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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
ALLIANCE FOR PROGRESS
WASHINGTON, D. C. 20523

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CAPITAL ASSISTANCE PAPER

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HONDURAS - FEASIBILITY STUDY LOAN

AID-LA/P-78

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ALLIANCE FOR PROGRESS

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

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AID-LA/P-78
January 17, 1966

MEMORANDUM FOR THE ADMINISTRATOR

SUBJECT: HONDURAS - Feasibility Study Loan

The attached Capital Assistance Paper sets forth the recommendations for authorization of a loan not to exceed \$500,000 to finance the dollar and local currency costs of equipment, material, and services necessary for the conduct of certain sectoral or resource surveys, prefeasibility studies and feasibility studies.

David Bronheim
Deputy U.S. Coordinator

Attachments:

Summary and Recommendations
Project Analysis
Annexes I - III

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HONDURAS - FEASIBILITY STUDY LOAN

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January 17, 1966

HONDURAS - FEASIBILITY STUDY LOAN

SUMMARY AND RECOMMENDATION

1. BORROWER: The Government of Honduras
EXECUTING AGENCY: The National Economic Council
2. AMOUNT OF LOAN: \$500,000
3. LOAN TERMS: Repayment in dollars within 40 years with 10 years' grace on the repayment of principal. Interest at 1% per annum during the grace period and 2½% per annum thereafter.
4. DESCRIPTION OF PROJECT: The funds of this loan will be used to finance sectoral or resource surveys, prefeasibility studies and feasibility studies of both government executed infrastructure projects and for certain private sector investment proposals. It is anticipated that the greater part of the funds will be used for feasibility studies of infrastructure projects. The National Economic Council will coordinate and supervise the loan by evaluating the study proposals submitted by the various ministries and determining which are of sufficient priority and timeliness to warrant presentation to A.I.D. for financing. The studies will be made in the fields of roads, irrigation, water resources and industrialization.
5. PURPOSE OF PROJECT: Surveys and studies financed under this loan will enable the Government of Honduras to strengthen its economic planning, to establish certain nationwide economic programs, to identify fields in which feasibility studies should be conducted as well as to finance several specific feasibility studies of capital investment proposals. The specific feasibility studies should either: (a) give evidence that the respective projects should not be constructed or financed, or (b) provide the basic economic and technical data for proceeding with said projects and particularly for use in loan applications for submission to financing institutions.

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6. BACKGROUND: US AID/Honduras first became interested in this project as a combination feasibility study loan and technical assistance program (also loan funded) for the National Economic Council. A five-year economic plan was under preparation and various changes in the relation of the Council to the President of the Republic were under consideration. In recent months the IDB has indicated a willingness to loan funds for the technical assistance personnel desired by the Council. The changes in the status of the Council, which were endorsed and urged by the US AID have now been effectuated. Thus, the technical assistance aspect of the loan as originally conceived does not appear to be necessary at this time; however, the execution of the specific feasibility studies to be financed hereunder will provide the basic data necessary for sound project appraisal by the several international financing institutions and will contribute to the acceleration of the economic development of Honduras.
7. OTHER FINANCING: The Eximbank has expressed its noninterest in this project on January 7, 1966. The Inter-American Development Bank is planning to finance a small portion of the over-all project. Because CABEI's funds are only for "regional" projects it is not an available source. Therefore, the project committee has concluded that other financing for this project is not available on reasonable terms.
8. MISSION VIEWS: The Mission considers this a priority project and recommends its approval.
9. STATUTORY CRITERIA: The statutory criteria have been met (see Annex I).
10. ISSUES: None.
11. RECOMMENDATION: Authorization of a loan of up to \$500,000 to the Government of Honduras under the following terms and conditions:
 - a. Repayment within 40 years from the date of the first disbursement including a grace period of 10 years.
 - b. Interest of 1% during the grace period and 2 $\frac{1}{2}$ % thereafter.
 - c. Repayment of principal and interest shall be made in United States dollars.

Other Terms and Conditions:

- a. Equipment, materials and services (except shipping and marine insurance) financed under the loans shall have their origin in and be procured from the United States or member countries of the Central American Common Market. Shipping financed hereunder shall be procured from the United States, and marine insurance financed hereunder shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.
- b. United States dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through appropriate procedures and shall be used only for procurement in the United States.
- c. All subprojects will be subject to prior A.I.D. approval.
- d. Projects which, in A.I.D.'s judgment, are eligible for financing by CABEI either out of the A.I.D. loan for feasibility studies or otherwise, shall be submitted to CABEI for financing prior to approval for financing under this loan.
- e. The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

PROJECT COMMITTEE:

Loan Officer	:RRuby:US AID/H
Engineer	:FAlvarez:US AID/H
Public Adm. Advisor	:EParker

Drafted: RRuby:US AID/H

SECTION I - DETAILED DESCRIPTION OF PROJECT

A. BORROWER

The Borrower will be the Government of Honduras. The executing agency will be the National Economic Council (NEC) in the sense that it will coordinate the requests for feasibility studies made by the various ministries and semiautonomous agencies of the GOH. The NEC was established as an autonomous institution in 1955 to advise the President on matters of general economic policy and specifically to direct and coordinate development planning. The NEC also has additional responsibilities in the areas of government administrative reform, review of the budget, coordination of certain statistical programs as related to planning and over-all coordination of foreign or other long-term lending to the various governmental agencies.

The following seven representatives comprise the NEC:

Minister of Economy and Finance (President)
Minister of Communications and Public Works
Minister of Natural Resources
President of Central Bank
President of the National Development Bank
Representative of Private Sector
Representative of Private Sector--Labor

B. HISTORY AND BACKGROUND

US AID/Honduras has been actively interested in improving the development planning capacity of the GOH for several years but only during the past 18 months has definitive progress been achieved.

Grant-funded consultant studies have evaluated different aspects of the NEC, its capacity and its planning products. Recommendations have been made both regarding changes considered necessary in order to improve the composition, organization and status of the NEC and also regarding certain types of technical assistance that would be useful in training NEC personnel and in developing internal procedures at the time the structural changes are effectuated.

The most recent analysis recommended that a program of technical assistance for the NEC be combined with a feasibility study loan. This suggestion received the support of the Mission because of the advantages offered by a combination of the two programs which in effect would use the process of selecting, evaluating and contracting for the feasibility studies as a working laboratory for the newly constituted NEC. The idea also was supported by the Mission because of the well documented necessity for specific feasibility studies of capital investment proposals. A case in point is the proposed road between Juticalpa and Puerto Castilla and the related port improvement at Trujillo. This high priority project has been delayed for almost two years because of lack of an adequate study and sufficiently accurate cost estimates. Funds for the feasibility study have not been available until CABEI recently and reluctantly authorized a loan to the GOH for this purpose.

Decree Law #30, passed on October 8, 1965, accomplished many of the recommendations made previously regarding the NEC. The organization, whose name will be changed to the Superior Council for Economic Planning, will be directly responsible to the President; its director will have ministerial rank; it will be responsible for the formulation of public investment plans for capital improvements; it will have authority to evaluate the execution of these plans by the respective ministries and make recommendations accordingly; and, it will assist the ministries in carrying out their own planning responsibilities.

During the months of June - September, 1965, the Inter-American Development Bank revealed an interest in participating in the program to the extent of a loan of \$375,000 to fund three years a seven-man team of technicians to work in the NEC and the planning offices of the various ministries. The Mission is informed by the local IDB representative that their loan is in the final stages of processing. Negotiations with the NEC regarding the use of additional or supplemental U. S. consultants, including perhaps a PASA group from the Bureau of Public Roads, are continuing at the request of the Director of the NEC. However, until such time as the assignments of the IDB technicians are better specified, a T. A. component to this loan cannot be justified. Thus, the Mission is recommending only the feasibility study portion of the program. If the current negotiation results in an efficacious proposal regarding U. S. consultants in the NEC, the matter will be presented in the form of a request for an amendment to this loan.

C. DETAILED DESCRIPTION OF THE PROJECT

1. Areas to be Studied

The loan application submitted by the NEC lists a number of specific projects under nine major headings. The application has been reviewed by the project committee and it has been determined that some of the projects are not of high priority and that some sectors have already been allotted sufficient feasibility study funds by other intermediate lending agencies. Examples are the World Bank loans for power and ports and the IDB loans for water systems. Each of these loans includes provisions for feasibility studies.

The major categories which the project committee feels to be of first importance and which will be described as eligible in the implementation letter, together with background comments on each, are as follows:

a. Roads - Estimated Amount \$100,000. The inadequacy of the Honduran road system has been officially recognized by the Central American countries in the decision to allocate a greater than proportionate share of the Integration Fund to the Honduran "integration roads." A.I.D. Loan No. 522-L-013, signed November 25, 1965, will assist in financing the construction of 602 kms. of secondary roads, or almost double the existing secondary road network. This loan, only the first step in a continuing process, contemplates the development within one year of a national secondary road plan which will list and prioritize, and thereby provide candidate projects for studies, all such roads to be developed within the next several years. See Annex II for a listing of probable road projects.

b. Irrigation - Estimated Amount \$100,000. The Direccion General de Irrigacion was reactivated in 1964 within the Ministry of Natural Resources in recognition of the water problems faced by Honduras. Though virtually all zones have a substantial average annual rainfall, the rain tends to occur in a definite season resulting in droughtlike conditions during the remaining months of the year. Tremendous benefits, both in new crop cycles and in year-round pasture usage, could be gained by better water management. Several areas have been suggested as zones for study of irrigation projects (see Annex II). Prefeasibility studies have already been completed for the Choluteca, Olancho and Yoro areas.

c. Ground Water Resources Development - Estimate Amount \$150,000-\$200,000. A study performed for the Mission in December 1964 by the Inter-American Geodetic Survey staff indicated several possible areas for irrigation projects and also commented that other likely sites would be more suited to a program of ground water resources development than to irrigation because of the following two factors:

- (i) the fact that at least one crop cycle was possible because of the rains during at least a few months of the year, which would make the economic justification of large capital investments more difficult in that the justification would then depend on production increases rather than new production; and
- (ii) the somewhat doubtful ability of the necessarily large groups of farmers to execute an irrigation program and the accompanying sophisticated agricultural practices. This IAGS study led to the program of ground water resources development described in IRR form in the Country Program Book for FY1966. The initial stages of this program will consist of feasibility studies to determine sites for ponds, windmills and wells and the drainage characteristics of certain areas which studies could more logically be funded under this loan.

The Mission agricultural team is working with the Direccion General de Irrigacion and the Agricultural Ministry in developing the criteria for the initial ground water resource studies.

d. Industry - Private Sector - Estimate Amount \$50,000-\$100,000. The Mission has been instrumental in developing the Industrial Promotion Department of the National Development Bank. This department has not yet commenced the practice of contracting for industrial feasibility studies which are beyond the capacity of its own staff; however, the need for such activity has been amply demonstrated. The Mission has, with grant funds, financed four industrial feasibility studies and each has resulted in a new plant. Each project was not of a regional (i.e. Central America) nature and therefore could not qualify for a loan from CABEI (Central American Bank for Economic Integration). The mechanics for the use of funds of this loan for industrial studies have not yet been fully worked out; i.e. whether the cost of the study

would be passed on to the ultimate investor or borne by the government. However, National Development Bank has shown sufficient interest to warrant the inclusion of the industrial category as eligible.

e. Other Projects -- As the implementation of this loan proceeds other projects may arise which merit either prefeasibility or feasibility study. Provision will be made for the inclusion of new categories or projects subject to the mutual agreement of the parties.

2. Plan for Execution and Implementation

The GOH, through the NEC, will submit requests to the Mission for the funding of each individual prefeasibility or feasibility study or survey. The prefeasibility studies or surveys will produce information upon which to determine and to select projects for further specific feasibility studies. The request should include all available information that would be of use to the Mission in evaluating the request. When available this should include, but not be limited to, the following:

a. Prefeasibility Studies or Surveys

1. Name and location or extent of investigation.
2. Agency within the GOH that will sign and administer the contract.
3. Short description of the objective of the investigation and how the resulting information can be used in the evaluation of the project's priority for further feasibility study, or for other priority studies.
4. Description of previous studies and their availability. (If available to the NEC they should be included in the application.)
5. Scope of work for the contract.

6. Contribution to be made to the investigation by the GOH.
7. Estimated cost of the project, broken into dollar and local costs.
8. Estimated time to make the investigation.
9. If available, name(s) of engineering or technical consultants that the Borrower believes are qualified to do the investigation.

b. Feasibility Studies

1. Name and location of the subproject.
2. A short description of the subproject.
3. The agency with the GOH that will sign and administer the contract.
4. Description of previous studies and their availability. (If available to the GOH, they should be included in the application.)
5. Scope of work for the contract. (A.I.D. will assist the Borrower in the development of the scope of work since it must be approved by A.I.D. before contract negotiations can be initiated by the GOH.)
6. Contribution to be made to the project by the GOH.
7. Priority and general economic justification of the development project for which the feasibility study is to be undertaken and a general statement on the way it will be carried out (institution, mechanisms, financing, additional legislation, etc.)
8. Estimated total cost of the study, with a breakdown, if possible, of foreign and local costs, showing estimated amount of loan funds required and GOH contribution.
9. Estimated time for making the study.
10. If available, name(s) of engineering or other technical consultants the Borrower believes are qualified to make the survey. (This is not necessary until after the subproject is approved but if available at the time of the application, it can be included.)

The US AID Office of Capital Development will work closely with the NEC and the various ministries in establishing and clarifying the procedures for selecting the projects and consultants during the initial stages of loan implementation.

The inclusion of any new categories, in addition to those listed in Section 1 preceding, will require the approval of A.I.D. The US AID in Honduras will have the responsibility for approving the projects and the priorities selected by the GOH. The scopes of work for the contracts, the qualifications of the firms proposed and the contracts will be reviewed and approved by US AID/Honduras, ROCAP and AID/W in accordance with existing delegation of authority before negotiation by the GOH.

All contracts will be made with prequalified United States engineering or Central American technical firms and will be negotiated by the two parties without direct assistance from A.I.D. Joint ventures of U. S. firms and Central American firms will be acceptable for contracting as well as contracts directly with Central American firms.

Any feasibility survey application that may appear to qualify under the CABEI Feasibility Loan will, upon determination by US AID/Honduras, be sent to CABEI by the NEC. Arrangements will be made with CABEI so that CABEI will have 10 days to determine whether they should accept the application or return it to the NEC, for representation to US AID.

In approving proposed subprojects, the US AID should ensure that (a) the proposed development project is considered of high priority to Honduras' development, taking into account recommendations made by A.I.D.; and (b) there is both serious intent on the part of the prospective investor to carry out the development project in the reasonably near future if it is judged feasible, and a reasonable probability that financing for the project will be made available, either from domestic or external resources.

Efforts will be made to establish a revolving fund to finance future feasibility studies. The fund would be created by requiring further lenders to include the cost of the feasibility study in their calculations of the over-all project cost and to replenish the revolving fund by the amount of said studies.

D. ECONOMIC AND FINANCIAL ANALYSIS

1. Justification of Project and Place in Program

The economic benefit of this loan derives from the accelerated development of Honduras that will come from assembling the data necessary for the rapid implementation of sound projects of high national priority and from eliminating unsound or poorly conceived projects which would waste scarce national resources. The background comments made in Section C 1 above evidence the necessity and importance of this activity for Honduras. As perhaps the poorest and least developed member of the Central American Common Market countries, its chances of even holding its own among the others depend especially on the most rapid possible allocation of its resources for technically and economically sound projects. The general economic status of Honduras was discussed in greater detail in CAP #IA/P-74-Honduras - Malaria Eradication.

This loan represents a synthesis of the two major goals of the Mission, i.e. rural development and improved planning for administration and development. Most of the capital projects which will be studied will have a major role in the rural development of Honduras, roads and irrigation projects being the two best examples.

The project is designed to strengthen the organizing, directing and carrying out of national development in Honduras by establishing foci of technical know-how in planning in the ministries as well as by strengthening the functioning of the NEC, and the coordination, cooperation and support between organizational elements. It is a project of considerable priority in the Mission program because of the improvements in planning and the acceleration of development expected to be achieved.

2. Financial Aspects

a. Amount of Loan

The loan request received from the NEC was for \$1,800,000. The latter portion requested loan funds for studies and for technical assistance but the letter was accompanied by a schedule of proposed studies with cost estimates as follows: project costs - \$144,000,000 and study costs - \$1,800,000. The study cost schedule was calculated on the basis of a variable percentage, from 1/4% to 4% depending on the type of project, of the total estimated cost of the project.

Preliminary review of the request by the Mission staff indicated that some of the scheduled projects were of a relatively low priority or not likely to be executed even if studied. The IRR was therefore presented at the amount of \$1,800,000 including a component of \$540,000 for technical assistance even though the Mission staff felt that the project and study cost estimates were reasonably accurate. Intensive review was authorized for a loan of up to \$1,400,000 with no technical assistance component, expecting that the Inter-American Development Bank would fund the technical assistance.

A separate IRR was presented in the FY1967 CAP for a water resources development loan which includes \$400,000 for feasibility studies to be used over several years. This project was not included in the schedule submitted by the NEC or in the calculations of the Mission staff prior to preparing the IRR for this loan. Nevertheless, the feasibility study portions of the water resources development should be handled as a part of the loan because of their obvious relationship to irrigation projects, and the consequent necessity for careful planning and coordination, and because the process of approving and paying for the study contracts is identical to the work to be performed under this loan.

During the period of intensive review it has been determined that some of the major categories included in the loan application should not be included as likely areas within which to make studies financed by this loan. The Inter-American Development Bank has already made two loans for municipal water projects, and the related studies, to SAANA, the agency in the GOH in charge of water systems, and is considering two more loans. The World Bank is about to sign a large loan for the improvement of the principal north coast port and will include additional funds in the loan for studies of the other two port areas of greatest potential. Several studies have already been made of the Tegucigalpa airport situation.

Therefore, the project committee has concluded that a loan of \$500,000 would be sufficient to cover the immediate needs, as listed in Section I C (1) above, and to serve as a working tool in the development of the NEC capability to select and administer feasibility studies. The project committee is satisfied that there is a reasonable expectation of committing \$500,000 for meritable studies within the period of the loan. As these funds are expended additional funds will be sought, either from the revolving fund or from a new loan.

b. Loan Terms and Local Currency Financing

The loan will be the major source of financing for this type of activity in Honduras. The loan will be used for both foreign exchange and local currency costs of the study and consultant contracts. Assuming a preponderance of U. S. firms and consultants, it is anticipated that the local currency requirement will be minimal. The GOH will be encouraged to provide supporting services to the consultants as its contribution to the projects. Any local currency required in the operation of the loan will be generated through the special letter of credit procedure customarily used by the Mission.

The loan terms and financing of minimal local costs, as proposed herein, can be justified by consideration of the GOH budget, debt service and balance of payments situations in relation to its development plan. This subject was analyzed thoroughly in the Capital Assistance Paper No. AID-DLC/P-358 entitled Honduras - Farm to Market Access Roads, written only a few months ago. The analyses and conclusions contained therein would certainly support the granting of a nonrevenue producing loan such as this on the most lenient terms possible. See also CAP No. LA/P-74 entitled Honduras Malaria Eradication for further discussion of this subject.

c. Availability of Other Financing

The Export-Import Bank indicated non-interest in this project on January 7, 1966.

The Inter-American Development Bank has indicated interest in financing a portion of the project as originally conceived. Though CABEL does have other A.I.D. loan funds available for feasibility studies in Honduras, the projects to be financed by this loan are by design and definition not eligible for the CABEL funds, i.e. they are not regional in nature. Provision has been made for referring those subprojects of a doubtful nature to CABEL for a determination of their "regionality" before accepting same under this loan.

d. Repayment Prospects

The GOH in the past has demonstrated its creditworthiness. Although present development efforts will increase the debt burden of the GOH, care is being taken to assure that the burden does not reach unmanageable proportions. The present low percentage of external public debt to gross foreign exchange earnings attests to this. The economic and financial returns to the national economy from this project should accrue more quickly than the required debt payment. The fact that Honduras values its standing as a responsible member of the Central American Common Market is sufficient to conclude that there are reasonable prospects of repayment considering the liberal terms.

SECTION II - IMPACT ON U. S. ECONOMY

No competition with U. S. enterprise will arise from this project. It is expected that the greater portion of loan funds will be paid directly to U. S. consultants. It can also be expected that the impetus this project gives to the economic development of Honduras will also encourage an expansion in the Honduran market for U. S. goods and services. The loan provisions will limit procurement to the United States and the Central American Common Market.

HONDURAS - FEASIBILITY STUDY LOAN

CHECK LIST OF STATUTORY CRITERIA (ALLIANCE FOR PROGRESS)

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1965.

App - Foreign Assistance and Related Agencies Appropriations Act, 1966.

1. FAA Section 102. Precautions that have been or are being taken to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development.

Adequate control will be exercised to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development.

2. FAA Section 102. Information on measures taken to utilize United States Government excess personal property in lieu of the procurement of new items.

Language will be inserted in the Loan Agreement establishing procedures for the utilization of U. S. Government excess property in all cases possible.

3. FAA Section 102. Information whether the country permits, or fails to take adequate measures to prevent, the damage or destruction by mob action of United States property.

Available information does not indicate that the GOH permits mob destruction of U. S. property.

4. FAA Section 201(d). Information and conclusion on legality (under laws of country and United States) and reasonableness of lending and relending terms of the loan.

Loan funds are to be loaned at rates of interest which are not unreasonable or illegal for the Borrower and are within the limits established by this Section.

5. FAA Section 251(a). Manner in which loan will promote country's economic development and contribute to the welfare of its people.

This loan-financed project will promote the country's economic development and contribute to the welfare of its people by identifying those capital investment projects which are of greatest priority and therefore most capable of quickly improving the welfare of the people.

6. FAA Section 251(b)(1). Extent to which country is adhering to the principles of the Act of Bogota and Charter of Punta del Este and is showing a responsiveness to the vital economic, political, and social concerns of its people, and extent to which country has demonstrated a clear determination to take effective self-help measures.

Account has been taken of the Borrower's adherence to the principles of the Act of Bogota and the Charter of Punta del Este, and the Borrower's responsiveness to the vital economic, political, and social concerns of its people. The Borrower's recent legislation reconstituting the NEC evidence its willingness to adopt measures consistent with the Charter.

7. FAA Section 251(b)(2). Information and conclusion on activity's economic and technical soundness.

This activity has been found economically and technically sound.

8. FAA Section 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.

This activity has a basic significance for all Borrower's development activities, and will play an essential part in the realization of long-range objectives.

9. FAA Section 251(b)(4). Information and conclusion on possible effects on U. S. economy, with special reference to areas of substantial labor surplus.

This activity will have no significant direct effect on the U. S. economy, and no competition with U. S. enterprise will result directly from it.

10. FAA Section 251(b). Information and conclusion on availability of financing from other Free World sources, including private sources within the United States.

Financing for this activity is not available from other Free World sources, including private sources within the United States, on feasible terms.

11. FAA Section 251(b). Information and conclusion on capacity of the country to repay the loan.

It appears reasonably certain that the Borrower will be capable of repaying the loan.

12. FAA Section 251(b). Information and conclusion on country's efforts to repatriate capital invested in other countries by its own citizens.

It appears that the Borrower is attempting to repatriate capital invested in other countries by its own citizens.

13. FAA Section 251(b). Information and conclusion on reasonable prospects of repayment.

It appears reasonably certain that the Borrower will be willing and able to repay the loan.

14. FAA Section 251(e). Information and conclusion on availability of an application together with sufficient information and assurances to indicate reasonably that funds will be used in an economically and technically sound manner.

The Borrower has made a formal application for loan-funded assistance in this activity, and A.I.D. has received sufficient information and assurance to indicate reasonably that funds will be used in an economically and technically sound manner.

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

This project is not directly related to the promotion of the cooperative movement in Latin America.

16. FAA Section 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

All loan funds are being made available to the Host Government; however, substantially all funds will be used by the GOH for study contracts with private consulting firms.

17. FAA Section 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 benefits of this project will encourage efforts of the Borrower to increase the flow of international trade, foster private initiative and competition, and improve the technical efficiency of agriculture, industry and commerce.

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

Private sector participation in this project will be substantial as almost all of the loan funds will be used for study contracts with private sector consulting funds.

19. FAA Section 601(d). Conclusion and supporting information on compliance with the Congressional policy that engineering and professional services of U. S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest.

Procurement of engineering or professional services financed under this loan will be limited to the United States or the Central American Common Market.

20. FAA Section 602. Information and conclusions whether loan will permit American small business to participate equitably in the furnishing of goods and services financed by it.

Through the study contracts to be financed by this loan, U.S. private participation in the foreign assistance program will be directly stimulated.

21. FAA Section 604(a), App. Section 108. Compliance with restriction of commodity procurement to United States except as otherwise determined by the President and subject to statutory reporting requirements.

Equipment, materials, and services (except marine insurance) financed under the loan shall have their origin in and be procured from the United States or Member Countries of the Central American Common Market. U. S. dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through appropriate procedures, and shall be used only for procurement in the United States.

22. FAA Section 604(b). Compliance with bulk commodity procurement restriction to prices no higher than the market price prevailing in the United States at time of purchase.

Any commodities financed by the loan and purchased in bulk will be purchased at prices no higher than prevailing U. S. market prices.

23. FAA Section 604(d). Compliance with requirement that marine insurance be purchased on commodities if the host country discriminates, and that such insurance be placed in the United States.

If the Host Country discriminates against any U. S. marine insurance company, any commodities purchased with loan funds shall be insured against marine risk with a U. S. company.

24. FAA Section 611(a)(1). Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost of the assistance to the United States.

Necessary technical and financial plans have been completed, and a reasonably firm estimate of the cost to the United States of the activity to be financed has been obtained.

25. FAA Section 611(a)(2). Necessary legislative action required within recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan.

Host Government ratification of the loan is expected promptly following execution of Loan Agreement.

26. FAA Section 611(b), App. Section 101. If water or water-related land resource construction project or program, information and conclusion on benefit-cost computation.

Not applicable, as these funds will be used to develop the data on such projects.

27. FAA Section 611(c). Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable.

NOT APPLICABLE.

28. FAA Sections 612(b) and 636(h). Appropriate steps that have been 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.

To the maximum extent possible the Borrower is contributing local currencies to meet the cost of contractual and other services, and the United States owns no local currency that could be used for this project.

29. FAA Section 619. Compliance with requirement that assistance to newly independent countries be furnished through multilateral organizations or plans, to maximum extent appropriate.

NOT APPLICABLE.

30. FAA Section 620(a), App. Section 107(a). Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or failed to take appropriate steps by February 14, 1964, to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes or permits any ships under its registry from carrying items of primary strategic significance, or items of economic assistance to Cuba.

No assistance will be furnished under this loan to the present government of Cuba, nor does the Borrower furnish assistance to the present government of Cuba. The Borrower has taken appropriate steps to prevent ships or aircraft under its registry from engaging in any Cuba trade.

31. FAA Section 620(b). If assistance to the government of a country, existence of determination it is not controlled by the international Communist movement.

The Secretary of State has determined that the Borrower is not controlled by the international communist movement.

32. FAA Section 620(c). If assistance to the government of a country, existence of indebtedness to a U. S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies or where the debt is not denied or contested by such government or the indebtedness arises under an unconditional guaranty given by such government.

The Borrower is not known to be indebted to any U. S. citizen for goods or services furnished or ordered where such a citizen has exhausted available legal remedies or where the debt is not denied or contested by the Borrower or the indebtedness arises under an unconditional guaranty of payment by the Borrower.

33. FAA Section 620(d). If assistance for any productive enterprise which will compete in the United States with U. S. enterprise, existence of 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.

NOT APPLICABLE.

34. FAA Section 620(e)(1). If assistance to the government of a country, extent to which it (including government agencies or sub-divisions) has, after January 1, 1962, taken steps to repudiate or nullify contracts or taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U. S. citizens or entitles beneficially owned by them without taking appropriate steps to discharge its obligations.

The Borrower (including Government Agencies or subdivisions) has not taken steps since January 1, 1962 to repudiate or nullify contracts or 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 appropriate steps to discharge its obligations as specified in this Section.

35. FAA Section 620(f); App. Section 109. Compliance with prohibitions against assistance to any Communist country.

Assistance provided under this loan will not be furnished to any Communist country.

36. FAA Section 620(g). Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property.

Assistance provided by this loan will not be used to compensate for expropriated or nationalized property.

37. FAA Section 620(h). Compliance with regulations and procedures adopted to insure against use of assistance in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries.

Assistance provided by this loan will not be used in a manner which promotes or assists foreign aid projects or activities of the Communist bloc countries.

38. FAA Section 620(i). Existence of determination that the country is engaging in or preparing for aggressive military efforts.

The President has not determined that the Borrower is engaging in or preparing for aggressive military efforts.

39. FAA Section 620(k). If construction of productive enterprise where aggregate value of assistance to be furnished by United States will exceed \$100 million, identification of statutory authority.

NOT APPLICABLE.

40. FAA Section 620(1). Compliance with prohibition against assistance after December 31, 1966, for the government of a country which fails to institute investment guaranty program.

The Borrower has instituted the investment guaranty program.

41. FAA Section 620(n); App. 107(b). Compliance with prohibition against assistance to countries which traffic or permit trafficking with North Vietnam.

Available information reveals no case of trafficking with North Vietnam.

42. FAA Section 620(o). 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, information on the consideration which has been given to excluding the country from assistance.

There is no current outstanding dispute in Honduras regarding seized U. S. fishing vessels.

43. FAA Section 621. Information and conclusion on how the loan in providing technical assistance will utilize to the fullest extent practicable 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.

Substantially all the loan funds will be disbursed through contracts with private, professional and other consulting firms.

44. App. (Section Unnumbered). Use of funds to carry out FAA Section 205, which pertains to IDA.

NOT APPLICABLE.

45. App. Section 102. Compliance with requirement that payments in excess of \$25,000 for architectural and engineering services on any one project be reported to Congress.

Obligations of funds in excess of \$25,000 for architectural and engineering services on this project will be reported to Congress.

46. App. Section 104. Compliance with bar against funds to pay pensions, etc., for military personnel.

Funds obligated by the loan and local currency generated thereby will not be used to pay pensions, annuities, etc. as prohibited in this Section.

47. App. Section 106. If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U. S. citizens generally, application which will be made in negotiations of contrary principles as expressed by Congress.

No case is known of attempts to create distinctions in the granting of rights to American citizens.

48. App. Section 111. Compliance with existing requirements for security clearance of personnel.

This requirement will be enforced.

49. App. Section 112. Compliance with requirement for approval of contractors and contract terms for capital projects.

A.I.D. will approve any firms providing services for the project and financed under the loan and the terms of any contracts under which such services are provided.

50. App. Section 114. Compliance with bar against use of funds to pay assessments, etc., of U. N. member.

Loan funds will not be used to make any payment to the U.N.

51. App. Section 115. Compliance with regulations on employment of U. S. and local personnel for funds obligated after April 30, 1964 (Regulation 7),

Funds made available under this loan will not be used for the construction of any facility.

52. App. Section 401. Compliance with bar against use of funds for publicity or propaganda purposes within United States not heretofore authorized by Congress.

Loan funds will not be used for publicity or propaganda purposes within the United States.

SAMPLE LIST OF STUDY AND SURVEY PROJECTS

I. Roads

A. Access Roads (i.e. in addition to group of 16 included in recent \$5.2 million A.I.D. Farm to Market Access Road Loan No. 522-I-013)

1. Talanga - Cedros - Sulaco - Yoro
2. Yamaranguila - Candelaria (Ramal a Grandique)
3. Candelaria - Camasca - Comoncagua
4. Azacualpa - San Pedro - Catacamas - Aranda
(Nispero - San Rafael)
5. Coray - La Libertad Reiteca
6. San Marcos - San Juan Guarita - Guarita

B. National Roads (as opposed to regional roads which we assume will all be financed through CABEI - i.e., the studies.)

1. Santa Rita - El Negrito
2. El Porvenir - Yoro
3. Culmi - Irióna
4. Rio Hondo - Talanga
5. San Miguel - Erandique
6. Sabanetas - Colomocagua
7. Yoro - Olancho

II. Irrigation

- A. Irrigation District of Olancho and Jalan
- B. Irrigation District of Nacaome
- C. Irrigation District of Choloteca
- D. Irrigation District of Goascoran and Langué

LOAN AUTHORIZATION

Provided from: Alliance for Progress
HONDURAS: Feasibility Studies

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress 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 Government of the Republic of Honduras ("Borrower") of not to exceed five hundred thousand United States dollars (\$500,000) to finance the United States dollar and local currency costs of equipment, material, and services necessary for the conduct of certain sectoral or resource surveys, prefeasibility studies, and feasibility studies, this loan to be subject to the following terms and conditions:

1. Interest and Terms of Repayment. Borrower shall repay the loan to the Agency for International Development ("A.I.D.") in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period not to exceed ten (10) years. The Borrower shall pay interest to A.I.D. in United States dollars on the disbursed balance of the loan of one (1) percent per annum during the grace period and two and one-half (2½) percent per annum thereafter.
2. Other Terms and Conditions:
 - (a) All subprojects will be subject to prior approval by A.I.D.
 - (b) All subprojects which in the judgment of A.I.D. may be eligible for financing by the Central American Bank for Economic Integration (CABEI) will be submitted by Borrower to that organization with a request for financing before approval for financing under this loan will be given by A.I.D.

- (c) Equipment, materials and services (except shipping and marine insurance) financed under the loan shall have their origin in and be procured from the United States or Member Countries of the Central American Common Market. Shipping financed under the loan shall be procured from the United States, and marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.
- (d) United States dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through appropriate procedures and shall be used only for procurement in the United States.
- (e) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U. S. Coordinator

Date