PD-AAS-210
42343

REVIEW OF USAID/GUATEMALA'S EXCHANGE RATE PRACTICES

Memorandum Report No. 1-520-86-01

November 20, 1985

MEMORANDUM FOR: USAID/Guatemala Director, Charles Costello

FROM : RIG/A/T, Coinage N. Gothard

Coinage N. Gothard

SUBJECT : Memorandum Report No. 1-520-86-1 on a Limited Scope Compliance Review of USAID Guatemala's Exchange Rate Practices

BACKGROUND AND SCOPE

This report presents the results of a limited scope compliance review of USAID/Guatemala's exchange rate practices. In those countries where AID provides assistance authorized under the Foreign Assistance Act and predecessor legislation, the Agency has negotiated bilateral agreements with host governments regulating the conditions under which AID operates in the recipient nations. Such documents are considered international agreements and their provisions supersede the jurisdiction and effect of local law or regulation. One provision commonly found in AID Bilateral Agreements has to do with the rate of exchange to be used when dollars appropriated to AID by Congress are brought into recipient countries to finance AID projects there. In the case of Guatemala, Article IV(c) of the Development Assistance Agreement between the Government of the United States of America and the Government of Guatemala, dated December 13, 1954, reads as follows:

> Funds introduced into Guatemala for purposes of furnishing assistance to be provided by the Government of the United States under this agreement shall be convertible into currency of Guatemala at the highest rate which, at the time the conversion is made, is not unlawful in Guatemala.

The Office of the Regional Inspector General for Audit/Tegucigalpa (RIG/A/T) performed a limited scope review of USAID/Guatemala's practices in exchanging dollars for Guatemalan local currency (quetzales) under its government-to-government projects. With the assistance of the USAID/Guatemala Controller, about $7.5 million in disbursements were reviewed in connection with the exchange rate issue to determine whether AID was receiving the appropriate rate of exchange. This review covered the period from November 1984 through September 30, 1985. It was made during the period from July through October 1985.

RESULTS OF REVIEW

Our review showed that, although the Government of Guatemala instituted an officially sanctioned "parallel" exchange rate in November 1984, USAID/Guatemala continued to exchange AID dollars for local currency at the "official" rate of US$1.00 = 1 Guatemalan quetzal. At the time the "parallel" rate was established, the exchange rate for dollars went to $1.00 = Q. 1.39. At the end of fiscal year 1985, the "parallel" rate was $1.00 = Q. 3.75. During the first ten months since the establishment of the "parallel" rate, USAID/Guatemala exchanged approximately $7.5 million at the "official" (1-to-1) rate.

According to the USAID/Guatemala Director, he continued to use the lower rate because he was advised by the Government of Guatemala that, in the Government's interpretation of its own decree-law, the higher or "parallel" rate was not available for use by aid donors under project agreements executed directly with the Government of Guatemala. Under this interpretation, USAID/Guatemala was able to obtain the higher rate for projects sponsored by private voluntary organizations and for its operating expenses, but not for government-to-government loan and grant projects, which comprise the bulk of its portfolio. (See Exhibit 1 for an exchange of correspondence between RIG/A/T and USAID/Guatemala on this issue.)

USAID/Guatemala acceded to the Government's position in this matter without documenting its decision, without calculating its potential fiscal impact, without reference to the AID Bilateral Agreement, and without consulting the cognizant AID regional legal adviser, local counsel or AID/Washington.

USAID/Guatemala Controller's records disclosed that $7,578,248 had been disbursed in AID loan (95%) and grant (5%) projects at the "official" (1-to-1) rate since creation of the "parallel" exchange market in November 1984 through the end of September 1985. Thus, an equal amount of quetzales was produced when, had the "parallel" exchange rate been used, about 18 million units of local currency could have been obtained. Stated another way, AID disbursed $7.5 million at the "official" rate when only $3.4 million at the "parallel" rate would have sufficed. As a result, USAID/Guatemala's decision to continue using the "official" rate when it had the right to obtain local currency at the higher "parallel" rate cost the U. S. Government $4.1 million in fiscal year 1985. (See Exhibit 2 for details)

In March 1985, following an 18-month period when most new AID assistance was suspended, USAID/Guatemala renewed execution of project agreements with the Government of Guatemala. USAID/Guatemala also began adding money to old projects begun prior to FY 1984. In negotiating the terms and conditions of those new agreements and amendments to prior ones, USAID/Guatemala again acceded to the GOG's position on the exchange rate issue by modifying standard AID loan and grant ("boilerplate") provisions contained in AID Handbook 3, Chapter 6 in such a way as to: (a) ratify the Government of Guatemala's interpretation on this issue by identifying the "official" rate as the highest rate available to AID, and (b) effectively contravene the provisions of AID's Bilateral Agreement by identifying the "official" rate as the highest one available because it does not "contravene the laws of Guatemala." Exhibit 3 to this report presents both the original and modified English versions of USAID/Guatemala project agreement provisions.

As a result of these modifications, a total of 16 government-to-government projects having a total AID life-of-project commitment of about $68 million, could cost AID substantially more to implement than would otherwise have been the case. The current (3.75 to 1) "parallel" exchange rate is expected to rise even further -- and with it, local prices as well -- as the quetzal's value continues to deteriorate in relation to the dollar.

With regard to the agreement modifications described above, we were advised by the USAID Director that several consultations had taken place in March 1985 with the Office of the AID General Counsel for Latin America and the Caribbean during which USAID/Guatemala stated it had received that office's approval for using modified agreement language. However, those consultations reportedly took place by telephone and no record of their substance was made by the Mission. We were also advised by the USAID/Guatemala Director that during a meeting with the Acting Assistant Administrator (AA/LAC) and the Director of the Office of Central American Affairs (LAC/CEN) which took place in Tegucigalpa, Honduras in mid-August 1985, he discussed our expressed concern in these matters with LAC Bureau managers. He later sent them a memorandum on this subject, together with certain documents including correspondence originated by RIG/A/T, expressing the concerns being raised by the Office of the Inspector General. In early October, the USAID/Guatemala Director advised us he had not received a response from AID/Washington to his memorandum.

In summary, the USAID's currency exchange practices contravened AID's rights under an international agreement between the United States and Guatemala; has had a serious adverse fiscal impact on the U.S. Government; in effect subsidized the treasury of the Government of Guatemala, which is not within the authorized purpose of the projects involved 1/; and because of rapidly rising local prices, placed in doubt the prospects for those projects to achieve their planned goals within originally authorized budgets. As of the end of fiscal year 1985, USAID/Guatemala had expended over $4 million more than it might have under its projects because, for about ten months, it had directed AID dollars to be exchanged at a less favorable rate than it had a right to obtain. This situation has been compounded by the fact that USAID/Guatemala agreed to modify standard AID project agreement language regarding currency exchanges to accomodate the Government of Guatemala's position in this matter. Hence, a number of agreements containing AID commitments totaling about $68 million had been executed or amended in this fashion.

1/ $25 million in Economic Support Funds have been programmed in FY 1986 to assist Guatemala to achieve economic stabilization.

We discussed these matters at some length with USAID/Guatemala and provided a draft of this report to the Mission for final review and comment. The final report, including the recommendation that follows, has been modified in accordance with the comments received from the Mission (See Exhibit 4).

Recommendation No. 1

We recommend USAID/Guatemala officially notify the Government of Guatemala that it will no longer exchange dollars supplied by AID under project agreements at anything less than the highest rate which is not unlawful in Guatemala, that is, the "parallel" exchange rate.

The action plan described in Exhibit 4 to this report is sufficient to consider the matter at issue resolved. Please advise me within thirty days of any additional actions you have taken or information you may have that would allow me to close our recommendation.

Exhibit 1

Exchange of Correspondence between

RIG/A/Tegucigalpa and USAID/Guatemala

in Regard to Currency Exchange Practices

and Local Tax Payments

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

August 9, 1985

Mr. Charles Costello
Director
USAID/Guatemala

Dear Mr. Costello:

I understand that during RLA Gail Lecce's recent TDY with you in Guatemala City you and she discussed the issues raised by Fred Kalhammer in a memorandum dated 8 July 1985 and addressed to your Controller, Thomas Totino, in your absence. Gail also spent some time with us here this week on the same matters; also present was Laurence Beck, Counsel to IG Beckington. Our concerns in raising these matters with you and the RLA are reflected in the following questions:

A) What were the program and policy considerations supporting your decision to accept the "official" dollar-quetzal exchange rate conversion for certain USAID/G activities?

B) How were the cost implications of accepting the "official" exchange rate estimated and factored into your decision? How long are you prepared to "stay the course" in accpeting this rate in view of the continuing deterioration in the dollar-quetzal exchange rate?

C) What, if any, negotiations have taken place with the GOG on this issue and at what levels? Have such negotiations resulted in modifications to existing agreements or to standard agreement language? Are further negotiations contemplated?

D) What consultations took place concerning acceptance of the "official" exchange rate with AID/Washington or others and what were the results of those contacts?

E) What documentation exists to support any or all of the items mentioned above?

F) In your view, what precedent does the decision to accept "official" exchange rate conversion establish for current and future AID projects in Guatemala? How should the inconsistency in accepting "official" rate conversions under some activities as opposed to "parallel" rate conversion under others and for operating expenses be viewed?

G) On the matter of the so-called "value added tax" (which in fact appears to be a sales tax on all transactions-7%), what negotiations have taken place on this matter with the GOG and at what levels, what consultations have taken place, and how are the negotiations and contacts documented? What is the outlook for eventual exemption from or rebate of what would appear to be clearly indentifiable tax payments?

These matters are being raised at this time for your formal consideration. No reply to this letter is expected or requested. Fred Kalhammer and I would like to discuss these matters with you, however. Because we have to travel to AID/W during the latter part of this month to attend an annual IG planning conference, I would not anticipate being able to meet with you for at least a month. We will contact you in September to arrange a mutually agreeable TDY opportunity.

Thank you for your attention to these matters.

Sincerely,

Coinage N. Gothard
Reg'l IG for Audit

cc: RLA, GLecce
IG/LC, LBeck

AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A. I. D. MISSION TO GUATEMALA

USAID GUATEMALA

USAID/GUATEMALA or c/o American Embassy
APO MIAMI 34024 Guatemala City, Guatemala, C.A.

RECEIVED
US AID
15 OCT. 1985
RIG

October 4, 1985

Mr. Coinage N. Gothard
RIG/A/LAC
USAID/Honduras
Tegucigalpa, Honduras

Dear Mr. Gothard:

In response to your letter of August 9, 1985, the following information is provided, keyed to your specific questions:

(A) The only real consideration involved was the insistence of the Government of Guatemala that the only legally available rate under the revised, "temporary" exchange rate regime was the so-called "essential payments" or "official" rate. No devaluation was made officially and the adoption of a parallel market with a legally sanctioned basis was treated as a limited set of exceptions to the official rate. Foreign financing agency transactions (IBRD, IDB, AID) with the GOG were not changed, i.e. payments were to be made as before without legal recognition by the GOG of any basis for use of the newly-established special category of parallel market transactions. The GOG maintained and still does that transactions at the parallel rate for program disbursements by parties such as AID are illegal, even taking into account the Bilateral Agreement or Project Agreement provisions.

(B) The issue has not been treated on the basis of cost implications *per se*. As you are aware from later conversations, the Mission is taking steps to see to it that we are afforded use of the parallel market rate for program disbursements. The USAID has retained a Guatemalan attorney and has obtained a legal opinion that indicates it is legal to purchase all Quetzal needs through the commercial banking system at the most advantageous rate, contrary to GOG affirmations. The USAID sent a copy of this opinion to the RLA for her review and advice.

On August 5, 1985, I met with the then President of the Bank of Guatemala, Oscar Alvarez Marroquín, specifically on the exchange rate issue and voiced our concerns. Alvarez asked that I formalize the issue by way of a letter, which I did on August 7. He promised to study the matter and said that follow-up meetings between the Bank and USAID would take place. The ever deepening economic crisis and the street riots of early September prevented further meetings specifically devoted to the issue, even though I have met with Alvarez on other urgent matters a number of times since our early August meeting (I personally was on leave September 6-27). The resignation of Alvarez on September 26 terminated what would have been a fruitful dialogue. His successor, Jorge Luis Monzón, was sworn in on October 2 and I will pursue the exchange rate issue with him as soon as he has had the opportunity to establish himself in his new position. On October 1, at a reception, I spoke with the new Minister of Finance and told him that AID would have to move to the parallel rate soon.

(C) Project agreement negotiations occurred in late 1984 and early 1985 which led to agreements with modified language on provisions relating to purchase of local currencies. Based on your just-concluded visit, you have a list of these Pro Ags. Further negotiations on this issue will be only in the context of the discussion in (B), above.

(D) Telephone consultations were held with the Assistant General Counsel for Latin America during the process of negotiating the first agreements in FY 85. The results of those contacts was use of modified agreement language based on the premise of the illegality of the use of anything but the official rate. The revised language was understood to be a non-substantive change reflecting the illegality for AID of use of anything but the standard rate always used previously. The nature of the parallel rate as part of a multiple exchange rate regime rather than a temporary, limited exception to a unitary rate regime was not readily apparent at the outset. The parallel rate was established and given legal recognition only in November 1984 by the Monetary Board utilizing special authority for emergency and temporary measures to protect the unitary rate in effect.

(E) All relevant available documentation on the matter has been given to you and Fred Kalhammer during your just-concluded TDY.

(F) Obviously, because of our decision to seek use of the parallel market for all transactions we do not intend to treat action to date as precedent setting.

(G) On August 29, 1985 the USAID sent a new letter to the Minister of Finance regarding the continuing problem of paying the "value added tax" (IVA) on AID program purchases. On September 5, the Minister responded by requesting the establishment of a joint commission to study the problem. Four AID staff members met with representatives of the Ministry of Finance and the Bank of Guatemala. The AID representatives made it clear that AID felt it was not subject to the IVA and suggested that either an exemption card be issued to AID or a mechanism be set up to reimburse us for taxes paid. The GOG representatives indicated they would have to talk with the Minister and would call another meeting of the commission. Due to holidays, strikes, and the absence of the Minister, the follow-up meeting which had already been scheduled for September 16, was cancelled. In the meantime, USAID had asked for a legal opinion on the payment of IVA. The opinion, submitted on September 25 indicates that USAID must pay on local purchases for our own account, even though USAID should be reimbursed by the GOG for the IVA paid on program procurements. We are not convinced that the legal opinion is accurate on this point and will request further study. We are prepared to issue a bill for collection to the GOG for this when and if appropriate. As to IVA paid on operating expense procurements, we are in the same boat with the Embassy and will be guided by their actions/progress. The Vienna Convention rather than the Bilateral Agreement will govern this issue. To exacerbate the situation, the Minister of Finance who was aware of our concerns, resigned on September 27. His successor was sworn into office on October 2, and we will seek an early appointment with him to brief him on our concerns.

Sincerely,

C E Costello

Charles E. Costello
Director

cc: RLA, G. Lecce
LAC/CEN, R. Queener
LAC/CEN, D. Fredrick
GC/LAC, R. Meighan

Exhibit 2

USAID/G Disbursements Made and Costs Incurred at the Official Exchange Rate

Period of Disbursements	$ Amount Disbursed at "Official" Rate	$ Amount Required at "Parallel" Rate	$ Cost of Using "Official" vs. "Parallel" Rate
11/27-12/6/84	$ 12,168	$ 8,754	$ 3,414
12/7/84-1/17/85	1,055,786	723,142	332,644
1/18-1/24/85	192,564	130,996	61,568
2/1-2/7/85	50.212	33,476	16,736
2/8-2/14/85	75,589	49,084	26,505
2/15-2/21/85	33,849	21,025	12,824
2/22-2/28/85	380	242	138
3/1-3/7/85	130,613	81,127	49,486
3/8-3/14/85	13,891	8,172	5,719
3/15-3/22/85	670,186	372,326	297,860
3/23-3/28/85	8,929	4,776	4,153
3/29-4/5/85	4,965	2,600	2,365
4/6-4/11/85	39,937	19,870	20,067
4/12-4/18/85	1,212,188	574,497	637,691
4/19-5/2/85	431,569	179,821	251,748
5/3-5/9/85	27,096	9,643	17,453
5/10-5/16/85	116,741	43,724	73,017
5/17-5/23/85	110,249	42,404	67,845
5/24-5/31/85	169,621	64,008	105,613
6/1-6/6/85	94,322	34,299	60,023
6/7-6/13/85	995,650	355,590	640,060
6/14-6/30/85	129,526	44,665	84,861
7/1-7/4/85	89,891	29,865	60,026
7/5-7/11/85	163,279	54,427	108,852
7/12-8/8/85	943,937	314,647	629,290
8/19-9/24/85	805,101	242,500	562,601
TOTALS	$7,578,239	$3,445,680	$4,132,559

Comparison of Original and Modified USAID/G Project Agreement Provisions Regarding Exchange Rates

(Excerpt from a pre-FY1984 USAID/Guatemala Project Agreement)

Disbursement for Local Currency Costs

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Local Currency Costs of goods and services required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) Local currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase; or

(2) by A.I.D. requesting the Borrower to make available the local currency for such costs, and thereafter reimbursing an amount of U.S. dollars equal to the amount of local currency made available by the Borrower

(Excerpt from a USAID/Guatemala ProAg modified in accordance with the Gov't. of Guatemala's interpretation of its laws.)

Disbursement for Local Currency Costs

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for the Local Currency Costs of goods and services required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D. necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) Local Currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase from the Bank of Guatemala at the official rate. The Bank of America will be the intermediary between A.I.D. and the Bank of Guatemala. At the same time, A.I.D. will notify the Bank of Guatemala, on a monthly basis, of the financial transactions made through Bank of America to purchase local currency; or

(2) by A.I.D. requesting the Grantee to make available the local currency for such costs, and thereafter reimbursing an amount of U.S. dollars equal to the amount of the local currency made available by the Grantee

Rate of Exchange.
Except as may be more specifically provided [above], if funds provided under the [project] are introduced into Guatemala by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of Guatemala at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Guatemala.

(Source: loan agreement 520-V-029, 9/14/77)

Rate of Exchange.
Except as may be more specifically provided [above], if funds provided under the [project] are introduced into the Republic of Guatemala by A.I.D. or any public Agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of the Republic of Guatemala at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Republic of Guatemala.

(Source: grant agreement 520-0339, 8/22/85, last ProAg executed in FY1985)

Note: Emphasis has been added to the modified FY 1985 agreement to highlight differences. While the last phrase is identical in English in both agreements, the Spanish version has been substantially changed. Literally translated, the original formulation was: "...such funds ... may be converted ... at the highest rate of exchange which ... is not illegal ("no sea ilegal") in Guatemala." The modified Spanish version reads: "...at the highest rate of exchange which ... does not contravene the laws of the Republic of Guatemala" ("no contravenga las leyes de la República de Guatemala").

The language of loan and grant agreement sections pertinent to this issue is identical except as regards section numbering (omitted above) and reference to AID funds recipients as "Borrower" vs. "Grantee."

USAID GUATEMALA

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A. I. D. MISSION TO GUATEMALA

USAID/GUATEMALA or c/o American Embassy
APO MIAMI 34024 Guatemala City, Guatemala, C.A.

October 28, 1985

Mr. Coinage N. Gothard
RIG/A/LAC
USAID/Honduras
Tegucigalpa, Honduras

Dear Mr. Gothard,

Attached are Mission comments on the draft Limited Scope Compliance Review of USAID/Guatemala's Exchange Rate Practices. Your consideration, as appropriate, in the final report of these comments would be appreciated.

Sincerely,

Peter Kolar
Acting Director

Attachment: a/s

Mission Comments on Draft
Limited Scope Compliance Review of
USAID/Guatemala's Exchange Rate Practices

It is quite clear that the GOG specifically drafted and intended its exchange regulations to make government-to-government aid program disbursements at anything but the official rate illegal. The GOG continues to hold strongly to the position that the interpretation of the AID Bilateral and the Standard Pro Ag language in the context of the exchange rate regime still requires use of the "esencialidades" rate of 1:1 (Q.1.00 = US$1.00). Note the following implied parenthetical addition from the GOG to the applicable language of the Bilateral (or Pro Ags):

> "...convertible into currency of Guatemala at the highest rate which, at the time the conversion is made, is not unlawful (for AID under Guatemalan law) in Guatemala."

In other words, the GOG interprets the word "unlawful" in the context of the Guatemalan exchange rate law which defines official aid flows legally as part of the 1:1 category and concludes that parallel market treatment is, in fact, "unlawful" within the meaning of the Bilateral or Pro Ags.

Such interpretation was implicitly accepted by the Mission after consultations with LAC/GC by phone during project negotiations and language changes were made in the agreements as they were considered non-substantive changes clarifying and reflecting the legally available exchange rate. The Mission is, however, now convinced that the correct interpretation of the applicable Bilateral and Pro Ag language should provide AID use of the current "parallel" market for all current agreements. The implied parenthetical addition to the applicable language of the Bilateral (or Pro Ags) should be:

> "...convertible into currency of Guatemala at the highest rate which, at the time the conversion is made, is not unlawful (for anyone for any type of foreign exchange transaction) in Guatemala."

In other words, if a more favorable rate than that supposedly available to AID is legally available to other entities, persons, categories or classes of transactions, then such rate shall be made available to AID as well.

As pointed out in the Mission's letter to you of 10/4/85, it was not apparent at the time the "parallel" rate was authorized that it was part of what has become a multiple rate system rather than a temporary, limited exception as part of the emergency measures designed to maintain the longstanding unitary rate regime.

USAID is taking steps to see that program disbursements be moved to the most favorable rate currently available, i.e. the "parallel" market rate as soon as practically possible:

(1) The RLA based in Costa Rica has c mpleted a TDY in which she prepared a draft communication to the GOG setting out why the U.S. is entitled to the "parallel" rate and cannot accept the GOG interpretation of applicable legal principles. This letter will be transmitted as soon as it can be made ready in final form;

(2) The Mission has advised the President of the Central Bank in writing (copy of letter attached) that in the context of ongoing Housing Guaranty negotiations USAID will not accept the 1:1 rate and will insist on the "parallel" rate (Note: as local currency purchases <u>per se</u> are not involved in HG transactions the governing legal principles are somewhat different, but the Mission wants to make clear that we will no longer do any business at the 1:1 rate);

(3) On October 25, 1985, the Mission signed an emergency disaster assistance grant agreement for earthquake relief for $15,000 with the GOG only after using the standard AID agreement language on conversions and making clear to GOG representatives that this meant use of the "parallel" rate. Accordingly, the Mission will notify the GOG officially in connection with disbursement that the "parallel" market rate was used. The GOG disaster relief agency officials (CONE) strongly supported the Mission position as this will generate about 3.7 times as much local currency. The Chief of State (as titular head of CONE) signed the agreement on behalf of the GOG.

The new Minister of Finance has told the Ambassador and Deputy Chief of Mission during their recent courtesy call on him that he considers only the 1:1 rate available for external aid inflows. As the 1:1 rate inflows are used to pay for "essential payments" category imports, e.g.

petroleum, wheat, fertilizer, medicines, this issue is extremely sensitive diplomatically and of great practical political importance to the GOG. As there are serious shortfalls of actual inflows vs. needed outflows of foreign exchange at the 1:1 rate, shortages of gasoline, medicines, etc. are being experienced in Guatemala with politically destabilizing effects during the electoral period of transfer from military to elected civilian government. Nonetheless, the Mission will complete a transition to full use of the "parallel" market for all transactions as rapidly as possible.

The use of the 1:1 rate introduced an element of balance of payments support to the AID program where projects included elements of local cost financing. Though balance of payments support is badly needed in Guatemala the Mission is in agreement that such impact should not be achieved through project currency conversions at the cost of loss of purchasing power for financing actual local costs in project assistance.

[The last paragraph of USAID/Guatemala's response, requesting a modification to our report recommendation, has been deleted because the modification was made as requested.]

APPENDIX 1

REPORT DISTRIBUTION

	No. of Copies
Director, USAID/Guatemala	5
AA/LAC	2
LAC/CAP	2
LAC/GC	1
LAC/CONT	1
LAC/DR	1
LAC/DP	1
AA/PPC	1
AA/XA	1
XA/PR	1
LEG	1
GC	1
AA/M	2
F/FM/ASD	2
PPC/CDIE	3
M/SER/MO	1
RLA/San Jose	1
RLA/Panama	1
RLA/Bridgetown	1