Bank of Guatemala

Nicaragua

Lic. Juan Jose Martínez  
Minister of Economy,  
Industry and Commerce of  
Nicaragua

Dr. Roberto Incer Barquero  
President of the Central Bank  
of Nicaragua

El Salvador

Lic. Salvador Sánchez Aguillón  
Minister of Economy of  
El Salvador

Ing. Edgardo Suárez Contreras  
President of El Salvador's Central  
Reserve Bank

Costa Rica

Lic. Claudio Alpizar  
Minister of Finance of  
Costa Rica

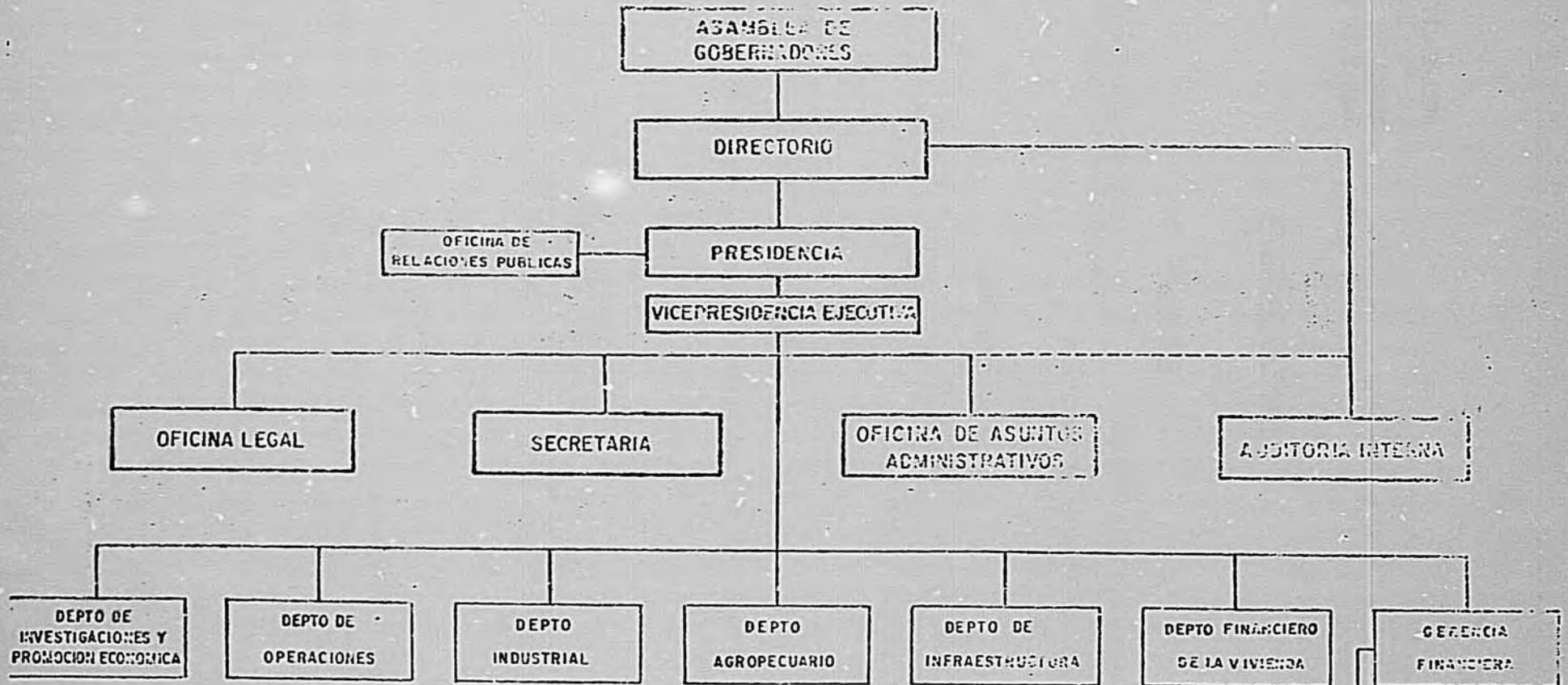
Ing. Claudio Antonio Volio Guardia  
Manager of the Central Bank of Costa  
Rica

Honduras

Lic. Rubén Mondragón  
Minister of Economy and  
Commerce of Honduras

Lic. Alberto Galeano  
President of the Central Bank  
of Honduras

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA  
 ORGANIGRAMA ESTRUCTURAL  
 1972 - 1973



## BIOGRAPHIC DATA ON BANK PERSONNEL

PRESIDENT  
VICE PRESIDENT  
AND  
BOARD OF DIRECTORSEnrique Ortez Colindres

POSITION: President (and Director-Honduras)  
CIVIL STATUS: Single  
DATE OF BIRTH: October 29, 1931  
NATIONALITY: Honduran

EDUCATION: Lawyer and Notary Public - University of Honduras  
  
Doctor in Jurisprudence - University of Paris (The Sorbonne)  
  
Special courses in Comparative Jurisprudence with Professor De Sala Canizales, Paris

EXPERIENCE:

1960-1963 Head of Cultural and Educational Affairs Division, ODECA  
  
Permanent Secretary to the Cultural Council ODECA, consisting of the Ministers of Education of the Central American countries

1964-1965 Alternate Governor to the World Bank

1964-1972 Director for Honduras to the Central American Bank for Economic Integration

1966-1968 Vice President Central American Bank for Economic Integration

1968-1972 President - Central American Bank for Economic Integration

LANGUAGES: Spanish, French and English

Edgar Jiménez

POSITION:	Executive Vice President
CIVIL STATUS:	
DATE OF BIRTH:	September 9, 1929
NATIONALITY:	Costa Rican
EDUCATION:	Economic and Social Sciences graduate with major in Business Administration, B.A. degree from the University of Costa Rica.
1955	Thesis: The Electric Power Industry in Costa Rica
EXPERIENCE:	
November 1970 - November 1972	Coordinator of regional and local operations for ECLA in Mexico; Liaison official between ECLA and Central American Governments and regional organizations; supervision of library, statistical and editorial sections.
September 1966 - November 1970	Public Services Advisor and Regional Expert of the United Nations Technical Assistance office - ECLA/Mexico.
August 1960 - September 1966	General Manager of the Costa Rican Electrical Institute (Instituto Costarricense de Electricidad - ICE). Highest rank executive and administrative officer, and legal representative of ICE.
March 1954 - September 1966	Professor of Economic and Social Sciences, University of Costa Rica. Courses included: Bank Organization and Management; Financial Analysis; Cost Accounting; Audit; Intermediate General Accounting.

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ANNEX II  
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September 1957 -  
August 1960

Auditor General of the Costa Rican  
Electrical Institute (ICE).

May 1956 -  
September 1957

Deputy Director, Costa Rican National  
Electricity Service (organism in  
charge of regulating power, telephone  
and water service).

February 1953 -  
May 1956

Professional activities.

May 1948 -  
February 1953

National Bank of Costa Rica employee  
(various departments).

Héctor Villagrán Salazar

**POSITION:** Director - Vice President - Guatemala  
**CIVIL STATUS:** Married  
**DATE OF BIRTH:** August 7, 1931  
**NATIONALITY:** Guatemalan

**EDUCATION:** Economic graduate - B.A. degree from the Faculty of Economic Sciences - University of San Carlos de Guatemala

1957 Courses on: Petroleum Economy in Venezuela and Colombia; Industrial Economy and Business Administration - Association Pour L'Organisation des Stages en France, (ASTEF)-Paris, France

**EXPERIENCE:**

1951-1955 Fiscal - General Accounting Office of Guatemala ("Tribunal y Contraloría de Cuentas")

1955-1962  
 1971-1975\* Banking:

- Bank of Guatemala
- Member of the Guatemalan Monetary Board - (\* Period for which I was elected)

1962-1972  
 1972 Industrial:

- Central American Institute of Research and Industrial Technology--(ICAITI)
- Expert on Industrial Economy of the work group BID-CAEEI-SIECA--Project of Multinational River Basins of C.A.

1967-1972 Academic: Professor at the Faculties of Economy of the following Guatemalan Universities: Universidad de San Carlos, Universidad Rafael Landívar, Universidad Dr. Mariano Gálvez.

Member of the following organizations:
 

- School of Economists, Public Accountants and Auditors of Guatemala
- International Society for Development
- Managers Association

Salvador Juárezgui Brizuela

POSITION: Director - El Salvador  
CIVIL STATUS: Married  
DATE OF BIRTH: May 13, 1918  
NATIONALITY: Salvadorian

EDUCATION: Agronomist - Escuela Superior para  
Estudios Agronómicos de Santa Tecla.

Won scholarship from the Program of  
the Coordinator of Interamerican  
Affairs for special courses in refore-  
station and Water & Soil Conservation  
(Diploma from the U.S. Dept. of agri-  
culture; Diploma from the Office of  
the Coordinator of Interamerican Af-  
fairs, Washington, D.C.)

Studies on Plant Breeding - Univer-  
sity of California, Los Angeles.

Studies of Fish Culture - University  
of Cornell - Ithaca, New York.

Visitor at the University of Maryland;  
School of Agriculture, Albuquerque,  
New Mexico; University of Knoxville,  
Tennessee; University of Dover, Dover,  
Delaware; University of Rutgers, New  
Brunswick, New Jersey.

Post-Graduate: University of Georgia,  
Athens, Georgia; School of Post Graduates  
of the U.S. Department of Agriculture.

EXPERIENCE:

(dates not given)

Chief, Reforestation Department,  
Ministry of Agriculture.

Sub-secretary of Agriculture, Industry  
and Commerce.

Second Secretary, Embassy of El  
Salvador in the U.S.

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ANNEX II  
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Minister of Economy  
Minister of Agriculture

Ambassador to Japan  
Ambassador to the Republic of China  
Ambassador to the Republic of Korea

Executive Secretary of the National  
Council of Planning and Economic  
Coordination of El Salvador.

Have received the following awards:

Quetzal Award, Official Grade, given  
by the Government of Guatemala;

Order for Distinguished Services,  
First Class, Silver Cross, given  
by the Republic of Korea;

Order of the Rising Sun, First Class,  
Silver Plaque, from Japan;

Order of the Shining Star, First Class,  
Silver Plaque, given by the Re-  
public of China.

Francisco Bushting

**POSITION:** Director - Nicaragua  
**CIVIL STATUS:** Married  
**DATE OF BIRTH:** January 1, 1912  
**NATIONALITY:** Nicaraguan  
  
**EDUCATION:** Teacher of Elementary School  
  
 Graduated from the Military Academy  
 in Nicaragua - 1932  
  
Training Courses:  
 "Advanced Infantry" 1954 one year in  
 Venezuela  
 "Staff Army" 1957 eight months in the  
 Canal Zone, Panama  
 "Intelligence and Safety" 1956, 2  
 months in the United States of America  
 "Military Social-Political Economic  
 Course" at the Interamerican Defense  
 School in Washington D.C. - OEA -  
 1963 - nine months  
  
**EXPERIENCE:**  
  
 1937 First Officer of the Defense Ministry  
 1939 Police Chief  
 1942 Arms Commandant  
 1948 Police Chief  
 1950 Arms Commandant  
 1951-1955 Official Aid to the President of the  
 Republic of Nicaragua, General Anastasio  
 Somoza  
  
 1956 Organizer and Commander of the Combat  
 Battalion "General Somoza"  
 1964 Transit Chief in Managua City  
 1961-1970 Secretary of Defense  
  
**LANGUAGES:** Spanish, English

UNCLASSIFIED

ANNEX II

Page 10 of 10

Alejo Aguilar Alvarado

**POSITION:** Director - Costa Rica  
**CIVIL STATUS:** Married  
**DATE OF BIRTH:** March 16, 1930  
**NATIONALITY:** Costa Rican

**EDUCATION:** Accountant - specialized in Industrial Costs

Courses on: Management, Economy, Industrial Engineering, Marketing Management, Publicity, Market and Statistics Investigation

**EXPERIENCE:**

1948-1951 Administrator of his father's business

1951-1972 Manager of his own business. Owns a furniture factory and three commercial stores

1963-1964 Advisor for "Parsons Industries"

1966-1968 Director Chamber of Commerce

**LANGUAGES:** Spanish, English

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

BALANCE GENERAL CONSOLIDADO COMPARATIVO

EJERCICIOS 1968/69 A 1976/77

(EN MILES DE \$CA)

	R E A L				P R O Y E C C I O N				
	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77
<b>ACTIVO</b>									
DISPONIBILIDADES INMEDIATAS	19,893.5	19,094.7	16,381.9	25,394.0	27,555.0	29,570.0	19,936.2	18,230.1	20,487.3
PRÉSTAMOS POR COBRAR	63,329.3	81,693.4	121,885.0	156,533.7	199,672.2	256,411.4	333,959.7	421,080.0	510,510.0
CAPITAL SUSCRITO POR RECIBIR	10,500.0	15,000.0	12,500.0	8,000.0	2,500.0	--	--	--	--
OTROS ACTIVOS	2,956.2	3,978.5	5,553.1	7,599.3	9,919.6	14,509.8	16,997.5	19,982.0	23,587.8
TOTAL	<u>96,679.0</u>	<u>119,766.6</u>	<u>156,320.0</u>	<u>197,527.0</u>	<u>239,646.8</u>	<u>300,491.4</u>	<u>370,893.4</u>	<u>459,292.1</u>	<u>554,585.1</u>
<b>PASIVO Y CAPITAL</b>									
PRÉSTAMOS A LARGO PLAZO	58,529.8	70,908.0	104,854.1	141,936.5	179,138.4	233,771.2	293,000.9	368,275.7	447,380.6
OTROS PASIVOS	816.2	1,549.8	1,311.6	2,001.7	3,141.8	4,462.1	6,052.3	8,040.0	10,524.5
CAPITAL PAGADO	22,000.0	25,000.0	27,500.0	32,000.0	37,500.0	40,000.0	43,000.0	46,000.0	50,000.0
CAPITAL LLAMADO	10,500.0	15,000.0	12,500.0	8,000.0	2,500.0	--	--	--	--
CAPITAL DONADO	2,165.2	2,165.2	2,165.2	2,165.2	2,165.2	2,165.2	2,165.2	2,165.2	2,165.2
SUPERVIT Y RESERVAS	2,667.8	5,143.6	7,989.1	11,423.6	15,201.4	20,092.7	26,675.0	34,811.2	44,514.8
TOTAL	<u>96,679.0</u>	<u>119,766.6</u>	<u>156,320.0</u>	<u>197,527.0</u>	<u>239,646.8</u>	<u>300,491.4</u>	<u>370,893.4</u>	<u>459,292.1</u>	<u>554,585.1</u>

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ESTADO COMPARATIVO DE INGRESOS Y GASTOS CONSOLIDADO

EJERCICIOS 1968/69 A 1976/77

(En miles de \$CA)

	R E A L				P R O Y E C C I O N				
	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77
<b>INGRESOS</b>									
Intereses y Comisiones sobre Préstamos	4.024.1	4.998.3	6.651.4	9.255.3	11.417.9	14.747.7	19.352.2	25.216.6	31.693.8
Ingresos sobre Inversiones	966.6	1.317.3	997.0	1.002.9	1.000.0	990.0	840.0	750.0	735.0
<b>Total Ingresos</b>	<b>4.990.7</b>	<b>6.315.6</b>	<b>7.648.4</b>	<b>10.258.2</b>	<b>12.417.9</b>	<b>15.737.7</b>	<b>20.192.2</b>	<b>25.966.6</b>	<b>32.428.8</b>
<b>GASTOS</b>									
Gastos Financieros	1.807.6	2.070.5	2.637.9	4.126.5	5.437.5	7.360.7	9.528.2	12.856.4	17.048.9
Gastos de Operación	1.764.0	1.769.3	2.165.0	2.697.2	3.202.6	3.485.7	4.081.7	4.974.0	5.676.3
<b>Total Gastos</b>	<b>3.571.6</b>	<b>3.839.8</b>	<b>4.802.9</b>	<b>6.823.7</b>	<b>8.640.1</b>	<b>10.846.4</b>	<b>13.609.9</b>	<b>17.830.4</b>	<b>22.725.2</b>
Utilidad del Período	1.419.1	2.475.8	2.815.5	3.434.5	3.777.8	4.891.3	6.532.3	8.136.2	9.703.6
Utilidad Ejercicios Anteriores	1.248.7	2.667.8	5.143.6	7.989.1	11.423.6	15.201.4	20.092.7	26.675.0	34.811.2
Utilidades Retenidas	2.637.8	5.143.6	7.989.1	11.423.6	15.201.4	20.092.7	26.675.0	34.811.2	44.514.8

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FEDERAL BUREAU OF INVESTIGATION  
 DEPARTMENT OF JUSTICE  
 ANNUAL REPORT  
 FISCAL YEAR 1977

FUNCTION	1976				1975				1974				1973				1972				1971				TOTAL									
	NO.	AMOUNT																																
1. SALARY AND BENEFITS	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00	10,000	10,000.00
2. TRAVEL	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00	1,000	1,000.00
3. SUPPLIES	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00	500	500.00
4. CONTRACTS	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00	2,000	2,000.00
5. EQUIPMENT	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00
6. OTHER PERSONNEL	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00	3,000	3,000.00
7. OTHER	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00	1,500	1,500.00
<b>TOTAL</b>	<b>27,500</b>	<b>27,500.00</b>																																

Agency

Expend 1977

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 AUTHORITY:  
 50 USC 3025  
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BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

F. C. I. E.

BALANCE GENERAL COMPARATIVO - EJERCICIOS 1968/69 A 1976/77

(EN MILES DE \$CA)

ACTIVO	REAL				PROYECCION				
	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77
DISPONIBILIDADES INMEDIATAS	7.283.7	5.637.6	1.717.7	6.502.6	8.595.5	9.646.0	7.941.8	7.167.3	8.204.5
PRÉSTAMOS POR COBRAR	15.556.6	30.534.9	58.070.0	78.101.2	103.121.5	132.503.8	170.575.9	204.713.9	234.147.6
CAPITAL SUSCRITO POR RECIBIR	8.400.0	13.500.0	11.500.0	7.500.0	2.500.0	-.-	-.-	-.-	-.-
OTROS ACTIVOS	625.8	843.5	1.149.6	2.329.6	3.534.4	4.980.2	6.787.4	9.046.4	11.870.2
TOTAL	31.866.1	50.516.0	72.437.3	94.433.4	117.751.4	147.130.0	185.305.1	220.927.6	254.222.3
<u>PASIVO Y CAPITAL</u>									
PRÉSTAMOS A LARGO PLAZO	11.008.8	21.085.6	41.415.7	61.318.0	81.099.4	105.959.8	135.265.8	160.601.6	181.093.6
OTROS PASIVOS	63.7	297.2	452.4	584.6	1.632.3	2.837.1	4.282.9	6.090.1	8.349.1
CAPITAL PAGADO	11.700.0	14.100.0	16.100.0	20.100.0	25.100.0	27.600.0	30.600.0	33.600.0	37.600.0
CAPITAL LLAMADO	8.400.0	13.500.0	11.500.0	7.500.0	2.500.0	-.-	-.-	-.-	-.-
SUPERÁVIT Y RESERVAS	603.6	1,533.2	2,969.2	4,930.8	7,419.7	10,733.1	15,156.4	20,635.9	27,179.6
TOTAL	31.866.1	50.516.0	72.437.3	94.433.4	117.751.4	147.130.0	185.305.1	220.927.6	254.222.3

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F C I E

ESTADO COMPARATIVO DE INGRESOS Y GASTOS - EJERCICIOS 1968/69 a 1976/77  
(En miles de \$CA)

	R E A L				P R O Y E C C I O N				
	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77
<b>INGRESOS</b>									
Intereses y Comisiones sobre Préstamos	758.8	1.359.2	2.429.6	3.525.5	4.623.2	6.126.3	8.031.0	10.132.8	12.068.7
Intereses sobre Inversiones	435.1	418.1	208.0	194.3	300.0	350.0	400.0	325.0	325.0
Total Ingresos	1.193.9	1.777.3	2.637.6	3.719.8	4.921.2	6.476.3	8.431.0	10.457.8	12.393.7
<b>CASTOS</b>									
Gastos Financieros	231.7	398.9	596.9	1.013.7	1.495.4	2.151.1	2.894.7	3.698.3	4.442.0
Gastos de Operación	504.9	533.2	604.7	739.5	936.9	1.011.8	1.113.0	1.280.0	1.408.0
Total Gastos	736.6	937.7	1.201.6	1.758.2	2.432.3	3.162.9	4.007.7	4.978.3	5.850.0
Utilidad del Período	457.3	839.6	1.436.0	1.961.6	2.488.9	3.313.4	4.423.3	5.479.5	6.543.7
Utilidad Ejercicios Anteriores	236.3	692.6	1.533.2	2.969.2	4.930.8	7.419.7	10.733.1	15.156.4	20.635.9
Utilidades Retenidas	693.6	1.533.2	2.969.2	4.930.8	7.419.7	10.733.1	15.156.4	20.635.9	27.179.6

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BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

P. C. I. A.

PROYECCIONES FINANCIERAS QUINQUENALES 1970-73 A 1976-77  
(En miles de D.C.A.)

	1971-1972		1973-1974			1975-1976			1977-1978			1979-1980			TOTAL QUINQUENAL				
	REAL	ESTIM.	Monedas Totales	Monedas Locales	Monedas Obligas.	TOTAL	Monedas Locales	Monedas Obligas.											
<b>I. SALDO INICIAL DE CASH</b>	1,711.2	6,302.6	3,029.0	1,421.6	1,587.5	3,472.5	3,111.0	9,541.0	2,851.0	6,792.0	7,941.8	3,572.4	4,366.4	7,167.3	3,372.7	3,793.6	6,502.6	5,075.0	1,423.6
<b>II. INCREMENTOS DEBITANTES</b>	2,395.7	2,711.7	1,519.8	6,012.1	1,007.1	2,251.7	3,912.7	14,321.0	3,000.0	11,301.0	19,709.5	2,281.0	14,428.5	21,202.5	6,380.7	16,822.3	72,197.0	15,602.3	57,194.7
Recuperaciones	1,000.0	1,000.0	100.0	1,236.9	1,191.0	691.6	2,250.4	4,494.2	500.0	3,050.2	5,944.5	1,208.1	4,338.4	4,554.6	1,312.7	5,223.1	22,452.5	4,489.5	47,263.0
Ingresos de Operaciones	3,219.8	4,023.2	584.2	3,937.0	6,478.3	1,319.3	5,137.0	5,471.0	1,800.0	6,584.8	10,457.8	2,711.5	6,766.3	12,392.7	2,594.7	9,791.0	42,051.0	6,990.0	33,721.1
Otros Ingresos	--	1,047.7	209.3	835.2	1,704.0	241.0	901.0	1,645.8	289.2	1,155.5	1,807.2	361.4	1,453.8	2,259.0	451.8	1,507.2	7,764.5	1,552.9	6,211.6
<b>III. PAGOS DE CAPITAL</b>	4,000.0	3,000.0	3,000.0	--	4,500.0	2,500.0	--	3,000.0	3,000.0	--	3,000.0	3,000.0	--	4,000.0	4,000.0	--	17,500.0	17,500.0	--
<b>IV. UTILIZACION CREDITO EXTERNO CONTINGENTE</b>	20,200.0	20,200.0	9,000.0	10,427.7	10,100.0	11,500.0	12,000.0	11,000.0	4,000.0	6,222.0	1,160.0	525.0	725.0	--	--	--	56,700.0	26,676.8	30,023.8
<b>V. CREDITOS EN NEGOCIACION</b>	--	--	--	--	1,150.0	--	1,150.0	13,750.0	2,400.0	10,182.0	23,392.8	11,635.1	13,707.7	9,850.6	4,786.5	5,069.7	56,000.0	20,879.8	34,120.2
<b>VI. SUPLEMENTOS ADICIONALES DE FINANCIAMIENTO</b>	--	--	--	--	--	--	4,000.0	(4,000.0)	--	10,000.0	(10,000.0)	--	4,500.0	(4,500.0)	--	4,500.0	--	73,000.0	(23,000.0)
<b>VII. CONVERSION DE MONEDAS EXTERNAS</b>	--	--	--	--	--	--	--	--	--	--	--	--	--	13,000.0	6,500.0	8,500.0	13,000.0	6,500.0	6,500.0
<b>VIII. TOTAL DE DISTRIBUCIONES</b>	19,515.0	19,263.7	10,500.0	17,863.4	40,700.8	23,724.6	23,350.2	56,776.6	25,271.3	26,459.5	55,704.1	26,976.5	28,727.8	55,231.4	27,540.8	27,690.6	220,900.2	114,637.9	106,262.3
<b>IX. TOTAL DE EGRESOS</b>	23,742.4	10,663.2	17,927.6	12,740.4	17,431.8	20,870.0	16,764.7	48,429.1	74,093.9	24,733.1	46,530.6	23,602.8	24,934.0	47,026.9	22,971.8	21,055.1	272,695.7	110,068.9	162,626.8
<b>X. EGRESOS OPERACIONALES Y FINANCIEROS</b>	2,062.7	2,087.0	1,100.0	1,072.2	1,010.7	1,400.1	1,029.8	4,551.2	2,100.1	2,000.4	6,195.3	3,001.2	3,194.1	8,210.6	3,488.2	4,226.4	25,356.2	12,515.5	12,840.7
Gastos de Operación	779.5	906.9	453.2	93.7	1,011.8	910.0	101.2	1,113.0	1,001.7	111.3	1,280.0	1,122.0	128.0	1,468.0	1,267.2	140.8	5,747.7	5,174.7	575.0
Gastos Financieros	1,018.7	1,459.1	747.7	747.7	2,151.7	1,325.3	1,671.6	2,894.7	1,447.4	1,547.3	3,698.3	1,849.2	1,645.1	4,442.0	2,221.0	2,221.0	14,681.5	7,340.8	7,340.7
Amortizaciones	304.0	--	--	447.8	447.8	--	--	447.8	--	447.0	1,217.0	--	1,217.0	2,364.6	--	2,364.6	4,925.0	--	4,925.0
<b>XI. DESGASTOS</b>	20,200.0	20,200.0	18,093.9	10,427.7	10,100.0	11,500.0	12,000.0	11,000.0	4,000.0	6,222.0	1,160.0	525.0	725.0	--	--	--	56,700.0	26,676.8	30,023.8
<b>XII. OTROS EGRESOS</b>	1,047.7	1,000.0	241.0	581.8	1,443.8	200.0	3,450.6	1,807.2	361.4	1,445.8	2,259.0	451.8	1,807.2	2,323.8	564.8	2,259.0	9,500.6	1,908.2	7,632.4
<b>XIII. SALDO FINAL DE CASH</b>	6,302.6	8,395.3	1,472.5	5,123.0	9,348.0	2,974.0	8,747.0	7,941.8	3,572.4	4,366.4	7,167.3	3,372.7	3,793.6	8,204.5	4,569.0	3,635.5	8,204.5	4,569.0	3,635.5

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TABLE 1: CENTRAL AMERICA - FOREIGN TRADE - CURRENT ACCOUNT

(Millions of CA\$)

Year	Regional Trade	Extra Regional Trade		Balance
		Exports FOB	Imports CIF	
1960	\$ 32.7	\$407.4	\$461.5	\$- 74.1
1961	36.8	427.3	459.0	- 41.7
1962	50.8	462.9	501.3	- 38.4
1963	72.1	517.0	580.5	- 63.5
1964	106.2	567.2	664.3	- 97.1
1965	135.5	625.7	753.8	-128.1
1966	174.7	662.2	762.3	-100.1
1967	213.9	642.6	816.4	-173.8
1968	258.3	693.0	787.9	- 94.9
1969	249.0	722.8	816.6	- 93.8
1970	297.4	797.1	936.6	-139.5
1971	275.7	832.6	1,021.8	-189.2

Source: SIECA, Statistic Annex No. 113 (Tables 1 and 9) and No. 125, and unpublished data supplied by SIECA.

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TABLE 2 - CENTRAL AMERICA:  
BALANCE OF PAYMENTS - YEAR - END 1966 TO 1970

(Millions of CA\$)

	1966	1967	1968	1969	1970	1971
Current Account	<u>-172.3</u>	<u>-233.5</u>	<u>-173.4</u>	<u>-154.4</u>	<u>-179.7</u>	<u>-248.8</u>
Merchandise	- 10.8	- 71.6	- 6.9	- 0.7	- 14.1	- 76.0
Services	-200.1	-202.2	-207.2	-203.1	-215.9	-235.9
Transfers	38.6	40.3	40.7	49.4	30.3	63.1
Capital Account	<u>109.0</u>	<u>194.0</u>	<u>190.0</u>	<u>185.9</u>	<u>212.2</u>	<u>314.2</u>
Private Account	70.7	132.6	95.0	114.1	117.0	197.4
Public Account	38.3	61.4	95.0	71.8	95.2	116.8
Errors & Omissions	17.0	27.5	18.3	10.1	- 11.0	- 20.5
Change in Net Reserves	- 46.3	- 12.0	35.4	21.4	20.6	44.9

Source: Central American Monetary Council

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TABLE 3: CENTRAL AMERICA  
SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT, 1965 - 1971

(Millions of CA\$)

Year	Service Payments (Inter- est and Amortization)*	Exports of Goods and Services**	Debt Service as a % of Exports
1966	55.1	974.6	5.7
1967	59.2	999.0	5.9
1968	69.3	1,110.5	6.2
1969	78.4	1,147.2	6.8
1970	96.3	1,310.6	7.3

Source: \* IBRD, Economic and Social Data Division

\*\* Central American Monetary Council

TABLE 4: CENTRAL AMERICA:  
REVENUES AND EXPENDITURES OF CENTRAL GOVERNMENTS

(Millions of C.A. Pesos)

	1968	1969	1970	1971
I Operating Budget (Balance)	54.1	65.9	80.6	73.5
A. Current Revenues	463.1	516.8	580.9	611.5
Taxes	422.3	460.1	518.9	543.8
Non-Tax	22.6	26.4	29.5	35.9
Other	18.1	30.2	32.5	31.8
B. Expenditures	-409.0	-450.9	-500.3	-538.0
II Capital Budget (Balance: A - B)	-57.9	-54.0	-56.9	-77.5
A. Revenues on Capital Account	73.2	100.1	125.5	166.3
Direct Loans	39.5	40.7	64.5	104.6
- Domestic	(0.4)	(2.6)	(3.7)	(22.2)
- Foreign	(39.1)	(38.2)	(60.8)	(82.4)
Government Bonds	31.0	56.3	55.0	57.6
Capital Transfers	2.1	2.0	1.5	1.4
Other	0.6	1.0	4.6	2.7
B. Investment	131.1	154.1	182.4	243.8
Real Investment	54.9	75.5	84.9	99.2
Financial Investment	44.2	44.7	51.4	55.3
- Amortization Public Debt	(42.1)	(42.0)	(48.0)	(51.7)
- Loans to Private Sector	----	----	----	(3.0)
- Others	(2.0)	(1.8)	(2.5)	(0.6)
Transfers of Capital	29.6	29.7	38.4	67.3
Other*	2.4	4.0	7.7	22.0

\*Consists of obligations ("compromisos") in the case of El Salvador

Source: SIECA, Indicadores Económicos, No. 12 and unpublished information supplied by SIECA.

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA  
 PROGRAMA REGIONAL DE CARRETERAS

OCEANO ATLANTICO

OCEANO PACIFICO

REFERENCIAS

CARRETERAS EXISTENTES

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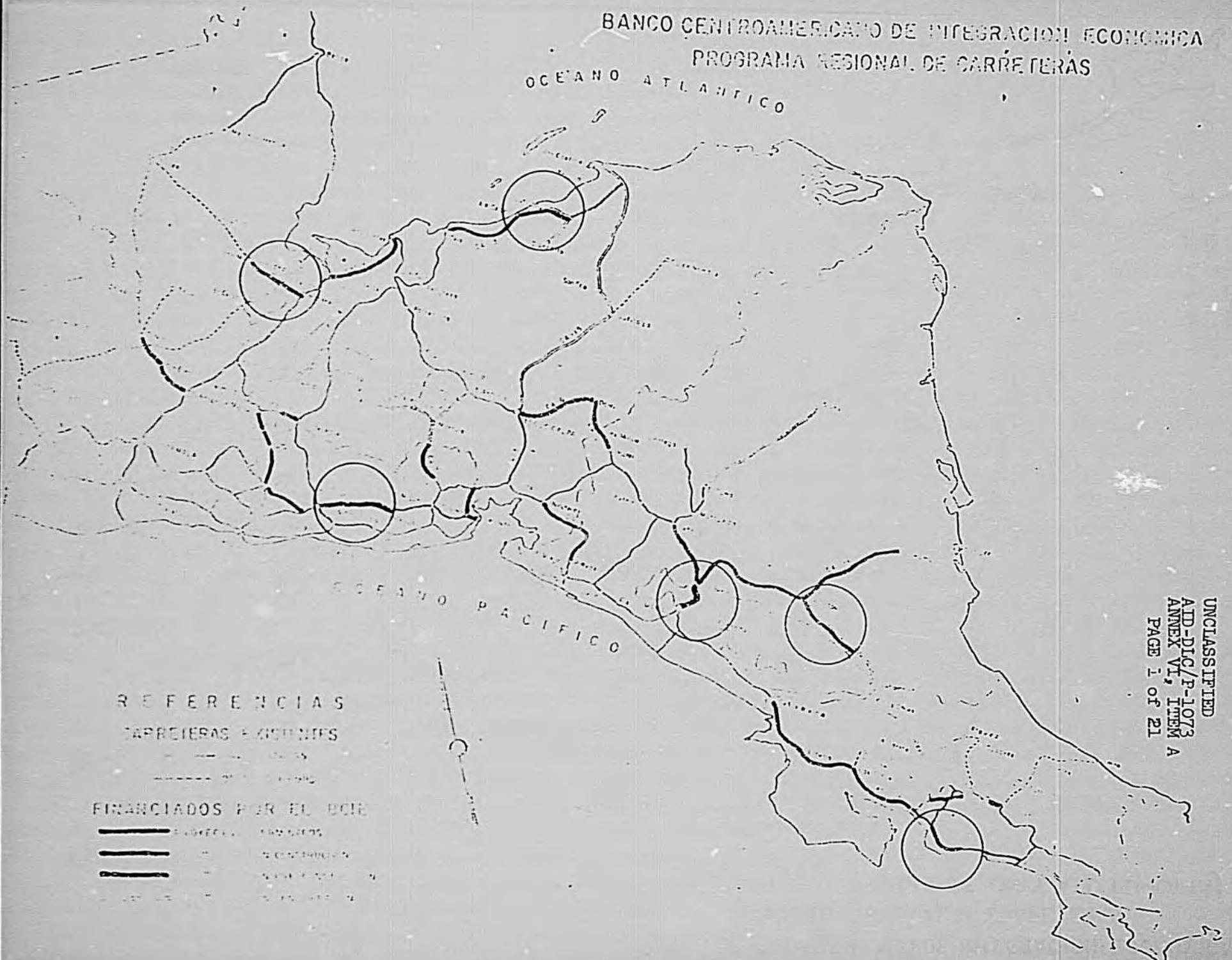
FINANCIADOS POR EL BCIE

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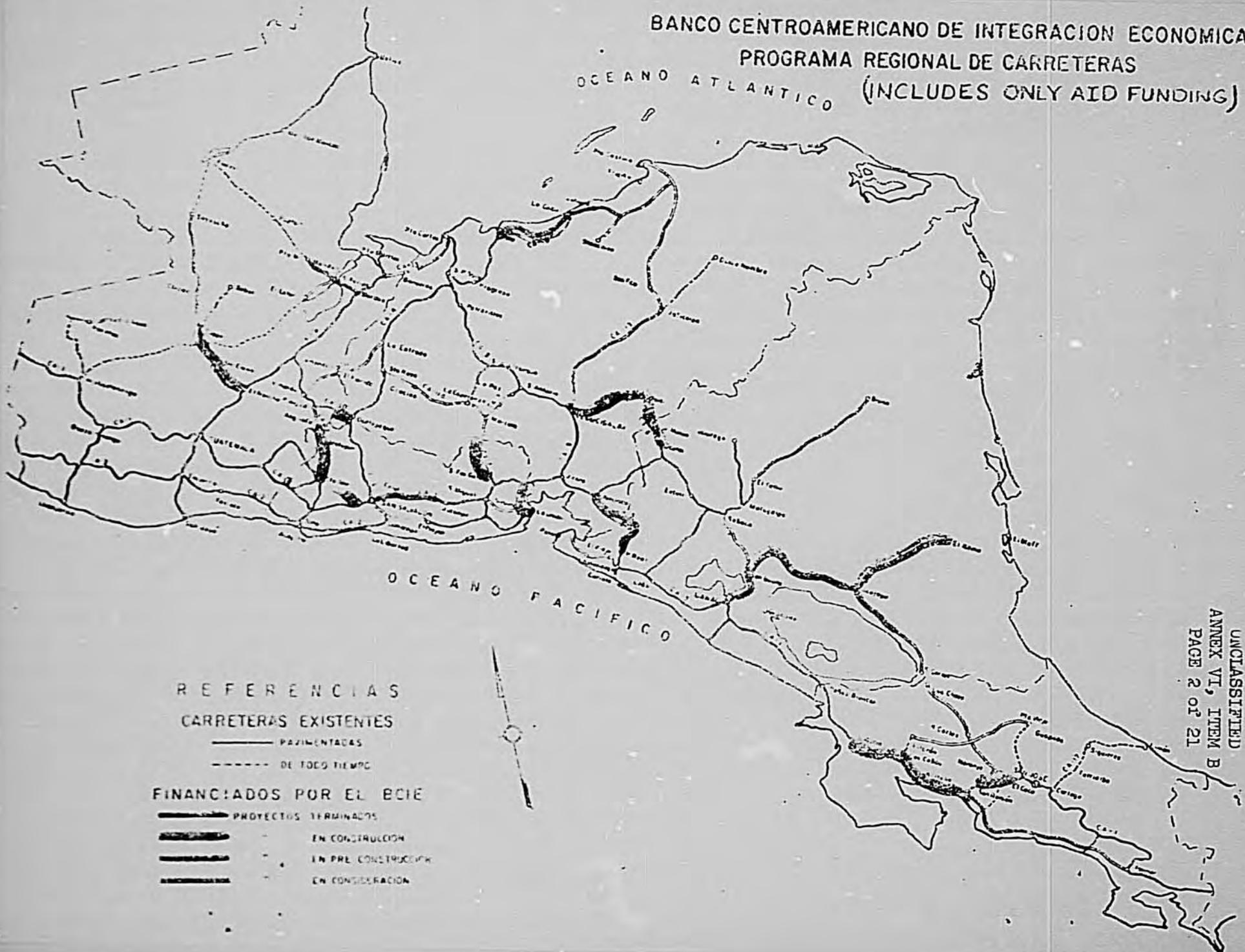
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BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA  
 PROGRAMA REGIONAL DE CARRETERAS  
 (INCLUDES ONLY AID FUNDING)



REFERENCIAS

CARRETERAS EXISTENTES

- PAVIMENTADAS
- - - - DE TODOS TIEMPOS

FINANCIADOS POR EL BCIE

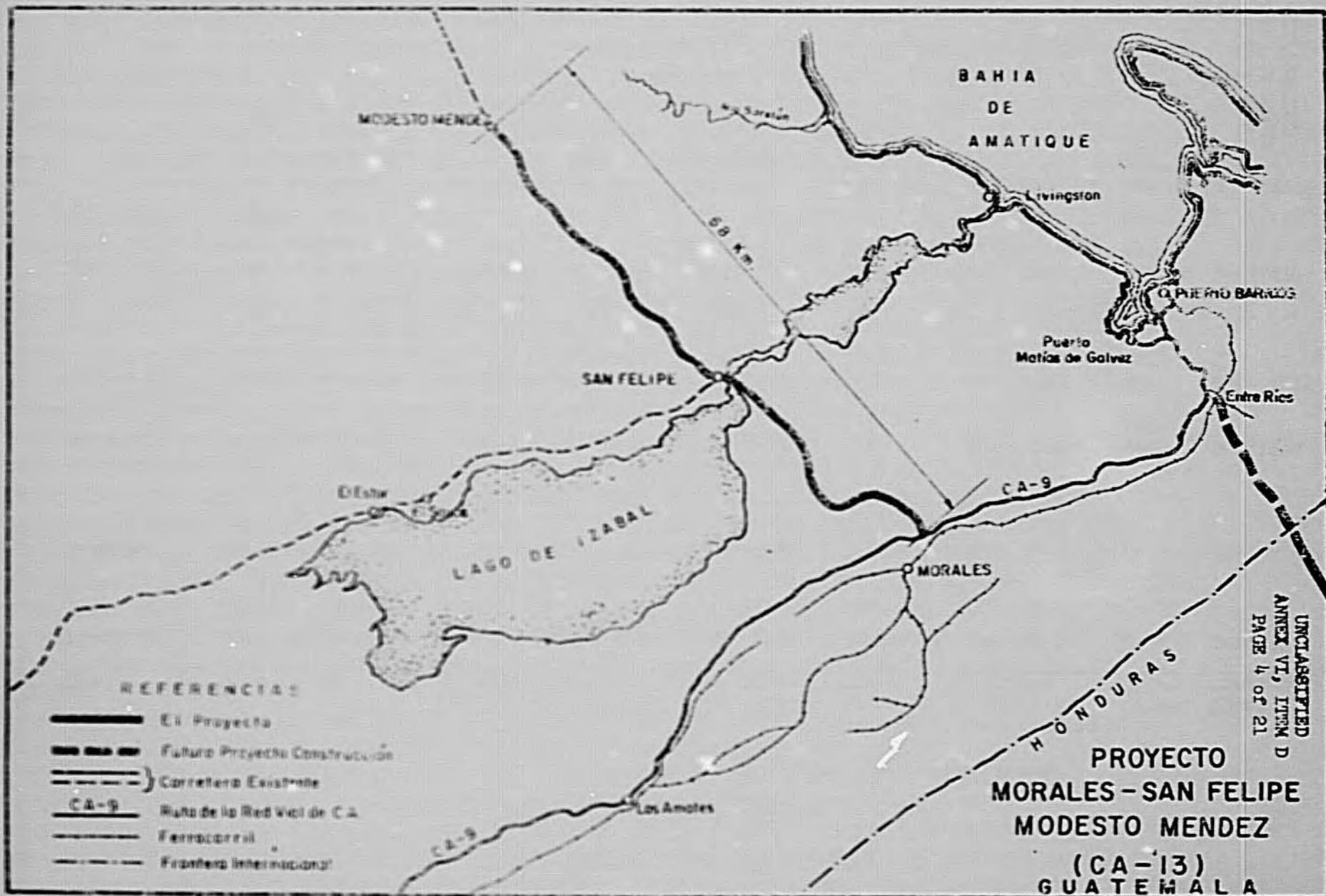
- ▬ PROYECTOS TERMINADOS
- ▬ EN CONSTRUCCION
- ▬ EN PRE-CONSTRUCCION
- ▬ EN CONSIDERACION

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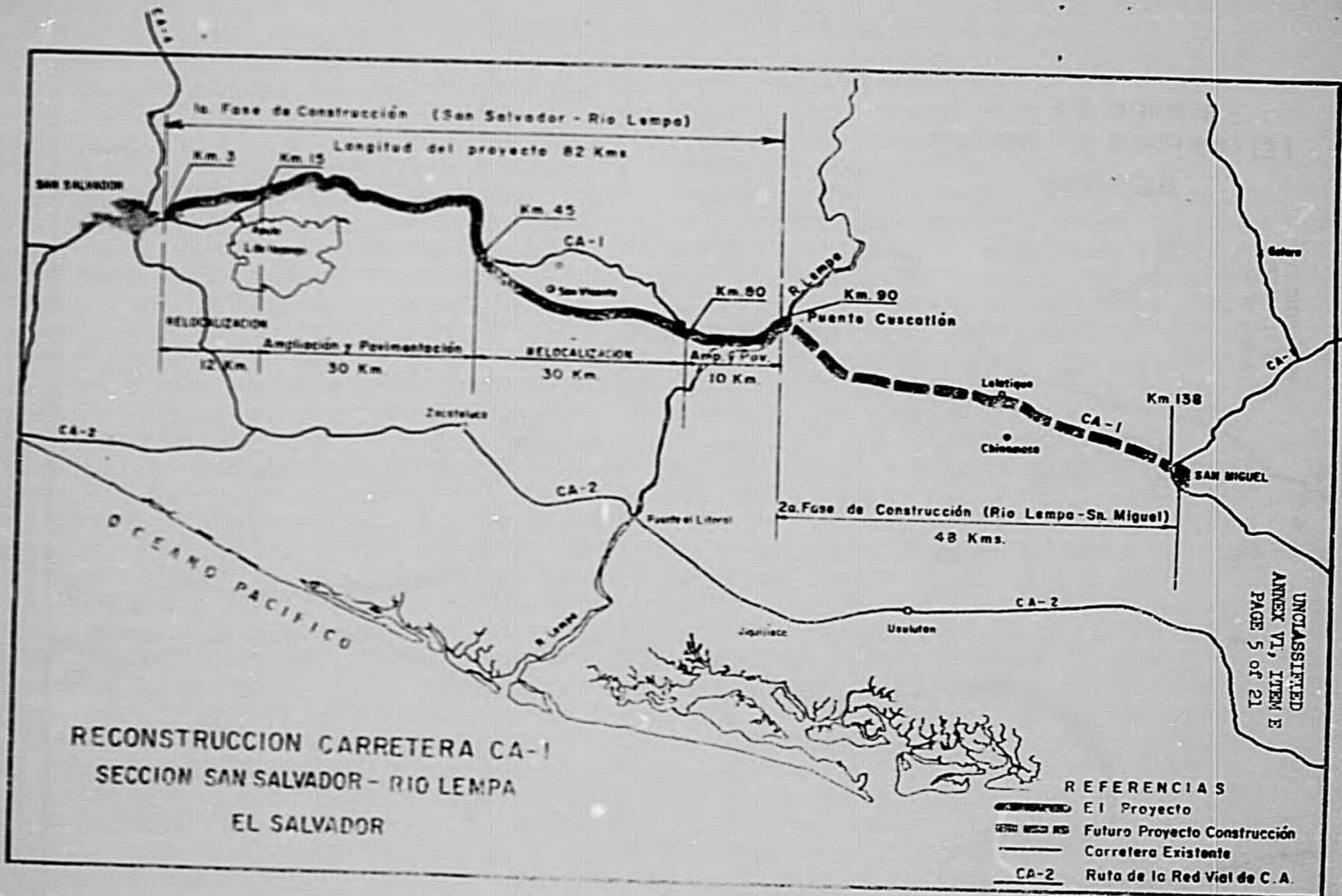
PROJECT EVENTS EXECUTION SCHEDULE

Estimated Completion Dates

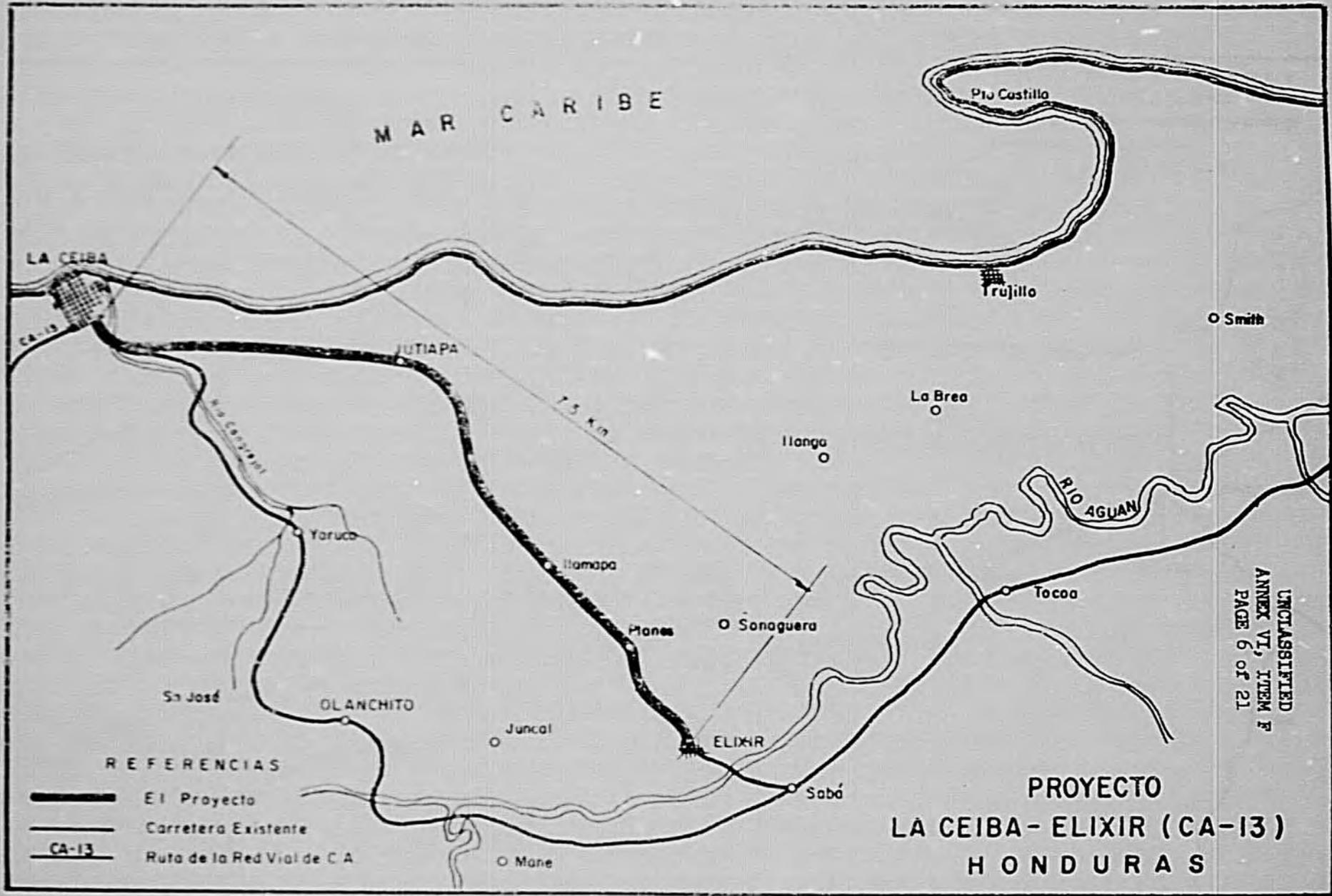
Country	Description	Cost in Millions	Feasibility Studies	Final Plans and Specs.	Subloan Agreement Signed	Construction Contract Signed	Constr. Starts	Constr. Completed
Guatemala	Norales/Modesto Méndez CA-13 Paving - 68 Kms	\$ 3.5	Completed 1970	Aug. 1973	Sept. 1973	Dec. 1973	Jan. 74	July 76
El Salvador	San Salvador/Río Lengua CA-1 Reconstruction 82 Kms	6.3	July 1973	Dec. 1973	March 1974	June 1974	July 1974	Dec. 1976
Honduras	La Ceiba/Elfir CA-13	8.5	May 1973	Oct. 1973	Jan. 1974	April 1974	May 1974	Oct. 1976
Nicaragua	Las Mercedes/Dan Benito - CA-1 New Paved Road 22 Kms	3.0	Completed 1971	March 1973	July 1973	Oct. 1973	Nov. 1973	July 1975
Nicaragua	León/Am 60 New, Unpaved 65 Kms	4.0	Completed 1971	March 1973	Sept. 1973	Dec. 1973	Jan. 1974	Dec. 1976
Costa Rica	Costanera Sur Aguajes/Loma New, Unpaved 47 Kms	6.0	Completed 1969	April 1973	Aug. 1973	Nov. 1973	Dec. 1973	June 1976



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MAR CARIBE

LA CEIBA

CA-13

JUTIAPA

75 km

Trujillo

Smith

La Brea

Ilongo

RIO AGUAN

Yaruco

Tocoa

San José

OLANCHITO

Sonaguera

Manapa

Planes

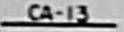
ELIXIR

Juncal

Sabá

Mane

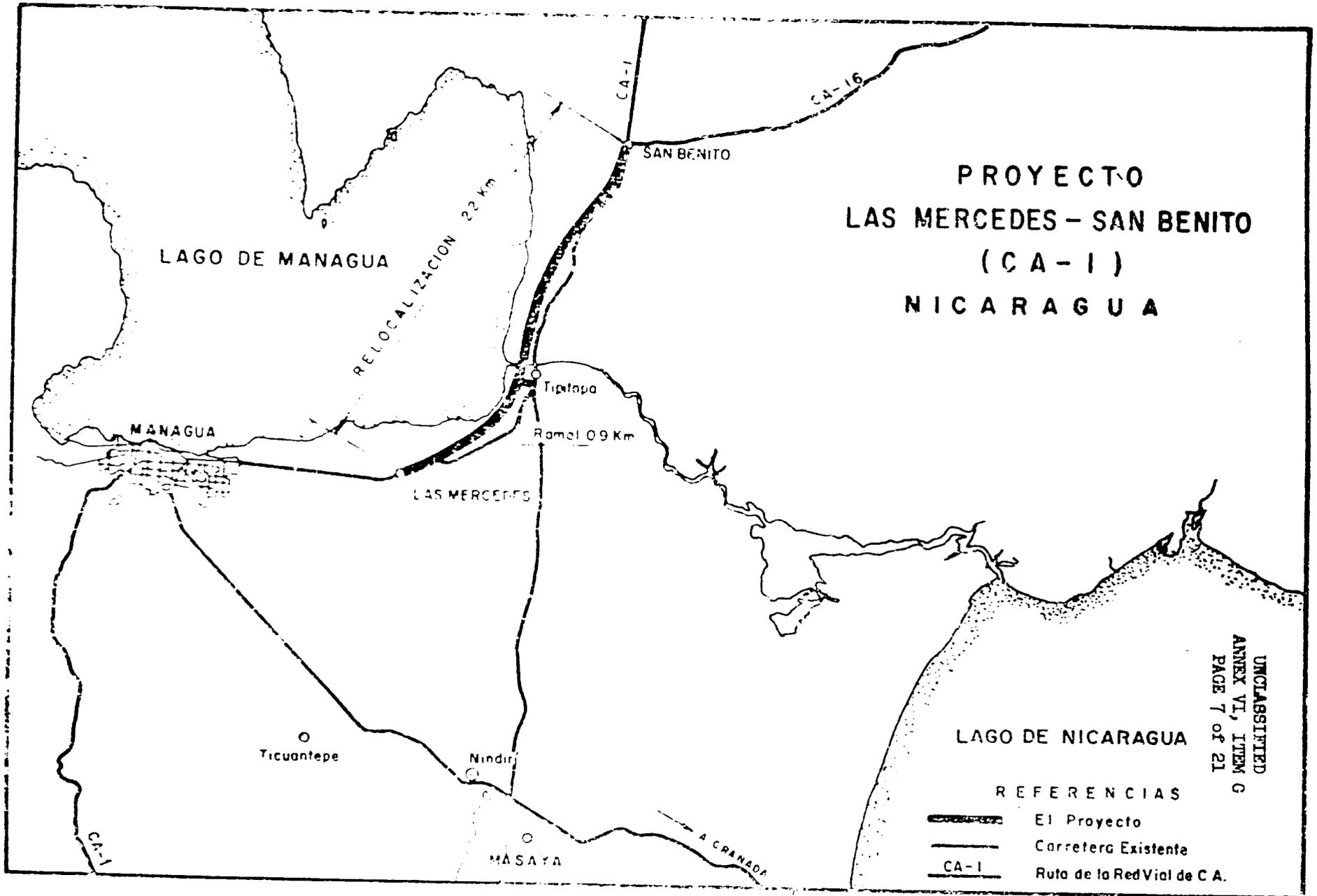
REFERENCIAS

-  El Proyecto
-  Carretera Existente
-  Ruta de la Red Vial de C.A.

PROYECTO  
LA CEIBA-ELIXIR (CA-13)  
HONDURAS

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PROYECTO  
 LAS MERCEDES - SAN BENITO  
 (CA-1)  
 NICARAGUA

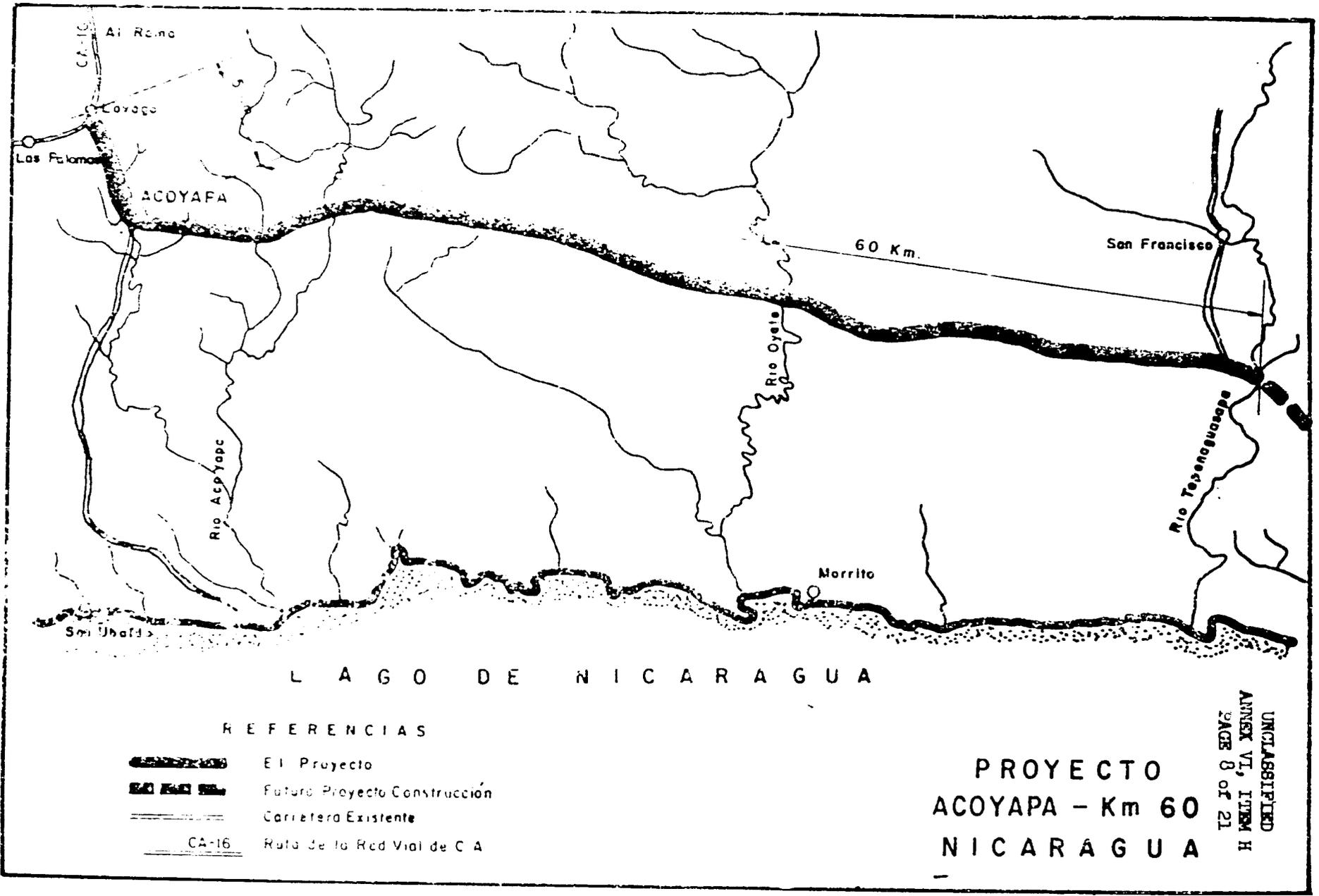


LAGO DE NICARAGUA

REFERENCIAS

-  El Proyecto
-  Carretera Existente
-  Ruto de la Red Vial de C.A.

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 PAGE 7 of 21



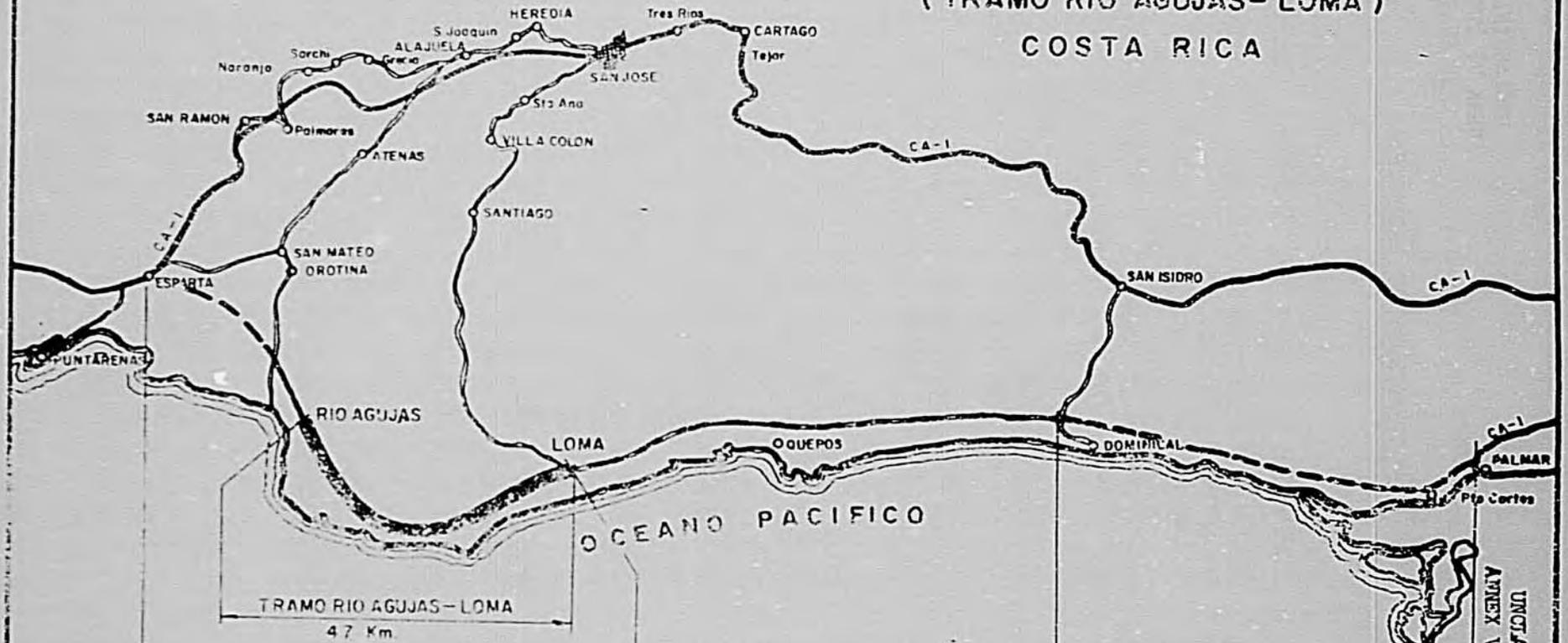
REFERENCIAS

-  El Proyecto
-  Futuro Proyecto Construcción
-  Carretera Existente
-  CA-16 Ruta de la Red Vial de C A

PROYECTO  
ACOYAPA - Km 60  
NICARAGUA

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# LOCALIZACION DEL PROYECTO COSTANERA SUR ( TRAMO RIO AGUJAS- LOMA ) COSTA RICA



ESPARTA - LOMA ( 90 Km )      LOMA - BARU ( 71 Km )      BARU - PALMAR ( 61 Km )  
 Seccion 1                                      Seccion 2                                      Seccion 3

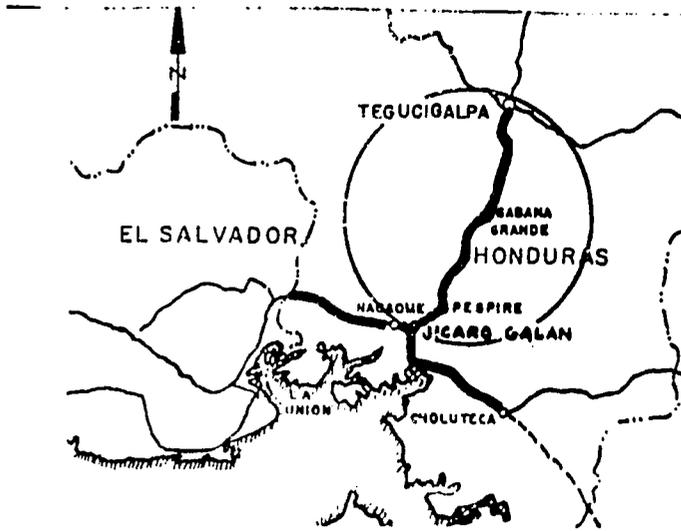
- R E F E R E N C I A S
- El Proyecto
  - Futuro Proyecto Construcción
  - Carretera Existente
  - Ruta de la Red Vial de C. A.

LIST OF ALTERNATIVE PROJECTS

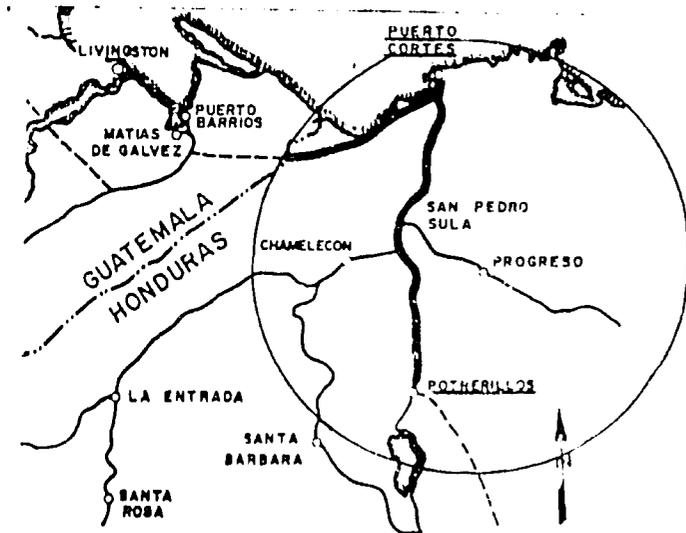
	<u>Country</u>	<u>Description</u>	<u>Amount Subloan</u>	<u>S t a t u s</u>	
				<u>Feas. Studies</u>	<u>Final Plans</u>
7.	Guatemala	Escuintla/Taxisco CA-2 Reconstruct - Paving 49 Kms	\$ 3.50	C.A.T.S.	No
8.	El Salvador	Comalapa/El Playón CA-2 Reconstruct - Paving 46 Kms	4.80	C.A.T.S.	No
9.	El Salvador	Metapán/Concepción CA-4 New - Paving - 56 Kms	4.80	Yes - 1971	No
10.	Honduras	Tegucigalpa/Júcaro Galán CA-5 Reconst - Paving 97 Kms	3.00	No	No
11.	Honduras	Potrerrillos/Cortés CA-5 - Reconstruct Paving 85 Kms	2.60	No	No
12.	Honduras	Tegucigalpa/Río del Hombre CA-5 - Reconstruction - Paving - 30 Kms	1.00	C.A.T.S.	No
13.	Honduras	Tegucigalpa/Danlí CA-6 - Reconstruction - Paving - 93 Kms	4.40	Yes - 1971	No
14.	Nicaragua	Tipitapa/Masaya/Nandaime CA-1 - New - 55 Kms	3.50	Partially Complete	No
Total			\$ 27.60		

Note: See ANNEX VI ITEM K for Location Maps

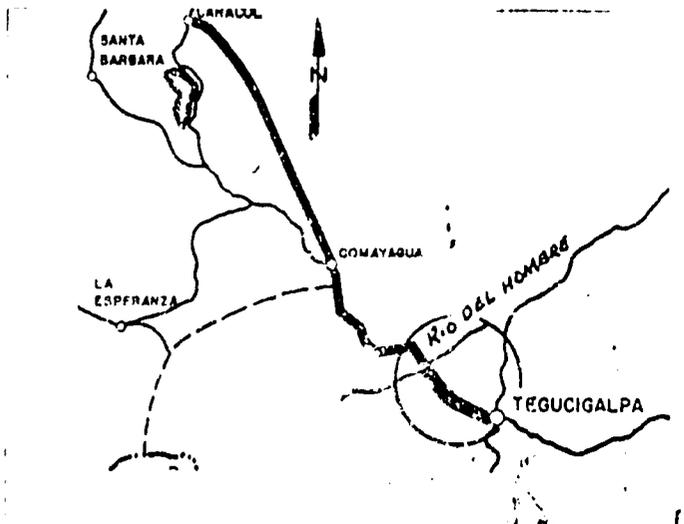




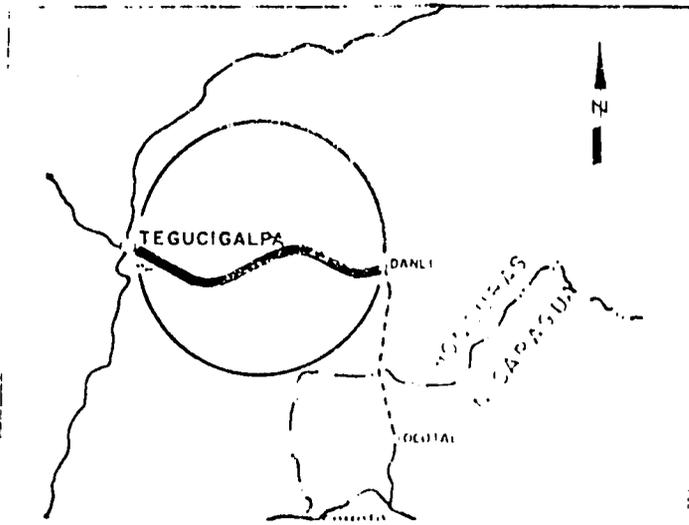
# 10  
Honduras  
Tegucigalpa/Jicaro Galán CA-5



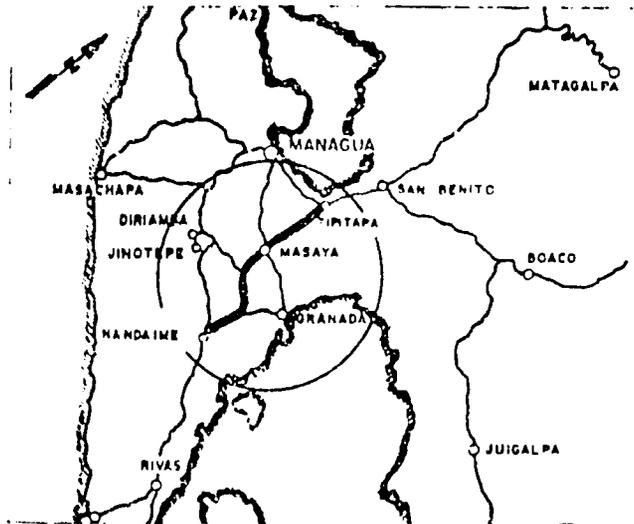
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Honduras  
Potrerillos/Cortez CA-5



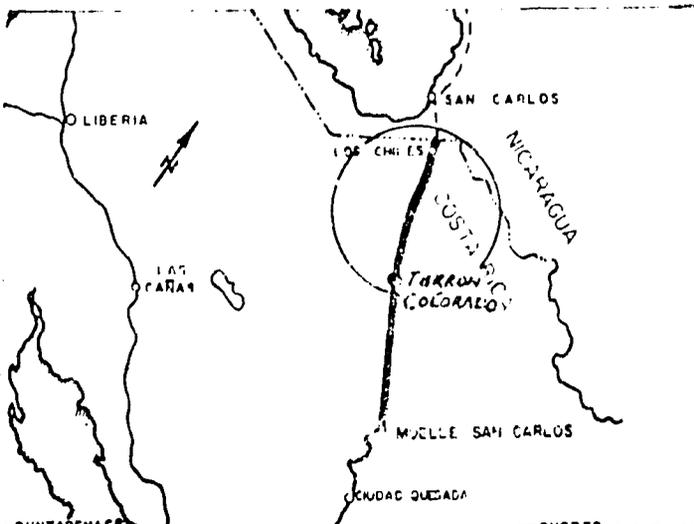
# 12  
Honduras  
Tegucigalpa/Rio del Hombre CA-5



# 13  
Honduras  
Tegucigalpa/Danlí CA-6



# 14  
Nicaragua  
Tipitapa/Masaya/Nandaime CA-1



# 15  
Costa Rica  
Terrón Colorado/Los Chiles

Illustrative Benefit Cost Ratios  
for Projects Under Proposed Loan

<u>Country</u>	<u>Project</u>	<u>Benefit Cost Ratio<sup>1/</sup></u>	<u>Annual Discount Rate Used</u>	<u>Internal Rate of Return</u>
<b>A. <u>Projects Tentatively Selected:</u></b>				
1. Guatemala	Morales-Modesto Mendez:			
	a) Modesto Mendez-San Felipe Section	31 <sup>2/</sup> / <sub>55<sup>2/</sup></sub>	8%	--
	b) San Felipe-Morales Section	1.30	12%	15.3%
2. El Salvador	San Salvador-Rio Lempa:	2.88	8%	--
3. Honduras	La Ceiba-Elixir	1.23	6%	--
4. Nicaragua	Las Mercedes-San Benito	1.23	8%	10.4%
5. Nicaragua	Acoyapa/Km 60	1.26	10%	12%
6. Costa Rica	Costanera Sur	--	--	10.8%
	Esparta-Loma Section of Costanera Sur Road	--	--	12.9%
<b>B. <u>Alternative Projects:</u></b>				
7. Guatemala	Escuintla-Taxisco	8.01	5%	--
8. El Salvador	Ccomapala-El Playon	12.69	5%	--
9. El Salvador	Metapan-Concepcion	NA	--	--

Illustrative Benefit Cost Ratios  
for Projects Under Proposed Loan (Continued)

			Annual	Internal
		Benefit	Discount	Rate of
		Cost	Rate	Return
		Ratio <sup>1/</sup>	Used	
10.	Honduras Tegucigalpa-Jicaro Galan	NA	--	--
11.	Honduras Potrerillos-Puerto Cortes	NA	--	--
12.	Honduras Tegucigalpa-Rio El Hombre	1.11	5%	--
13.	Honduras Tegucigalpa-Danli	1.15	5%	--
14.	Nicaragua Tipitapa-Masaya-Nandaime	1.99	5%	--

<sup>1/</sup> Benefit-cost ratios for items 1-6 are from recently completed pre-feasibility and feasibility studies. Benefit-cost ratios for items 7-14 are from Table IV-N2, page 230, of the Central American Transportation Study, 1964-65.

<sup>2/</sup> The benefit-cost ratio for paving the Modesto-San Felipe section of the road is so low because the feasibility study did not take into account the increase in value added of the agricultural production of the area of influence in calculating the ratio. Only savings in user costs were considered. The justification given by the consultant for that omission is that the increase in value added by agricultural production was considered when the original road was constructed, and should not again be counted when paving it. The implication is that improving and paving a road only affects user costs and contributes nothing to the increase of production in the area of influence. We find this reasoning unpersuasive and feel that the benefit-cost calculus should be revised to reflect the increase in agricultural production.

SUMMARY OF PROJECTS FINANCED BY AID LOANS 596-I-006, 007 and 008  
(Year 1972-1973)

Country/Project	Est.	Consultant	Cost in Thousands	Contractor	Cost in Millions	ATL Loan
<u>COSTA RICA</u>						
1. Sta. Elena/Abán Par. (CA-14)	00	Ing. Consultores de C.A.	\$ 187.0	Nello L. Teer Inc.	5.000	008
2. Sta. Elena/Abán Const. (CA-14)		Brown & Root	304.0	Nello L. Teer Co.	0.268	006/007/008
3. El Imbabuá/Sta. Elena Const. (CA-14)	49	" "	210.0	Nat Harrison	4.073	006
4. El Imbabuá/Sta. Elena/Sabaná Par. (CA-14)	62	" "	135.0	DELTA/COMOSA	2.582	007/008
<u>EL SALVADOR</u>						
5. La Cusilla/Fo 35 (CA-1)	13	MEE/SUD-CONSTR. I.A.	294.0	SIMAN Co.	2.087	006/008
6. Ocotera/Herpain (CA-7)	40	Gannett/Fleming/Condry/C. Prieto	342.0	Contractor Removed	2.958	007
7. Santa Ana/Metapa/Anguatú (CA-12)	04	Louis Berger/Raúl Ricardo Lara	402.0	TERSA-PAV	3.337	007/008
8. La Unión/Bustares Border (CA-1)	41	Gannett/Fleming/Condry-C. Prieto	385.0	Asturias/Vizcaíno	2.009	006
<u>HONDURAS</u>						
9. Isalí/Las Mesas (CA-6)	31	MEE/SUD/SEWING	340.0	Constructores MESTRE	2.156	007/008
10. Tegucigalpa/El Zamorano (CA-6)	37	Brown & Root/SMITH/DEAL/COCHINO	40.9			
11. El Zamorano/La Joyita (CA-6)	27	" " " " " "	485.0	CHAMCO Inc.	1.422	008
12. La Joyita/Isalí (CA-6)	23	" " " " " "				
13. Nueva Guatemala/Cont. Border (CA-10)	22	COCHINO	210.0	ATLAS	1.677	007/008
14. Toluca/San Juan (CA-13)	46	Harris/El Centro	1,042.0	Del E. Webb	5.136	006/008
15. San Juan/Le Ceiba (CA-13)	44	" "	80	" " "	4.153	006/008
16. Choluteca/El R. Border (CA-3)	31	MEE/CONTRA/SEWING	349.0	Contratistas C.A. Salinas/Cardeña/ Lempira	2.918	006/007 008
<u>NICARAGUA</u>						
17. Rivas/Las Palomas (CA-16)	47	Harris/Chamorro/Castro	57.5	Wright Constr. Co.	2.120	006
18. Las Palomas/El Centro (CA-16)	47	" " " "	72.5	Chamorro & Castro	2.273	007/008
19. El Pinar/Amo (CA-16)	31	" " " "	55.5	Lara/Chamorro/Castro	2.975	007/008
20. Ocotlán/Las Mesas (CA-6)	24	SEWING/CONTRA	298.0	Teer/Dacal	2.606	006/008

SUMMARY OF PROJECTS FINANCED BY AID LOANS 596-1-001, 007 and 008  
(FOR 1972-1973)

Country Project	No.	Original Cost	Cost in Thousands	Contractor	Cost in Millions	AID Loans
<b>COSTA RICA</b>						
21. San Ramón/El Colón (CA-1)	22	Baldonado/Guanacaste/Las	\$ 148.5	HAWCON	1.209	007/008
22. El Colón/El Paraíso (CA-1)	1	" " "	7.9	"	2.131	007/008
23. El Paraíso/El Cerrito (CA-1)	13	" " "	63.4	"	3.316	007/008
24. Three New Bridges		" " " / E. F. 11a	80.3	CANHE Constr. Co.	1.238	007/008
25. El Cerrito International Airport		" " "	77.9	Ballinger/Taylor/ Asherill/R. Herrera	2.580	007
26. Arizona/Liberia (CA-1)	21	" " "	79.3	HAWCON	3.435	007/008
27. El Paraíso/Arizona (CA-1)	27	Federal Highway Administration	4.5	Zink-Smith Inc.	1.184	007
28. Atlantic Coast Canal Waterway		Penonome Toll Association	126.0	CANHE Constr. Co.	1.374	007

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SUMMARY HIGHWAY INVESTMENT PLAN - 1971 - 1976

(Million US dollars)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>After 1976</u>
Integration Roads	13.53	3.88	7.41	8.42	9.97	9.86	37.35
Penetration Roads I	12.07	7.12	2.79	-	-	-	-
Improvement & Maintenance	4.05	2.87	2.85	0.57	-	-	-
Roads & Bridges Provincial Devel.	-	1.13	0.90	0.90	0.40	0.40	0.40
Control Vehicle Sizes & Weights	-	0.07	0.07	0.07	0.07	-	-
Reconstructio. & Emergency	1.17	0.05	0.05	0.05	0.05	0.05	0.05
Penetration Roads II	-	0.46	3.59	6.35	5.16	3.40	3.11
Improvement & Maintenance II	-	-	0.05	0.05	1.00	3.00	6.20
Interest & Others	-	0.05	0.05	0.05	0.05	0.05	0.05
TOTAL	30.82	15.63	17.76	16.46	16.70	16.76	47.16

LISTING OF CABEI GUIDELINES  
AND PROCEDURE MEMORANDA

- a. "Guía para la información que debe contener el Análisis de la Solidez Económica y Calidad Técnica de los Proyectos de Capital". (Guide for the Information necessary in the Analysis of the Economic Basis and Technical Quality of Capital Projects"). This guide prepared by CABEI is used for all financed projects.
  - b. Procedures for Determining Requirements for Consultant Services. CABEI has published its Procedure Memorandum - MPP 30-1 "Procedimientos para la Obtención de Servicios de Ingeniería y otros Servicios Profesionales por Parte del Prestatario". ("Procedures for Obtaining Engineering and other Professional Services on the part of the Borrower".)
- This MPP 30-1 has already been used by most of the Central American Highway Departments.
- c. Principles and Procedures covering Sub-Borrower Procurement and contracting, and CABEI's Review and Approval.
  - d. MPP 30-2 - "Procedimientos para la Obtención de Servicios de Construcción por parte del Prestatario". (Procedures for Obtaining Construction Services on the part of the Borrower".)
  - e. MPP 30-3 - "Procedimientos por parte del Banco para la Tramitación de Préstamos destinados a la Obtención de Servicios de Construcción, Ingeniería y otros Servicios Profesionales".

(Bank Procedures for the Processing of Loans Intended for the obtaining of Construction, Engineering, and other Professional Services.")

- f. MPP 30-4 - "Procedimiento para la obtención por parte de Gobiernos, Instituciones Autónomas o Empresas Privadas, de bienes tales como maquinaria, materiales, equipos, repuestos, accesorios, etc." ("Procedures for Obtaining by the Governments, Autonomous Institutions, or private Companies, goods such as: machinery, materials, equipment, spare parts, accessories, etc.")

- g. MPP 40-1 - "Documentación, Libros y Registros que deben mantener los Prestatarios con relación a Proyectos de Infraestructura financiados por el Banco".

(Documentation, Books and Registers necessary for Borrowers to Maintain relative to Infrastructure projects financed by the Bank".)

- h. Provision for Inspections.

CABEI has issued on January, 1968, the general requirements for the supervision, by CABEI, of engineering studies and construction projects financed by CABEI. This documents is entitled "Aspectos Generales de Supervisión por parte del Banco Centroamericano de Integración Económica (BCIE) en Estudios y Proyectos Financiados por el mismo".)

Loans for the Financing of Highway Maintenance in Central America

Guatemala

Received, in 1970, a loan in the amount of \$6.6 million from IDB destined for highway improvements and maintenance programs, including the purchasing of machinery and equipment, technical assistance and other aspects. This loan was complemented by a local grant, in the amount of \$3.7 million, giving a total of \$10.3 million. Of this amount, \$7.4 million are specifically destined for the purchase of maintenance equipment and highway improvement.

El Salvador

Has a direct loan available from EXIMBANK of the United States of America in the amount of \$2.8 million for the purchase of highway maintenance equipment. This country has also received a loan from IDB in the amount of \$10.0 million, executed at the end of 1971, destined for maintenance equipment, technical assistance and other aspects. It must be noted that the entire highway maintenance study was prepared by the consulting firm Bartkus & Associates and Louis Berger Inc., completed in January of 1971.

Honduras

Received a loan from IDB in the amount of \$6.3 million, executed in May of 1971, which includes the sum of \$2.5 million destined for maintenance equipment. This same loan will be partially for maintenance technical assistance.

Nicaragua

Received a loan in the amount of \$3.5 million from IDB, executed in November of 1971, destined for the purchase of maintenance equipment, improvement of workshops and technical assistance, which at present is being applied.

Costa Rica

Received a direct loan in the amount of \$7.1 million from AID, complemented with a local grant in the amount of \$4.4 million, for a total of \$11.5 million, destined for the country's maintenance program. However, the actual investment program to this effect, will be \$9.5 million, according to available information. The purchase of the equipment will be completed in the next few months.



BANCO CENTROPANAMERICANO DE INTEGRACION ECONOMICA  
C.A.  
PROGRAMA DE DESARROLLO POR SEMESTRES - PROYECTO 440-512  
(1973-1976)

MONTO DE PROGRAMA	CLASE DE MONEDA			1o. SEMESTRE, 1973			2o. SEMESTRE, 1973			1o. SEMESTRE, 1974			2o. SEMESTRE, 1974			1o. SEMESTRE, 1975			2o. SEMESTRE, 1975					
	TOTAL	LOCAL	DOLARES	TOTAL	LOCAL	DOLARES	TOTAL	LOCAL	DOLARES	TOTAL	LOCAL	DOLARES	TOTAL	LOCAL	DOLARES	TOTAL	LOCAL	DOLARES						
<b>COSTA RICA</b>																								
<b>MONTELA</b>																								
<b>MONTELA - San Felipe (Caj.)</b>	3,300.0	3,300.0	1,995.0	1,305.0	280.0	160.0	120.0	350.0	200.0	150.0	770.0	440.0	330.0	525.0	300.0	225.0	945.0	570.0	415.0	630.0	365.0	265.0		
Recursos Propios	700.0	700.0	700.0	160.0	160.0		200.0	200.0		160.0	340.0	340.0		300.0	300.0	225.0	945.0	570.0	415.0	630.0	365.0	265.0		
Recursos Externos	2,600.0	2,600.0	1,295.0	1,145.0	120.0		150.0		150.0	430.0	100.0	370.0	525.0	300.0	225.0	945.0	570.0	415.0	630.0	365.0	265.0			
<b>EL SALVADOR</b>																								
<b>SAN SALVADOR - La Llave (Reservat.)</b>	6,300.0	6,300.0	2,480.0	3,820.0	--	--	630.0	252.0	378.0	1,266.0	555.0	811.0	1,318.0	453.0	681.0	1,890.0	755.0	1,135.0	1,260.0	525.0	735.0			
Recursos Propios	1,300.0	1,300.0	1,300.0				252.0	252.0		555.0	555.0		453.0	453.0	40.0	40.0								
Recursos Externos	5,000.0	5,000.0	1,180.0	3,760.0			378.0		378.0	711.0	666.0	811.0	865.0	413.0	641.0	1,850.0	715.0	1,135.0	1,260.0	525.0	735.0			
<b>HONDURAS</b>																								
<b>LA CEIBA - Ceiba (Reservat. y Comert.)</b>	8,500.0	8,500.0	4,250.0	4,250.0	680.0	340.0	340.0	840.0	425.0	425.0	1,870.0	935.0	935.0	1,275.0	637.5	637.5	2,295.0	1,147.5	1,147.5	1,530.0	765.0	765.0		
Recursos Propios	1,700.0	1,700.0	1,700.0		340.0	340.0	425.0	425.0		425.0	935.0	935.0		935.0	935.0									
Recursos Externos	6,800.0	6,800.0	2,550.0	4,250.0	340.0		425.0		425.0	935.0	935.0	935.0	935.0	935.0	637.5	637.5	2,295.0	1,147.5	1,147.5	1,530.0	765.0	765.0		
<b>NICARAGUA</b>																								
<b>LA ESCOBADA - San Rafael (Reservat. Pav.)</b>	3,000.0	3,000.0	1,385.0	1,615.0	300.0	180.0	160.0	450.0	205.0	252.0	750.0	345.0	405.0	600.0	276.0	324.0	900.0	416.0	484.0	--	--	--		
Recursos Propios	600.0	600.0	600.0		180.0	180.0	205.0	205.0		252.0	252.0		252.0	252.0										
Recursos Externos	2,400.0	2,400.0	785.0	1,615.0	160.0		160.0	245.0	245.0	498.0	498.0	498.0	405.0	354.0	324.0	648.0	416.0	484.0	416.0	484.0	--	--	--	
<b>BOGOTA - San. 60</b>	3,000.0	3,000.0	1,175.0	2,825.0	320.0	96.0	224.0	400.0	120.0	250.0	890.0	250.0	640.0	692.0	170.0	420.0	1,080.0	324.0	756.0	590.0	270.0	510.0		
Recursos Propios	800.0	800.0	800.0		96.0	96.0	120.0	120.0		250.0	250.0		250.0	250.0	170.0	170.0								
Recursos Externos	2,200.0	2,200.0	375.0	2,825.0	224.0		224.0	280.0	280.0	640.0	640.0	640.0	390.0	442.0	420.0	910.0	910.0	910.0	910.0	910.0	510.0	510.0		
<b>COSTA RICA</b>																								
<b>COMANCIA San (Abierta-Llave)</b>	6,000.0	6,000.0	3,360.0	2,640.0	480.0	269.0	211.0	600.0	316.0	258.0	1,320.0	739.0	581.0	900.0	504.0	396.0	1,620.0	927.0	713.0	1,080.0	605.0	475.0		
Recursos Propios	1,200.0	1,200.0	1,200.0		269.0	269.0		316.0	316.0		590.0	590.0		590.0	590.0									
Recursos Externos	4,800.0	4,800.0	2,160.0	2,640.0	211.0		211.0	284.0	284.0	284.0	730.0	149.0	591.0	310.0	310.0	310.0	1,620.0	927.0	713.0	1,080.0	605.0	475.0		
<b>TOTALES</b>	31,300.0	31,300.0	15,785.0	16,515.0	2,060.0	1,005.0	1,055.0	3,280.0	1,541.0	1,719.0	6,216.0	3,269.0	3,777.0	5,018.0	2,480.5	2,691.5	8,730.0	3,079.5	3,690.5	5,220.0	2,470.0	2,750.0		
Recursos Propios	6,300.0	6,300.0	6,300.0		1,005.0	1,005.0		1,541.0	1,541.0		2,942.0	2,942.0		621.0	621.0		199.0	199.0						
Recursos Externos	25,000.0	25,000.0	9,485.0	16,515.0	1,055.0		1,055.0	1,739.0	1,739.0	1,719.0	3,274.0	3,327.0	3,777.0	4,397.0	1,859.5	2,070.5	8,531.0	3,080.5	3,690.5	5,220.0	2,470.0	2,750.0		

1/ \$C\$ 6,250.0 A CUENTA DE CAPITAL + LA DIFERENCIA A CUENTA DE RECURSOS EXTERNOS.

PROJECTS FINANCED UNDER AID LOANS 006, 007 AND 008  
AND C. A. CONTRIBUTIONS  
 (US\$000)

No.	Project and Country	AID-006	AID-007	AID-008	TOTAL
	<u>GUATEMALA</u>	8.200	4.700	7.900	20.800
FCIE 2	El Rancho-Santa Elena	4.200	--	--	4.200
FCIE 7	Santa Elena-Cobán	4.000	--	--	4.000
FCIE 7A	Santa Elena-Cobán	--	4.700	--	4.700
FCIE 23	El Rancho-Sta.Elena-Salamá	--	--	2.300	2.300
FCIE 23A	El Rancho-Cobán	--	--	4.200	4.200
FCIE 23A	El Rancho-Cobán	--	--	1.400	1.400
	<u>EL SALVADOR</u>	4.750	5.600	3.550	13.900
FCIE 3	La Cuchilla-Km.35/La Unión-F.	4.750	--	--	4.750
FCIE 15	Gotera-Perquín	--	3.300	--	3.300
FCIE 21	Santa Ana-Anguiatú	--	2.300	1.700	4.000
FCIE 3A	La Cuchilla-Km.35	--	--	600	600
FCIE 15A	Gotera-Perquín	--	--	1.250	1.250
	<u>HONDURAS</u>	9.507	6.300	11.800	27.607
FCIE 4	Tela-La Ceiba/Choluteca-Front.	9.507	--	--	9.507
FCIE 13	Danlí-Las Manos	--	2.500	--	2.500
FCIE 14	Choluteca-Frontera Nicaragua	--	2.200	--	2.200
FCIE 16	Ocotepeque-Frontera Guatemala	--	1.600	--	1.600
FCIE 24	Tela-La Ceiba	--	--	2.000	2.000
FCIE 26	Tegucigalpa-Danlí	--	--	6.600	6.600
FCIE 14A	Choluteca-Frontera Nicaragua	--	--	500	500
FCIE 16A	Ocotepeque-Frontera Guatemala	--	--	1.000	1.000
FCIE 30	Control y Señalamiento Vial	--	--	475	475
FCIE 13A	Danlí-Las Manos	--	--	400	400
FCIE 16A	Ocotepeque-Frontera Guatemala	--	--	122	122
FCIE 24A	Tela-La Ceiba	--	--	703	703
	<u>NICARAGUA</u>	9.043	4.000	3.118	16.161
FCIE 1	Pte.Real-Front./Ocotal-L.Manos	4.500	--	--	4.500
FCIE 5	Pte.Real-Front./Ocotal-L.Manos	2.343	--	--	2.343
FCIE 8	San Benito-Rama	2.200	--	--	2.200
FCIE 8A	San Benito-Rama	--	4.000	--	4.000
FCIE 8A	San Benito-Rama	--	--	2.250	2.250
FCIE 5A	Ocotal-Las Manos	--	--	733	733
FO 246	Control y Señalamiento Vial	--	--	135	135
	<u>COSTA RICA</u>	10.500	4.400	8.506	23.406
FCIE 6	El Coco-San Ramón	4.700	--	--	4.700
FCIE 9	El Coco-San Ramón	5.800	--	--	5.800
FCIE 17	Aeropuerto de El Coco	--	1.500	--	1.500
FCIE 18	Arizona-Peñas Blancas	--	1.800	--	1.800
FCIE 17A	Aeropuerto de El Coco	--	600	--	600
FCIE 18A	Arizona-Peñas Blancas	--	500	1.100	1.600
FCIE 9A	El Coco-San Ramón	--	--	3.556	3.556
FCIE 22	Canalización Lagunas del Atl.	--	--	1.500	1.500
FCIE 18A	Arizona-Peñas Blancas	--	--	900	900
FCIE 37	Río Seco-Arizona	--	--	1.450	1.450
	<u>TOTAL CENTRAL AMERICA</u>	42.000	25.000	34.874	101.874



ROCAP GUATEMALA Department of State RECEIVED FILE ROOM

ACTION COPY TELEGRAM

P H 090135Z DEC 72

ACTION RUCAP-50 INFO AMB DGM AID ECON CRRON 15

FM SECSTATE WASHDC

RUESGT/AMEMBASSY GUATEMALA UNCLASSIFIED 1706

STATE 223272 12/9/72

INFO RUESTE/AMEMBASSY TEGUCIGALPA 6763

RUESJO/AMEMBASSY SAN JOSE 7703

ACTION

RUESMG/AMEMBASSY MANAGUA 6741

RUESAL/AMEMBASSY SAN SALVADOR 7639

INFO

BT

UNCLAS STATE 223272

File 445 Integration Fund Loan

AIDAC

GUATEMALA FOR ROCAP FOR ACTION, USOM FOR INFO

SUBJ: DAEC-IRR-CABEI-CENAL AMERICA INTEGRATION FUND

1. THE DAEC REVIEWED THE SUBJECT IRR ON NOVEMBER 30. THE IRR IS APPROVED SUBJECT TO THE FOLLOWING CONSIDERATIONS: (A) THE PROJECT SHOULD BE DEVELOPMENT WITH CABEI ON THE UNDERSTANDING THAT IT WILL BE THE LAST SUCH AID LOAN. FUTURE HIGHWAY INFRASTRUCTURE LOANS WOULD MORE APPROPRIATELY BE FINANCED BY OTHER INTERNATIONAL FINANCIAL AGENCIES.

(B) INTENSIVE REVIEW SHOULD TREAT THE DEFINITION OF "INTEGRATION" ROADS INCLUDING CABEI'S CRITERIA FOR THE SELECTION OF PROJECTS TO BE FINANCED. THERE IS A SUPPOSITION THAT THIS DEFINITION SHOULD INCLUDE ECONOMIC CRITERIA BROADER THAN BENEFIT-COST ANALYSIS. THE EFFECTS OF PREVIOUS LENDING IN FURTHERING THE INTEGRATION PURPOSES OF THE FUND SHOULD BE DISCUSSED.

(C) THE PROPORTION OF TOTAL PROJECT COSTS TO BE FINANCED BY AID SHOULD BE FULLY JUSTIFIED.

(D) A STATEMENT ON THE ECOLOGICAL IMPACT OF THE PROJECT SHOULD BE INCLUDED IN THE LOAN PAPER.

(E) PURSUANT TO THE DECISION MEMORANDUM ON THE FY 74 PROGRAM REVIEW FOR ROCAP, THE LOAN PAPER SHOULD DISCUSS THE QUESTION OF LABOR INTENSIVITY IN THE CONSTRUCTION OF ROADS UNDER THIS LOAN.

(F) INTENSIVE REVIEW SHOULD EXAMINE THE INSTITUTIONAL CAPABILITY OF CABEI TO CONTINUE EFFECTIVE ADMINISTRATION OF THE INTEGRATION FUND, GIVEN THE PROJECTED INTEGRATION FUND PIPELINE AND NEW ACTIVITIES CABEI IS EXPECTED TO UNDERTAKE DURING THE LIFE OF THE PROPOSED PROJECT.

(G) INTENSIVE REVIEW SHOULD TAKE INTO ACCOUNT AS APPROPRIATE THE AVAILABLE WORK DONE BY THE IA - ECOSOC SPECIAL STUDY GROUP ON THE INTER-AMERICAN HIGHWAY, SINCE TWO OF THE ROADS ON THE TENTATIVE LIST ARE APPARENTLY PART OF THE INTER-AMERICAN HIGHWAY SYSTEM. MUCH OF THE WORK IS BEING DONE BY SIEGA.

2. AID/W WILL COORDINATE WITH THE IDB ON CERTAIN ISSUES, INCLUDING THE LIST OF TENTATIVE ROAD PROJECTS WHICH HAVE BEEN IDENTIFIED FOR AID FINANCING BY CABEI UNDER THE PROPOSED LOAN. THE RESULTS OF THIS COORDINATION WILL BE INCLUDED IN THE LOAN PAPER.

ROGERS

UNCLASSIFIED Classification

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

I, Oliver L. Sause, the principal officer of the Regional Office for Central America and Panama ("ROCAP"), having taken into consideration among other things, the satisfactory record of the Central American Bank for Economic Integration ("CABEI") in the maintenance and utilization of the funds previously made available to CABEI under previous loans, do hereby certify that in my judgment CABEI has the financial, technical and human resource capabilities to effectively maintain and utilize the funds to be provided to CABEI by the United States of America under the terms of the proposed loan for the Central American Fund for Economic Integration to be used for Highway Infrastructure.

This judgment is based upon the implementation record of other CABEI loans and the planning which has gone into this new loan. CABEI can be expected to provide the necessary technical and human resources to effectively administer the subloans and utilize the funds to be provided hereunder, and will also provide substantial funds for the Project. CABEI demonstrates full awareness of its ongoing responsibilities for loan administration.

  
Oliver L. Sause

DRAFT LOAN AUTHORIZATION

Provided from: Alliance for Progress Loan Fund  
CABEI: Integration Fund  
Highway Infrastructure

Pursuant to the authority vested in the Administrator of the 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, of said Act, to the Central American Bank for Economic Integration ("Borrower") of not to exceed twenty five million United States dollars (\$25,000,000) to provide continuing support to the Central American Fund for Economic Integration ("Fund") established by Resolution of the Board of Governors of the Borrower on April 10, 1965, in order to assist in financing the United States dollar and local currency costs of a program of regional highway construction and improvement ("Program"), so as to promote the further development of Central American regional economic integration. The loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment:

Borrower shall repay the loan in United States Dollars to the Agency for International Development ("A.I.D.") 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 at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Source and Origin:

Goods and services (except for ocean shipping and marine insurance) financed under the Loan shall have their source and origin in countries of Central America or countries included in Code 941 of the A.I.D. Geographic Code Book. Marine insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable

in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in Code 941 of the A.I.D. Geographic Code Book, excluding the countries of Central America.

3. Local Currency:

United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

4. Other Terms and Conditions:

a. Prior to the first disbursement or issuance of any commitment documents under the loan, except as A.I.D. may otherwise agree in writing, the Borrower shall furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(i) Evidence that Borrower has called an additional amount of authorized capital from the member countries of Borrower ("Member Countries") to contribute to the Fund not less than a total of the equivalent of six million two hundred fifty thousand U.S. dollars (\$6,250,000) to be utilized in carrying out the Program ("Member Country Contribution").

(ii) Evidence that arrangements have been made between Borrower and Member Countries to pay their respective contribution to the Fund.

(iii) A revised and current detailed statement of any changes in the standards, policies and procedures presented pursuant to AID Loan Agreement 596-L-008 Section 3.01 (c) to be followed by Borrower in the administration of the Fund.

(iv) A detailed outline, developed in consultation with the Central American Common Market Secretariat ("SIECA") and approved by Borrower's Board of Directors, indicating the individual sub-projects that have priority for financing with the proceeds of this Loan.

b. Borrower shall, in form and substance satisfactory to A.I.D. and prior to the signing of each subloan agreement or modification thereof, submit each sub-project to A.I.D. for approval accompanied by:

(1) A certification that Borrower has found the project to be economically justified and technically sound and feasible after an objective and comprehensive appraisal of the

subproject and that the Board of Directors of Borrower has approved the subloan; and

(ii) A subproject execution plan and country maintenance program to be prepared by each sub-borrower.

(iii) For all subprojects leading directly to or from a national border evidence that (a) appropriate arrangements have been made to provide adequate customs and immigration facilities, and (b) the sub-borrower has initiated any other steps necessary, including legislative approval, to ensure the establishment of an operational border point of entry/exit upon completion of the subproject.

(iv) A statement that the subloan agreement will include a covenant that the effect of the subproject upon the natural environment shall be taken into consideration prior to, during, and after the implementation of the project, and that Borrower and the Member Country shall cooperate to minimize any harmful effects upon the environment.

c. Except as A.I.D. may otherwise agree in writing, the ratio of A.I.D. funds to Member Country Contributions which are allocated to and disbursed for each subproject shall be at the rate of four (4) to one (1).

d. Member Country Contributions to the Fund shall be freely available for all aspects of the Program.

e. Borrower shall continue to work in coordination with other regional institutions (i) to strengthen Member Country highway maintenance programs, (ii) to improve border crossing procedures, including effective measures which will reduce the time and costs of such crossings, and (iii) for the adoption of regional highway standards and weight controls.

f. Borrower shall maintain in each subloan agreement covenants satisfactory to A.I.D. concerning Member Country highway maintenance programs, budgeting and execution capabilities of Highway Departments including acceptance of Borrower financed consultation services if required.

g. Unless A.I.D. otherwise agrees in writing, CAEEI shall not approve any subloans to any sub-borrower who, having received previous financing from Borrower for a highway project directly leading to or from a national border, does not maintain border point of entry/exit on such highway until steps necessary to establish an operational border point of entry/exit have been initiated.

h. Borrower will submit to A.I.D., one year after meeting the conditions to initial disbursement and annually thereafter until the Loan is fully disbursed, a report on the actual progress of the program and an evaluation of its economic impact. Borrower also agrees to furnish to A.I.D. such evaluations of the economic impact of highways constructed with A.I.D. Loan Funds as A.I.D. may request during a five year period after final disbursement under the Loan.

i. Except as A.I.D. may otherwise agree in writing, all initial subloans agreements for highways to be financed under this Loan shall be signed within 18 months from the date of signing of this Loan Agreement. The time limitation of this condition does not affect amendments to subloans under this Loan or previous A.I.D. integration loans.

j. With a view toward achieving maximum employment in road construction in Central America, Borrower covenants that it shall, using funds other than loan funds or its contribution to the program, undertake a research project to determine the circumstances under which increased degrees of labor input relative to capital can be practically achieved in road construction in Central America consistent with sound technical criteria and acceptable costs. Borrower further covenants to submit the results of its findings to A.I.D. within one year from the date of signing of the Loan Agreement and, thereafter, to consult with A.I.D. on ways and means of undertaking a pilot project to test the research results and implementation proposals if such a pilot project is agreed by the parties to be feasible.