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**AUDIT OF
ROCAP EXPORT PROMOTION FUND
PROJECT NO. 596-0109**

**Audit Report No. 1-596-86-30
September 29, 1986**

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AGENCY FOR INTERNATIONAL DEVELOPMENT

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September 29, 1986

MEMORANDUM

TO : D/ROCAP, Ms. Nadine Plaster
FROM : RIG/A/T, *Coinage N. Gothard*
SUBJECT: Audit of ROCAP Export Promotion Fund, Project No. 596-0109

This report presents the results of audit of ROCAP Export Promotion Fund, Project No. 596-0109. The specific objectives of this audit were to evaluate project effectiveness in achieving planned results, the efficiency of project operations, the adequacy of internal controls and compliance with AID regulations.

Project effectiveness was limited because the Latin American Export Bank did not establish programs with the Central Banks in Honduras, Guatemala and El Salvador to make loans through their local commercial banking systems to non-traditional exporters. In addition, restrictive foreign exchange regulations and inaccurate estimates of the demand for and supply of credit undercut the achievement of project objectives. Operational efficiency was reduced by the miscalculation of administrative costs and interest income. Weaknesses in internal controls led to including loans under project financing that had never been made to non-traditional exporters. Instead, those funds were used for other purposes considered ineligible under the project and not in compliance with the AID loan agreement.

Prior to our review, ROCAP had taken action to address certain problems. For example, ROCAP officials had started action to deobligate \$3.4 million in authorized AID loans to the Latin American Export Bank (BLADEX) because of insufficient credit demand. That assessment was based on a June 1984 evaluation and a subsequent demand analysis conducted in June 1985 at ROCAP's request. ROCAP determined that BLADEX was charging administrative overhead on AID funds in overnight interest-earning deposits and therefore requested BLADEX to prepare an administrative costs analysis. Also, management determined that BLADEX had erroneously included imports of petroleum by El Salvador from Venezuela among the credits presented to ROCAP to meet its co-financing requirements.

The audit disclosed that all loans made by BLADEX to the Central Banks of Guatemala, El Salvador, and Honduras were ineligible under the terms of the AID loan agreement. The loans had not gone to non-traditional exporters, but instead were made by BLADEX only to those banks as balance-of-payments support. As a result, BLADEX had not really achieved its 1:1 co-financing ratio by March 31, 1986, as reported to AID, as required to maintain the AID loan at the total amount of \$21.6 million disbursed. Therefore, the outstanding AID loan of \$21.6 million should be reduced to one-third of the average balance of eligible loans that BLADEX had outstanding with non-traditional exporters as of March 31, 1986 as required by Implementation Letter No. 12. This would reduce the AID loan by at least \$15,578,255.

Other project objectives had not been fully achieved. Eligible loans had been made primarily for financing exports rather than the import of articles to be used in the manufacture of exports; no medium-term loans had been made as planned after the second year of the project; and the total amount of loans outstanding (\$18 million) was much less than planned (\$75 million). These shortfalls occurred because of a lack of demand, competition from other credit sources, inhibiting foreign exchange regulations and a lack of programs by the Central Banks of El Salvador, Guatemala, and Honduras to channel BLADEX financing through local commercial banks to non-traditional exporters.

Financial management errors included administrative costs and income crediting. Administrative costs charged by BLADEX to the AID loan for 1983, 1984, and 1985 were overstated by about \$243,980 due to an erroneous administrative expense analysis prepared by BLADEX. Finally, BLADEX had inadvertently not credited approximately \$39,290 in interest income to the AID revolving loan fund as required by the loan agreement.

To address these problems we recommended that ROCAP require BLADEX to prepay at least \$15,578,255 of the AID loan because funds were not used for eligible purposes; establish programs with the central banks to provide pre-export, export and medium-term financing to eligible non-traditional exporters; obtain evidence of accurate administrative costs charged to the project for 1983, 1984, 1985 and all future years; and ascertain that BLADEX has credited approximately \$39,290 in interest income to the AID loan revolving fund.

ROCAP agreed with the findings and recommendations of the audit report. The report contained four recommendations of which two are closed upon publication of the report. Recommendation No. 1 was closed because ROCAP was able to obtain from BLADEX a voluntary prepayment of the AID loan of \$16.9 million.

Please advise this office within 30 days of the actions planned or taken to implement Recommendations 3 and 4 of this report.

EXECUTIVE SUMMARY

On September 29, 1982 AID's Regional Office for Central American Programs (ROCAP) based in Guatemala City and the Latin American Export Bank (BLADEX), a private sector institution based in Panama City, signed a loan agreement for the Export Promotion Fund project (596-0109). The purpose of the project was to help allay the economic crisis in Central America by making loans to increase non-traditional exports from Central America and thereby reduce balance-of-payments deficits in the region. AID had disbursed \$21.6 million of the \$25 million authorized for the project. Prior to our review, ROCAP had proposed to deobligate the remaining \$3.4 million because of insufficient credit demand. The Latin American Export Bank was to provide co-financing equal to twice the amount of the AID loan. Implementation Letter No. 12, dated November 22, 1985, required the Latin American Export Bank to achieve a 1:1 co-financing target as of March 31, 1986, or the AID loan would be reduced to one-third of the outstanding balance of Latin American Export Bank loans to non-traditional exporters in Central America. The Latin American Export Bank reported achievement of the 1:1 co-financing requirement before that deadline, and the project assistance completion date was extended until August 31, 1986.

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a program results audit to evaluate the effectiveness of the project in achieving planned results, the efficiency of project operations, the adequacy of internal controls, and compliance with AID regulations.

Project effectiveness was limited because the Latin American Export Bank did not establish programs with the Central Banks in Honduras, Guatemala and El Salvador to channel loans through their local banking systems to non-traditional exporters. Restrictive foreign exchange regulations and inaccurate estimates of the demand for and supply of credit also affected the achievement of project objectives. The efficiency of project operations was reduced because the Latin American Export Bank overstated its administrative costs and understated interest income. Weaknesses in internal controls led to including loans under project financing that had never been made to non-traditional exporters. Instead, those funds were used for other purposes considered ineligible under the project and not in compliance with the AID loan agreement.

ROCAP had taken action to address project problems prior to our audit. Management had taken action to deobligate \$3.4 million of the \$25 million AID loan to the Latin American Export Bank because of insufficient credit demand. ROCAP determined that the Latin American Export Bank was charging administrative overhead on AID funds in interest-earning overnight deposits and requested the Latin American Export Bank to prepare an administrative costs analysis. Also, management determined that the Latin American Export Bank had erroneously included imports of petroleum by El Salvador from Venezuela among its co-financing transactions.

The audit disclosed that all Latin American Export Bank loans made with AID funds through the Central Banks of Guatemala, El Salvador, and Honduras were ineligible because they were not channeled to exporters. Instead, the loans were made by the Latin American Export Bank to the Central Banks for balance-of-payments support, and exporters named as project beneficiaries in documentation submitted by the Latin American Export Bank to ROCAP did not actually receive loans as required by the AID loan agreement. The amount of ineligible loans outstanding as of March 31, 1986 was \$28,000,000 (\$12 million from the AID revolving loan fund and \$16 million from Latin American Export Bank co-financing) of a total outstanding loan balance of \$46,065,237. Therefore, the eligible outstanding loan balance was reduced to \$18,065,237 (\$9,589,471 from the AID revolving loan fund and \$8,475,766 from Latin American Export Bank co-financing). Thus, the required 1:1 co-financing ratio as of March 31, 1986 had not actually been achieved as the Latin American Export Bank had reported. As a prerequisite for maintaining the AID loan at \$21.6 million disbursed, Implementation Letter No. 12 required achievement of the 1:1 co-financing ratio by March 31, 1986, with an average outstanding balance for the previous 30 days of \$45 million. Otherwise, the AID loan was to be reduced to one-third of the average outstanding loan balance during the month of March 1986. We recommended that ROCAP require the Latin American Export Bank to reduce the outstanding AID loan from \$21,600,000 to at least \$6,021,745 as required by Implementation Letter No. 12. Management reported that the Bank had voluntarily prepaid \$16,900,000 of the loan principal and was in compliance with Implementation Letter No. 12. The Latin American Export Bank action to deobligate \$3.4 million of the AID Loan was completed on September 16, 1986. Recommendation No. 1 is closed upon publication of this report.

Loans fell short of program objectives in three other ways. Most of the Latin American Export Bank loans had been made for financing exports rather than imports (to be used in the manufacture of non-traditional exports) as intended. The total value of the loans outstanding (\$18 million) was much less than planned (\$75 million). No medium-term loans had been made even though this was planned after the first two years of the project. These objectives were not accomplished because: (1) the demand for dollar loans by non-traditional exporters was less than estimated; (2) the supply of credit made available to non-traditional exporters from other sources was greater than anticipated; (3) foreign exchange regulations of the Central American countries did not facilitate making dollar loans; and (4) the Central Banks of El Salvador, Guatemala and Honduras did not develop programs to channel Latin American Export Bank financing to non-traditional exporters through their local banking systems. Consequently, the project had not had noticeable impact on increasing non-traditional exports and thereby reducing balance-of-payments deficits (the purpose and goal of the project, respectively). We recommended that ROCAP obtain evidence that the Latin American Export Bank has established programs with the Central Banks of Guatemala, El Salvador and Honduras to make loans to non-traditional exporters through their local banking systems. The reduction of the outstanding AID loan to \$4.7 million made the program less attractive to

central banks. Management suggested that the Bank could operate the program effectively without working through central banks. The Inspector General concurred and recommendation No. 2 is closed upon publication of the report.

The AID loan agreement provides for administrative costs to be charged to the project's AID revolving loan fund. At ROCAP's request, the Latin American Export Bank prepared a cost analysis and determined that administrative costs of \$1,000,507 charged to the AID loan during 1983, 1984, and 1985 were overstated by \$292,491. That analysis was based on the percentage of fixed costs for AID loan transactions when compared with total fixed costs for all Latin American Export Bank transactions for 1985, but was applied retroactively to 1983 and 1984. However, there were far fewer AID loan transactions in 1983 and 1984 than in 1985. Therefore, we determined that administrative costs charged by the Latin American Export Bank to the AID loan had actually been overstated by about \$536,471, of which \$243,980 had yet to be credited to the AID revolving loan fund. We recommended that the Regional Office of Central American Programs obtain refund of excessive cost charges and evidence of accurate administrative costs charged to the project for 1983, 1984, 1985 and all future years.

The AID loan agreement provides for the earnings resulting from the difference between interest charged on loans to Latin American Export Bank member banks and the cost of AID loan funds to be credited to the AID loan revolving fund, after allowance for administrative costs. We determined that the Latin American Export Bank had not credited approximately \$39,290 in interest income to the revolving fund. This occurred because the Latin American Export Bank had inadvertently failed to credit one-half of one percent in interest income under certain loans to the revolving fund. We recommended that ROCAP ascertain that the Latin American Export Bank has credited approximately \$39,290 in interest income to the AID revolving loan fund. Management agreed with the last two findings but had not yet consulted BLADEX about them.

Office of the Inspector General

**AUDIT OF
 ROCAP EXPORT PROMOTION FUND
 PROJECT NO. 596-0109**

TABLE OF CONTENTS

		<u>Page</u>
PART I	- INTRODUCTION	1
	A. Background	1
	B. Audit Objectives and Scope	2
PART II	- RESULTS OF AUDIT	4
	A. Findings and Recommendations	6
	1. Ineligible Loans Were Made	6
	2. Project Objectives Were Not Fully Achieved	10
	3. Administrative Costs Were Overstated	13
	4. Interest Income Was Not Credited to AID Revolving Fund	15
	B. Compliance and Internal Controls	16
PART III	- EXHIBITS AND APPENDICES	
	A. Exhibits	
	1. Ineligible AID Revolving Fund Loans Outstanding as of March 31, 1986	
	2. Ineligible BLADEX Co-Financing Loans Outstanding as of March 31, 1986	
	3. Total Ineligible Loans Made with AID Loan Funds as of March 31, 1986	
	4. Total Ineligible BLADEX Co-Financing Loans Made as of March 31, 1986	
	5. Central American Non-traditional Exports - 1980 through 1985	
	6. Three-year Administrative Cost Analysis	
	7. Listing of 21 Loans whose Interest Earnings Had Not Been Fully Credited to the AID Revolving Loan Fund	
	B. Appendices	
	1. List of Recommendations	
	2. Report Distribution	

1

AUDIT OF
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PART I - INTRODUCTION

A. Background

At the time of project inception in 1982, the Central American economy had been badly shaken by the worldwide economic recession, the contraction of demand for traditional Central American exports, the increased price of imports, high interest rates and accumulated foreign indebtedness. The balance-of-payments positions of all the Central American countries had deteriorated over the past three years, fiscal deficits had increased, and Gross Domestic Product growth had halted. In the absence of adequately functioning regional mechanisms, there had been an increasing tendency for the countries to deal with the balance-of-payments problems by imposing trade restrictions, which served to aggravate the problem. Most experts agreed that for industry to grow in the region a strategy was needed which stressed production of non-traditional goods for export to markets outside of Central America. Numerous studies of Central American economic conditions conducted by AID pointed to a shortage of credit as a major factor constraining its economy.

On September 29, 1982 ROCAP and the Latin American Export Bank (Banco Centroamericano de Exportaciones-BLADEX) signed an AID loan agreement for the Export Promotion Fund project. BLADEX, whose shareholders include hundreds of public and private sector financial institutions in Latin America, was incorporated in Panama in 1978. Its primary objective is the promotion of non-traditional exports from Latin America. AID's Regional Office of Central American Programs (ROCAP), based in Guatemala City, was established over two decades ago to help foster the development of the Central American Common Market. The purpose of the project was to deal with economic conditions in Central America by making loans to exporters in the region (Costa Rica, El Salvador, Guatemala and Honduras) in order to increase the production of non-traditional exports in Central America, and so to help reduce balance-of-payments deficits in the region. BLADEX was to channel ROCAP loan funds to eligible exporters through its member banks, focusing on short-term loans to finance the importation of raw materials, intermediate goods and spare parts needed in the manufacture of export goods. A project revolving loan fund was to be created from AID loan reflows to make additional loans. After two years, BLADEX was to begin making medium-term loans for capital improvements.

ROCAP had disbursed \$21.6 million of the authorized \$25 million to BLADEX, but had already begun taken action to deobligate the remaining \$3.4 million at the time of our audit because of insufficient credit demand. As its counterpart, BLADEX was to provide co-financing in loans

outstanding equal to twice the amount of the AID loan. This co-financing was to be "additive" or in addition to the average balance of loans outstanding for the same purpose in 1981. When BLADEX was unable to meet the 2:1 co-financing requirement or even provide 1:1 co-financing, Implementation Letter No. 12 was issued on November 22, 1985 requiring BLADEX to achieve a 1:1 co-financing target by March 31, 1986. If BLADEX failed to meet the reduced co-financing target, the AID loan would be reduced to one-third of the outstanding balance of BLADEX loans to non-traditional exporters. BLADEX subsequently reported achievement of the 1:1 co-financing requirement and the project assistance completion date was extended to August 31, 1986 to allow more time to assess the future of the project.

The terms of the ROCAP loan to BLADEX provided for an interest rate of six percent per annum to be paid by BLADEX for five years following the date of first disbursement and thereafter at a per annum rate equal to the six-month LIBOR rate (London Interbank Offered Rate), but not less than six percent. The loan principal was to be repaid within 15 years in twenty-one equal semi-annual installments beginning four and one-half years after the first interest payment. Subloans to member banks were to be made at current market interest rates plus a reasonable spread. Potential end borrowers eligible to receive loans from member banks were to be exporters of non-traditional manufactured or agricultural products. Non-traditional products excluded sugar, cotton, coffee, bananas and cattle, but generally included any product to which a significant value was added, such as deboned, canned, packaged, and frozen beef. Member banks were to receive an additional spread on loans to end borrowers, but no single loan to an end borrower was to exceed \$1.0 million.

B. Audit Objectives and Scope

The Office of Regional Inspector General for Audit/Tegucigalpa performed a program results audit of the Export Promotion Fund Project No. 596-0109. The purpose of our review was to determine whether the desired results of the project had been achieved. Specific audit objectives were to evaluate:

- the effectiveness of the project in achieving planned results;
- efficiency of project operations;
- the adequacy of internal controls; and
- compliance with AID regulations.

To accomplish the audit objectives we reviewed records and documents and met with cognizant officials at ROCAP and BLADEX; interviewed officials of BLADEX's member banks, including commercial and Central Banks of Costa Rica, El Salvador, Guatemala, and Honduras; interviewed a randomly selected sample of loan beneficiaries (non-traditional exporters); and evaluated the impact of competing programs in the region.

The audit was made in June and July 1986 and covered BLADEX loans made during the period from September 29, 1982 (project inception) through March 31, 1986. It covered \$21,600,000 in AID loan funds; total credit extended with AID loan funds of \$94,456,244 (\$21,600,000 from AID loan disbursements and \$72,856,244 from AID loan reflows to the revolving fund); and total BLADEX co-financing credit extended of \$106,796,475. This audit was made in accordance with generally accepted government auditing standards.

AUDIT OF
ROCAP EXPORT PROMOTION FUND
PROJECT NO. 596-0109

PART II - RESULTS OF AUDIT

Project effectiveness was limited because the Latin American Export Bank did not establish programs with the Central Banks in Honduras, Guatemala and El Salvador to make loans through their local commercial banking systems to non-traditional exporters. In addition, restrictive foreign exchange regulations and inaccurate estimates of the demand for and supply of credit undercut the achievement of project objectives. Operational efficiency was reduced by the miscalculation of administrative costs and interest income. Weaknesses in internal controls led to including loans under project financing that had never been made to non-traditional exporters. Instead, those funds were used for other purposes considered ineligible under the project and not in compliance with the AID loan agreement.

Prior to our review, ROCAP had started action to address certain problems. For example, ROCAP officials had begun to take action to deobligate \$3.4 million in authorized AID loans to the Latin American Export Bank (BLADEX) because of insufficient credit demand. That assessment was based on a June 1984 evaluation and a subsequent demand analysis conducted in June 1985 at ROCAP's request. ROCAP determined that BLADEX was charging administrative overhead on AID funds in overnight interest-earning deposits and therefore requested BLADEX to prepare an administrative costs analysis. Also, management determined that BLADEX had erroneously included imports of petroleum by El Salvador from Venezuela among the credits presented to ROCAP to meet its co-financing requirements.

The audit disclosed that all loans made by BLADEX to the Central Banks of Guatemala, El Salvador, and Honduras were ineligible under the terms of the AID loan agreement. The loans had not gone to non-traditional exporters, but instead were made by BLADEX only to those banks as balance-of-payments support. The total amount of the ineligible loans outstanding as of March 31, 1986 was \$28,000,000 (\$12 million from the AID loan revolving fund and \$16 million from BLADEX co-financing). The total loan balance outstanding was \$46,065,237. As a result, BLADEX had not really achieved its 1:1 co-financing ratio by March 31, 1986, as reported to AID, which was required to maintain the AID loan at the total amount of \$21.6 million disbursed. Therefore, the outstanding AID loan of \$21.6 million should be reduced to one-third of the average balance of eligible loans that BLADEX had outstanding with non-traditional exporters as of March 31, 1986 as required by Implementation Letter No. 12. This would reduce the AID loan by at least \$15,578,255.

Other project objectives had not been fully achieved. Eligible loans had been made primarily for financing exports rather than the import of articles to be used in the manufacture of exports; no medium-term loans had been made as planned after the second year of the project; and the total amount of loans outstanding (\$18 million) was much less than planned (\$75 million). These shortfalls occurred because of a lack of demand, competition from other credit sources, inhibiting foreign exchange regulations and a lack of programs by the Central Banks of El Salvador, Guatemala, and Honduras to channel BLADEX financing through local commercial banks to non-traditional exporters.

Financial management errors included administrative costs and income crediting. Administrative costs charged by BLADEX to the AID loan for 1983, 1984, and 1985 were overstated by about \$243,980 due to an erroneous administrative expense analysis prepared by BLADEX. Finally, BLADEX had inadvertently not credited approximately \$39,290 in interest income to the AID revolving loan fund as required by the loan agreement.

To address these problems we recommended that ROCAP require BLADEX to prepay at least \$15,578,255 of the AID loan because funds were not used for eligible purposes; establish programs with the central banks to provide pre-export, export and medium-term financing to eligible non-traditional exporters; obtain evidence of accurate administrative costs charged to the project for 1983, 1984, 1985 and all future years; and ascertain that BLADEX has credited approximately \$39,290 in interest income to the AID loan revolving fund.

A. Findings and Recommendations

1. Ineligible Loans Were Made

According to the ROCAP-BLADEX loan agreement, BLADEX was to sub-lend AID funds to non-traditional exporters through its member banks in four Central American countries. However, we found that in three countries AID loan funds had not reached their intended end-users. Instead, they were used by the central banks in those nations for general balance-of-payments purposes and only loosely attributed by them to the export activities of certain firms and individuals, as reported to BLADEX and, eventually, to ROCAP. In addition, BLADEX was to have lent from its own funds \$2 for every \$1 in AID loans it made to benefit non-traditional exporters. This requirement was later lowered to 1:1 and BLADEX reported that the revised target had been met at the end of March 1986. But because the majority of BLADEX's lending was deemed not to be in accordance with its loan agreement with ROCAP and therefore ineligible, audit results determined that BLADEX had in fact fallen far short of its co-financing obligations under the project. As a result, BLADEX's AID loan balance would have to be reduced by not less than about \$15.5 million.

Recommendation No. 1

We recommend that ROCAP:

- a) formally advise the Latin American Export Bank (BLADEX) that the total amount of \$28,000,000 in loans outstanding as of March 31, 1986 to the Central Banks of Guatemala, El Salvador, and Honduras are ineligible under the project, and obtain recovery of all AID loan funds associated with those three countries; and
- b) complete actions to deobligate \$3.4 million of the undisbursed balance of the AID loan.

Discussion

The AID loan agreement states that non-traditional exporters in the manufacturing and agricultural sectors will benefit from direct loans channeled through BLADEX's member banks. The auditors interviewed all eligible banks that had used the BLADEX credit line. We determined that all BLADEX loans made to the Central Banks of Guatemala, El Salvador, and Honduras were ineligible because the exporters which were listed in BLADEX's records as loan beneficiaries had not actually received the loans. Instead the loans were made by BLADEX to those central banks for balance-of-payments support only. The total amount of the ineligible loans outstanding as of March 31, 1986 was \$28,000,000 (see Exhibits 1 and 2) (\$ 12 million financed with AID loan funds and \$ 16 million with BLADEX co-financing). This effectively reduced the eligible loan balance from \$46,065,237 to \$18,065,237 (\$9,589,471 financed with AID loans funds and \$8,475,766 with BLADEX co-financing).

Representatives of the three central banks told us that the loans were made on the basis of export documents of the named beneficiaries. We interviewed a selected sample of loan beneficiaries who, according to BLADEX's records, had received loans through its member banks. The exporters listed as loan beneficiaries of the Central Banks of Guatemala, El Salvador, and Honduras confirmed that they had not received BLADEX financing. Officials of the named beneficiaries of the Central Bank of Guatemala told us they were not aware that the Central Bank had received BLADEX loans in connection with their export activities. They also stated that their total exports were not sufficient to justify the amounts of the loans received by the Central Bank of Guatemala. We later confirmed this at the Central Bank. For example, one exporter, in whose name the Central Bank of Guatemala had received \$8,000,000 in BLADEX loans from October 1985 through May 1986, had only exported about \$2,500,000 for the year of June 1985 through July 1986. Another exporter, on whose behalf the Central Bank had received \$11,000,000 in BLADEX loans from March 1985 through January 1986, had only exported about \$4,900,000 during the period July 1984 through June 1986.

We questioned BLADEX officials concerning the nature of the loans made to the Central Banks of Guatemala and El Salvador. An Assistant Vice President indicated that he was aware that the exporters listed as loan beneficiaries had not actually received the loans but believed the loans were justified as eligible within the spirit of the loan agreement because:

- Loan funds were made available indirectly to benefit non-traditional exporters.
- The loans created a pool of funding that benefited all non-traditional exporters in Guatemala and El Salvador.
- In Guatemala, the foreign exchange regulations had prevented non-traditional exporters from directly receiving the benefit of loans from BLADEX. We were told that loans from BLADEX to the Central Bank of Guatemala provided dollars to the so-called "licitacion" (bid) market that auctioned-off dollars primarily to non-traditional exporters.
- In El Salvador the loans to the Central Bank provided dollars that were funneled to the "parallel" market to be used primarily by non-traditional exporters.

Officials of the three Central Banks stated that loan funds received from BLADEX were commingled with other sources of funds and could not be identified as serving the needs of non-traditional exporters exclusively. However, they attributed the foreign exchange provided by the BLADEX loans to non-traditional exporters even though the funds were used for general liquidity and balance-of-payments support purposes.

The problem of these ineligible loans can also be compared with loans made for the entire loan period. BLADEX records showed that from inception of the program to March 31, 1986, a total of \$94,456,244 in loans with AID funds had been made through its member banks -- \$21.6 million from AID loan disbursements and \$72,896,244 from the revolving fund. Those loans included \$24,425,500 in ineligible loans made to the Central Banks of Guatemala and El Salvador (see Exhibit 3). The records also showed that total BLADEX co-financing from inception of the program to March 31, 1986 was \$106,796,475. BLADEX co-financing loans of \$86,574,500 were ineligible loans made to the Central Banks of Guatemala, El Salvador, and Honduras (see Exhibit 4).

In addition to these ineligible loans, some loans had been divided to avoid ceiling limits on single loans. BLADEX officials stated that its loans made to the Central Banks of Guatemala and El Salvador were made on the basis of coded cables which provided the names of the exporters, the products exported, the importing countries, and the amounts of the exports. We reviewed a selected sample of those cables and verified that the loans provided were generally supported by amounts stated in the cables. However, we noted that in some cases BLADEX had divided the amounts stated in the cables into \$1,000,000 loan increments (see Exhibit 1) in order to comply with the stipulation in the AID loan agreement that no single loan to a final beneficiary will exceed \$1.0 million.

BLADEX had not been able to meet its 2:1 co-financing requirement or even provide 1:1 co-financing. This was not in compliance with Implementation Letter No. 12, dated November 22, 1985, which required BLADEX to achieve a 1:1 co-financing target as of March 31, 1986 with an average outstanding loan balance for the previous 30 days of \$45 million. Otherwise, the AID loan would be reduced to one-third of the average outstanding loan balance over the month of March 1986. BLADEX had reported achievement of the 1:1 co-financing requirement with a total outstanding loan balance of \$46,065,237 as of March 31, 1986 (\$21,589,471 financed with AID loan funds and \$24,475,766 with BLADEX co-financing). However, ineligible loans formed approximately 61 percent of BLADEX's reported outstanding loan balance as of March 31, 1986. As a result, BLADEX had not achieved the 1:1 co-financing ratio as reported, since the average loan balance was less than half the required \$45 million. We therefore believe that the outstanding AID loan of \$21.6 million should be reduced to one-third the average balance of eligible loans that BLADEX had outstanding with non-traditional exporters as of March 31, 1986, as required by Implementation Letter No. 12. This would reduce the AID loan to not to exceed \$6,021,745 or to one-third of the eligible BLADEX loans of \$18,065,237.

AID had disbursed \$21.6 million of the \$25 million authorized for this project. Prior to our review, ROCAP had started action to deobligate the remaining \$3.4 million because of insufficient credit demand but deobligation actions had not been completed at the end of our review. ROCAP should complete action to deobligate the unused balance of the AID loan.

Management Comments

ROCAP officials met with BLADEX shortly after we advised them of our findings regarding the ineligibility of the majority of BLADEX loans under this project. As a result, BLADEX has voluntarily prepaid \$16,900,000 of the AID loan principal plus interest to the U.S. Treasury thus bringing it into compliance with the terms of Implementation Letter No. 12. BLADEX also expressed a willingness to continue operating the export promotion fund at its reduced level of the \$4.7 million AID loan plus interest earnings. In addition, \$3.4 million of the AID loan was formally deobligated on September 16, 1986. ROCAP had advised BLADEX of its intent to deobligate \$3.4 million of the AID loan in Implementation Letter No. 9, dated July 26, 1985. AID/Washington was subsequently requested to prepare a Congressional notification on this deobligation. This action was delayed over nine months due to various objections and confusion regarding AID's deobligation-reobligation authority raised by PPC and OMB. ROCAP was advised that the waiting period had expired in June 1986 and a loan amendment deobligating the \$3.4 million was forwarded to BLADEX for concurrence shortly thereafter.

Inspector General Comments

Although no explanation was provided by ROCAP as to why BLADEX prepaid the amount it did, we are satisfied that it more than corrects the ineligibility problem disclosed through audit. Therefore, Recommendation No. 1 is closed upon publication of this report.

2. Project Objectives Were Not Fully Achieved

BLADEX loans fell short of program objectives in three areas: most of the loans made by the Latin American Export Bank (BLADEX) had gone to finance exports rather than imports as intended; the total value of the loans outstanding (\$18 million) was much less than planned (\$75 million); and, no medium-term loans had been made as planned after the first two years of project operations. These objectives were not accomplished because: (1) the demand for dollar loans from non-traditional exporters was less than estimated; (2) the supply of credit made available to non-traditional exporters from other sources was greater than anticipated; (3) foreign exchange regulations of the Central American countries did not facilitate BLADEX's making dollar loans; and (4) the Central Banks in El Salvador, Guatemala and Honduras did not develop programs to channel BLADEX financing to non-traditional exporters through local banking systems. As a result of the above conditions, the project had not noticeably increased non-traditional exports or reduced balance-of-payment deficits (the purpose and goal of the project, respectively).

Recommendation No. 2

We recommend that ROCAP obtain evidence that the Latin American Export Bank has established programs with the Central Banks in El Salvador, Guatemala and Honduras to provide pre-export, export, and medium-term financing to eligible non-traditional export industries through their local banking systems. In designing these programs, the central banks should be encouraged to assume the exchange risk and provide the dollars (not directly linked to exports) to repay the Latin American Export Bank.

Discussion

BLADEX had not made the types of loans intended and the total value of loans outstanding was much less than planned. The AID loan agreement established that the primary focus of the program was for pre-export loans to finance imports of inputs needed for producing non-traditional export goods. In addition, funds were to be used for export financing to provide exporters with credit to bridge the gap between the time of shipment and payment by the purchaser. The loan agreement also stated that, after two years, medium-term loans (up to five years) from prior loan reflows were planned after specific criteria had been developed and agreed upon by ROCAP and BLADEX. Project plans also provided that, as of September 27, 1984, BLADEX was to have \$75 million in loans outstanding for the financing of non-traditional export industries. The AID loan was to finance \$25 million of this portfolio and BLADEX was to finance \$50 million from its own resources.

Contrary to the project criteria, 98 percent of BLADEX's short-term loans financed with AID funds had gone for export rather than pre-export (import) financing. In addition, BLADEX had not made any medium-term loans to import capital goods needed to expand the productive capacity of

non-traditional exporters. As of March 31, 1986 BLADEX had eligible loans outstanding of only \$18 million (see Section A.1 of this report) rather than the \$75 million planned at project completion (September 27, 1984).

As a result of these shortfalls, the project has probably not had much impact on increasing non-traditional exports or reducing balance-of-payments deficits (the purpose and goal of the project). Exhibit 5 of this report shows the value of non-traditional exports by each Central American country from 1980 through 1985. Exports to countries outside Central America had not shown any increase except for 1985. This was mainly due to increased demand because of economic recoveries in the United States and other importing countries.

Export financing (98 percent of the value of loans made with AID funds) probably did not have much effect on increasing non-traditional exports since it was mainly used to provide short-term local currency financing to exporters who might have been able to obtain those funds from local sources. Export-financing, however, did provide balance-of-payments support since the central banks involved received the dollars advanced by BLADEX. Pre-export and, particularly medium-term loans, would probably have had a greater impact on increasing non-traditional exports because the dollars could have been linked directly to imports of raw materials and capital goods needed to expand production.

BLADEX did not channel project financing in the directions and the amounts planned for the following reasons:

- The demand for dollar financing from non-traditional exporters was less than estimated by AID project planners.
- The supply of credit available to non-traditional exporters was greater than anticipated.
- Foreign exchange regulations in Central American countries inhibited the use of dollar financing available from BLADEX.
- The Central Banks in El Salvador, Guatemala and Honduras did not develop programs to sublend BLADEX dollars to non-traditional exporters through local banking systems; instead, the dollars received were used for balance-of-payments support (see section A.1 of this report). However, the Central Bank in Costa Rica did establish a program to loan BLADEX dollars to non-traditional exporters through its local banking system. Partly as a result of this, the BLADEX program in Costa Rica was very successful.

The central banks would be the most effective channel for financing imports for pre-export and medium-term loans, particularly if they assumed the exchange risk and provided the dollars for repaying BLADEX. This is a mechanism used by AID and other donors for similar projects.

Management Comments

Given the fact that BLADEX has reduced the outstanding AID loan amount to \$4.7 million, the fund does not possess sufficient funds to make the negotiation of such a program attractive to the respective central banks, especially if they would be expected to assume the exchange risk and provide the dollars (not directly linked to exports) to repay BLADEX. ROCAP believes that BLADEX can effectively operate the export promotion fund at its reduced level without working through the central banks in El Salvador, Guatemala and Honduras.

Inspector General Comments

Recommendation No. 2 is closed upon the publication of the report because there are not sufficient AID loan funds remaining after the BLADEX loan prepayment to establish significant programs with the central banks.

3. Administrative Costs Were Overstated

The AID loan agreement provides for reasonable administrative costs to be charged against the project's AID revolving loan fund. At ROCAP's request, the Latin American Export Bank (BLADEX) prepared a cost analysis and determined that administrative costs of \$1,000,507 charged to the AID loan during 1983, 1984, and 1985 were overstated by \$292,491. That analysis was based on the percentage of fixed costs for AID loan transactions to total fixed costs for all BLADEX transactions for 1985 and was applied retroactively to 1983 and 1984. However, the analysis was defective because there were fewer AID loan transactions in 1983 and 1984 than in 1985. Therefore, we determined that administrative costs charged to the AID loan had originally been overstated by about \$536,471, of which \$243,980 had yet to be recovered.

Recommendation No. 3

We recommend that ROCAP obtain evidence that the Latin American Export Bank (BLADEX):

- a) has prepared a complete and definitive administrative cost analysis based on its actual costs and all AID loan transactions by year of operation;
- b) has reimbursed the AID revolving loan fund \$243,980 in excessive administrative cost charges; and
- c) has established procedures to determine AID administrative costs based on actual administrative costs and AID loan transactions for 1986 and all future years.

Discussion

The AID loan agreement states that once an adequate reserve for losses has been established and administrative costs have been covered, BLADEX will establish a revolving fund to be used to further the purposes of the project. The revolving fund will be financed by subloan reflows generated by the original AID loan. Implementation Letter No. 1 states that administrative costs and bad debts related to subloans will be charged to the revolving fund. The loan agreement, amendments, or implementation letters do not specify cost items to be included in administrative costs nor is the method of computing those costs described.

BLADEX charged administrative costs totaling \$1,000,507 to the AID loan for 1983, 1984, and 1985. Because administrative costs were charged on the overnight interest-earning deposits of surplus cash rather than just on subloans, ROCAP requested BLADEX to prepare a cost analysis to determine what the proper charges for administrative costs during 1983, 1984, and 1985 were. BLADEX prepared such an analysis and, in a letter dated April 22, 1986, informed ROCAP that BLADEX should have charged \$708,016 for its administrative costs incurred during 1983, 1984, and

1985. BLADEX proposed to compensate the revolving fund of the program for the \$292,491 overcharge by establishing a separate revolving fund in order not to affect BLADEX's balance sheet accounts. That fund would also be committed to make loans under the AID project and to credit the revolving fund with the interest income generated from those loans. The ROCAP Controller requested BLADEX have its analysis certified by an independent CPA firm, which had not been done at the time of our audit.

We reviewed BLADEX's administrative cost analysis and found it inadequate. BLADEX's analysis was based on the percentage of fixed costs for AID loan transactions to total fixed costs for all BLADEX transactions for 1985, but was applied retroactively to 1983 and 1984. We found that the administrative costs calculated in BLADEX's analysis were still overstated by approximately \$243,980 because there were not as many AID loan transactions in 1983 and 1984 as in 1985. BLADEX's analysis determined that for 1985, its administrative costs of \$241,000 for 679 AID loan transactions represented six percent of total BLADEX fixed costs of \$4,016,000. BLADEX applied that same percentage to total BLADEX fixed costs for 1983 and 1984. However, this application was erroneous since there were only 107 AID loan transactions in 1983 and 465 in 1984. The analysis would have been more accurate had BLADEX computed a fixed cost per transaction for 1985 to be applied to the number of AID loan transactions in 1983 and 1984 (see Exhibit 6). However, the correct method of computing AID administrative costs would have been for BLADEX to use actual AID administrative costs and AID loan transactions for 1983 and 1984, although BLADEX claimed this was impossible to determine from its records. BLADEX's CPA firm agreed with us that AID's administrative costs for 1983 and 1984 should have been based on its actual costs and AID loan transactions.

Management Comments

ROCAP concurred with Recommendation No. 3 but had not yet consulted with BLADEX on this aspect of audit results.

Inspector General Comments

Recommendation No. 3 can be closed as soon as the recommended corrective action is completed.

4. Interest Income Was Not Credited to AID Revolving Fund

The AID loan agreement provided for the earnings resulting from the difference between interest charged on loans to BLADEx member banks and the cost of the AID loan funds to be credited to the AID loan revolving fund, after allowance for administrative costs. We determined that the Latin American Export Bank (BLADEx) had not credited approximately \$39,290 in interest income to the AID revolving fund. This occurred because BLADEx had inadvertently failed to add one-half of one percent in interest income under certain loans to the revolving fund.

Recommendation No. 4

We recommend that ROCAP obtain evidence that the Latin American Export Bank has made the adjustments necessary to credit approximately \$39,290 in interest income to the AID revolving fund.

Discussion

The AID loan agreement states that BLADEx will make loans to its member banks at current market interest rates plus a reasonable spread. The difference between those interest rates and the cost of the AID loan funds, less a reasonable allowance for administrative costs, was to serve as a source of continuous capitalization for the AID revolving loan fund.

Beginning August 24, 1985, BLADEx began charging only one percent for administrative costs and agreed to retroactively reduce the amount of administrative costs charged for 1983, 1984, and 1985 (see section A.3 of this report). However, due to a computer programming error, the modified cost allocation required BLADEx to make manual adjustments in order to credit the proper interest income to the revolving fund for loans outstanding after August 24, 1985. BLADEx made the manual adjustments required for all but 21 loans totaling about \$18,522,920 (see Exhibit 7 for listing). One-half of one percent in interest income, or less, was inadvertently not credited to the revolving fund under these loans.

Management Comments

ROCAP concurred with Recommendation No. 4 but had not yet consulted with BLADEx on this aspect of audit results.

Inspector General Comments

Recommendation No. 4 can be closed as soon as the recommended corrective action is completed.

B. Compliance and Internal Control

1. Compliance

The audit disclosed two compliance exceptions. First, all loans made by BLADDEX to the Central Banks of Guatemala, El Salvador, and Honduras were ineligible because they had not gone directly to non-traditional exporters as required by the AID loan agreement. Second, most of the BLADDEX loans had been made for financing exports rather than imports (pre-export) as intended by the AID loan agreement and no medium-term loans had been made as planned after the first two years.

Other than the conditions cited, tested items were in compliance with applicable laws and regulations. Nothing came to our attention that would indicate that untested items were not in compliance.

2. Internal Controls

The audit disclosed a lack of procedures to identify ineligible loans and proper administrative costs to be charged to the AID loan revolving fund. Also, the procedures to identify the correct amount of interest income to be credited to the AID loan revolving fund were found to be weak. Other than these exceptions, internal controls were found to be adequate and operating effectively.

AUDIT OF
ROCAP EXPORT PROMOTION FUND
PROJECT NO. 596-0109

PART III - EXHIBITS AND APPENDICES

INELIGIBLE AID REVOLVING FUND LOANS OUTSTANDING
AS OF MARCH 31, 1986

<u>Exporter</u>	<u>Product</u>	<u>Loan Dates</u>		<u>Int. Rate</u>	<u>Amount</u>
		<u>From</u>	<u>To</u>		
<u>BANCO DE GUATEMALA</u>					
Commercial Tropical, S.A.	Cardamom	1/2/86	5/2/86	9.500	\$1,000,000
Cardex, S.A.	Cardamom	1/2/86	5/2/86	9.500	1,000,000
Cardex, S.A.	Cardamom	1/2/86	5/2/86	9.500	1,000,000
Cardex, S.A.	Cardamom	1/2/86	5/2/86	9.500	1,000,000
Imexa	Cardamom	1/3/86	5/5/86	9.500	1,000,000
Cardex, S.A.	Cardamom	1/3/86	5/5/86	9.500	1,000,000
Exportadora Monte Blanco, S.A.	Sesame	3/5/86	7/3/86	9.375	1,000,000
Total					\$7,000,000 *****
<u>BANCO CENTRAL DE EL SALVADOR</u>					
SIGMA, S.A.	Printed Products	12/30/85	6/30/86	9.625	580,000
Industrias Unidas, S.A.	Textiles	12/30/85	6/30/86	9.625	1,000,000
Industrias Unidas, S.A.	Textiles	12/30/85	6/30/86	9.625	1,000,000
Pezca, S.A.	Shrimp	12/30/85	6/30/86	9.625	1,000,000
Pezca, S.A.	Shrimp	12/30/85	6/30/86	9.625	420,000
Industrias Unidas, S.A.	Textiles	12/30/85	6/30/86	9.625	1,000,000
Total					\$5,000,000 *****
Total Ineligible Loans Outstanding by Both Central Banks					\$12,000,000 *****
Total Revolving Fund Loans Outstanding as of 3/31/86					\$21,589,471
Percentage Ineligible (\$12,000,000/\$21,589,471.25)					55.58%

INELIGIBLE BLADEX CO-FINANCING LOANS OUTSTANDING
AS OF MARCH 31, 1986

<u>Exporter</u>	<u>Product</u>	<u>Loan From</u>	<u>Dates To</u>	<u>Int. Rate</u>	<u>Amount</u>
BANCO DE GUATEMALA					
<u>AGRONOMECA</u>	Sesame	1/28/86	5/28/86	9.625	\$ 2,000,000
Comenorsa	Pepper	1/28/86	5/28/86	9.625	1,000,000
Agroexportadora Commercial Agricola	Cardamom	3/5/86	9/02/86	9.500	2,500,000
Agricola Escobar	Sesame	3/5/86	9/2/86	9.500	1,500,000
Frigorificos de Guat.	Shrimp	3/5/86	9/2/86	9.500	1,000,000
Imexa	Cardamom	3/5/86	7/3/86	9.375	2,000,000
			Total		<u>\$10,000,000</u> *****
BANCO CENTRAL DE EL SALVADOR					
Multipesca, S.A.	Shrimp	2/13/86	5/14/86	9.3125	2,000,000
Quality Food de C.A., S.A.	Vegetables	2/18/86	5/19/86	9.375	600,000
Cajas y Bolsas, S.A.	Pasteboard Boxes	2/18/86	5/19/86	9.375	310,000
Multipesca, S.A.	Shrimp	2/18/86	5/19/86	9.375	90,000
			Total		<u>\$3,000,000</u> *****
BANCO CENTRAL DE HONDURAS					
Mariscos Aguas Profundas de Utila	Seafood	2/19/86	5/21/86	9.25	10,184
Mariscos del Caribe	Seafood	2/19/86	5/21/86	9.25	660,759
Mariscos Hybur	Seafood	2/19/86	5/21/86	9.25	347,272
Productos y Mariscos Prymar	Seafood	2/19/86	5/21/86	9.25	61,800
Mariscos Agua Azul	Seafood	2/19/86	5/21/86	9.25	1,636,744
Exportadora de Productos Naturales	Fruit	2/19/86	5/21/86	9.25	11,111
Pina Antillana	Pineapples	2/19/86	5/21/86	9.25	109,908
Viveros Tropicales	Fruit	2/19/86	5/21/86	9.25	24,005
Derivados de Madera	Furniture	2/19/86	5/21/86	9.25	9,987
Marmoles de Honduras	Marble	2/19/86	5/21/86	9.25	56,070
Procesadora de Cacao Honduras	Cacao	2/19/86	5/21/86	9.25	72,160
			Total		<u>\$ 3,000,000</u> *****
Total Ineligible Co-Financing Loans Outstanding by Three Central Banks					<u>\$16,000,000</u> *****
Total BLADEX Co-Financing Loans Outstanding as of 3/31/86 ^{1/}					\$24,475,766
Percentage Ineligible (\$16,000,000/\$24,475,766)					65.37%

^{1/} Total co-financing loans outstanding as of 3/31/86 (\$25,530,766) less average balance of loans outstanding during 1981 (\$1,055,000) equals \$24,475,766 per section 3.2 (b) of the loan agreement.

TOTAL INELIGIBLE LOANS MADE WITH AID LOAN FUNDS
AS OF MARCH 31, 1986

<u>Exporter</u>	<u>Product</u>	<u>Loan From</u>	<u>Dates To</u>	<u>Int. Rate</u>	<u>Amount</u>
BANCO DE GUATEMALA					
Cardeguasa	Cardamom	3/28/85	7/26/85	10.6875	\$1,000,000
Cardeguasa	Cardamom	3/28/85	7/26/85	10.6875	1,000,000
Distribuidora El Panal Pesca, S.A.	Honey	7/26/85	10/24/85	9.4375	205,136
	Shrimp	7/26/85	10/24/85	9.4375	220,364
Agroexport Comercial Agricola, S.A.	Cardamom	7/26/85	10/24/85	9.4375	233,875
Agro Atlantica, S.A.	Cardamom	7/26/85	10/24/85	9.4375	766,125
Industria Sesamo	Sesame	7/26/85	10/24/85	9.4375	261,250
Empresa Agricola IBM de Guatemala	Rubber	7/26/85	10/24/85	9.4375	207,900
Empresa Agricola IBM de Guatemala	Rubber	7/26/85	10/24/85	9.4375	138,600
Frigorificos de Guat. Comercial Tropical, S.A.	Shrimp	7/26/85	10/24/85	9.4375	392,250
	Cardamom	8/30/85	12/30/85	9.4375	500,000
Comercial Exportadora Agricola	Cardamom	8/30/85	12/30/85	9.4375	500,000
Comercial Tropical S.A. Comercial Exportadora Agricola	Cardamom	8/30/85	12/30/85	9.4375	500,000
	Cardamom	8/30/85	12/30/85	9.4375	500,000
Frigorificos de Guat. Industrias Marbellas	Shrimp	8/30/85	12/30/85	9.4375	350,000
	Shrimp	8/30/85	12/30/85	9.4375	350,000
Frigorificos de Guat. Industrias Marbellas	Shrimp	8/30/85	12/30/85	9.4375	200,000
	Shrimp	8/30/85	12/30/85	9.4375	200,000
El Ganadero, S.A.	Shrimp	8/30/85	12/30/85	9.4375	200,000
Comercial Tropical, S.A. Comercial Exportadora Agricola	Cardamom	8/30/85	12/30/85	9.4375	500,000
	Cardamom	8/30/85	12/30/85	9.4375	500,000
Frigorificos de Guat. Industrias Marbellas	Shrimp	8/30/85	12/30/85	9.4375	233,333
	Shrimp	8/30/85	12/30/85	9.4375	233,333
El Ganadero, S.A.	Shrimp	8/30/85	12/30/85	9.4375	233,334
Frigorificos de Guat. Del Tropico, S.A.	Shrimp	9/ 5/85	1/ 3/86	9.5625	500,000
	Cardamom	9/ 5/85	1/ 3/86	9.5625	750,000
Cardeguasa	Cardamom	9/ 5/85	1/ 3/86	9.5625	750,000
Cardamomera Int'l.	Cardamom	9/ 5/85	1/ 3/86	9.5625	1,000,000
Comercial Tropical, S.A.	Cardamom	1/ 2/86	5/ 2/86	9.5000	1,000,000
Cardex, S.A.	Cardamom	1/ 2/86	5/ 2/86	9.5000	1,000,000
Cardex, S.A.	Cardamom	1/ 2/86	5/ 2/86	9.5000	1,000,000
Cardex, S.A.	Cardamom	1/ 2/86	5/ 2/86	9.5000	1,000,000
Imexa	Cardamom	1/ 3/86	5/ 5/86	9.5000	1,000,000
Cardex, S.A.	Cardamom	1/ 3/86	5/ 5/86	9.5000	1,000,000
Exportadora Monte Blanco, S.A.	Sesame	5/ 5/86	7/ 3/86	9.3750	1,000,000
TOTAL					\$19,425,500

TOTAL INELIGIBLE BLADEx CO-FINANCING LOANS MADE
AS OF MARCH 31, 1986

<u>Exporter</u>	<u>Product</u>	<u>Loan Dates</u>		<u>Int. Rate</u>	<u>Amount</u>
		<u>From</u>	<u>To</u>		
<u>BANCO DE GUATEMALA</u>					
Cardeguasa, S.A.	Cardamom	7/27/84	11/26/84	13.125	\$ 2,500,000
Radña	Cardamom	7/27/84	11/26/84	13.125	2,500,000
Comercial Tropical	Cardamom	11/2/84	1/31/85	11.312	2,000,000
Monto de Oro	Cardamom	11/2/84	1/31/85	11.312	3,000,000
Cardeguasa, S.A.	Cardamom	11/27/84	3/27/85	10.687	3,500,000
Monte de Oro	Cardamom	11/27/84	3/27/85	10.687	1,500,000
Diversificaciones Tropicales	Cardamom	1/31/85	5/ 2/85	9.812	1,700,000
Eximca	Cardamom	1/31/85	5/ 2/85	9.812	3,300,000
Comercial Tropical	Cardamom	3/ 8/85	6/ 6/85	10.937	1,500,000
Universal Exportadora Importadora, S.A.	Cardamom	3/ 8/85	6/ 6/85	10.937	1,500,000
Cardeguasa	Cardamom	3/28/85	7/26/85	10.687	3,000,000
Agropacific, S. A.	Cardamom	5/ 2/85	8/30/85	10.062	2,500,000
Universal Exportadora Importadora, S. A.	Cardamom	5/ 2/85	8/30/85	10.062	2,500,000
Cardeguasa, S.A.	Cardamom	5/30/85	9/27/85	9.250	2,000,000
Procesadora de Alimentos Concentrados	Meat	5/30/85	9/27/85	9.250	1,000,000
Agropacific	Sesame	5/30/85	9/27/85	9.250	1,000,000
Procesadora de Carne	Meat	6/ 7/85	10/ 7/85	8.937	1,000,000
Del Tropico, S.A.	Cardamom	6/ 7/85	10/ 7/85	8.937	500,000
Cardamomera Internacional, S.A.	Cardamom	6/ 7/85	10/ 7/85	8.937	500,000
Tabacos Maya, S.A.	Tobacco	6/ 7/85	10/ 7/85	8.937	1,000,000
Tabacalera Nacional, S.A.	Tobacco	7/26/85	10/24/85	9.437	2,574,500
Soya, S.A.	Cardamom	9/27/85	1/27/86	9.437	2,500,000
Pesca, S.A.	Shrimp	9/27/85	1/27/86	9.437	750,000
Exguapagra	Meat	9/27/85	1/27/86	9.437	750,000
Agroexportadora Comercial Agricola, S.A.	Cardamom	10/10/85	2/ 7/86	9.562	750,000
Cardex, S.A.	Cardamom	10/10/85	2/ 7/86	9.562	1,500,000
E. Antillon y Cia.	Sesame	10/10/85	2/ 7/86	9.562	1,500,000
Cardex, S.A.	Cardamom	10/24/85	2/21/86	9.562	2,500,000
Cardex, S.A.	Cardamom	10/24/85	2/21/86	9.562	1,500,000
Fydep	Chicle	10/24/85	2/21/86	9.562	1,000,000
Agromec	Sesame	1/28/86	5/28/86	9.625	2,000,000
Comenorsa	Pepper	1/28/86	5/28/86	9.625	1,000,000
Agroexportadora Comercial Agricola, S.A.	Cardamom	3/ 5/86	9/ 2/86	9.500	2,500,000
Agricola Escobar	Sesame	3/ 5/86	9/ 2/86	9.500	1,500,000
Frigorificos de Guat.	Shrimp	3/ 5/86	9/ 2/86	9.500	1,000,000
Imexa	Cardamom	3/ 5/86	7/ 3/86	9.375	2,000,000
Total					\$62,574,500

TOTAL INELIGIBLE BLADEx CO-FINANCING LOANS MADE
AS OF MARCH 31, 1986

<u>Exporter</u>	<u>Product</u>	<u>Loan From</u>	<u>Dates To</u>	<u>Int. Rate</u>	<u>Amount</u>
<u>BANCO CENTRAL DE EL SALVADOR</u>					
Pezca	Crawfish	9/28/84	1/28/85	12.875	\$2,000,000
Multipesca	Shrimp	9/28/84	2/25/85	12.937	1,000,000
Multipesca	Shrimp	9/28/84	12/27/84	12.750	2,000,000
Multipesca	Shrimp	2/ 6/85	4/ 8/85	10.250	2,000,000
Multipesca	Shrimp	2/ 6/85	5/ 7/85	10.375	2,000,000
Multipesca	Crawfish & Shrimp	8/13/85	11/12/85	9.375	1,200,000
Attarraya	Shrimp	8/13/85	11/12/85	9.375	800,000
Attarraya	Shrimp	8/16/85	11/14/85	9.437	400,000
Pesca	Shrimp	8/16/85	11/14/85	9.437	600,000
Atonaya	Shrimp	11/14/85	2/12/86	9.375	700,000
Pesca	Shrimp	11/14/85	2/12/86	9.375	1,300,000
Pesca	Shrimp	11/18/85	2/18/86	9.375	1,000,000
Multipesca	Shrimp	2/13/86	5/14/86	9.312	2,000,000
Quality de CA	Vegetables	2/18/86	5/19/86	9.375	600,000
Cajas y Bolsas	Pasteboard Boxes	2/18/86	5/19/86	9.375	310,000
Multipesca	Shrimp	2/18/86	5/19/86	9.375	90,000
					<u>\$18,000,000</u>

<u>BANCO CENTRAL DE HONDURAS</u>					
Fincas Tropicales	Cloves	11/21/85	02/19/86	9.375	\$ 39,098
Empresa Plast. Unidos	Cellophane Paper	11/21/85	02/19/86	9.375	39,098
Politubo	India Rubber	11/21/85	02/19/86	9.375	39,098
Hondufibras	Vulcaniz- ation	11/21/85	02/19/86	9.375	39,098
Fabrica de Textiles Rio Lindo	Yarn	11/21/85	02/19/86	9.375	39,098
Polifilamentos	Textile Fiber Cables	11/21/85	02/19/86	9.375	39,098
Tapas de C.A.	Waterpipes	11/21/85	02/19/86	9.375	39,098
Sikafy Industrial	Metal Springs	11/21/85	02/19/86	9.375	39,098
Industrias Modasol	Tools	11/21/85	02/19/86	9.375	39,098
Guantes, S.A.	Gloves	11/21/85	02/19/86	9.375	39,098
Almidones Istmo	Starch	11/21/85	02/19/86	9.375	39,098
Empresa Plast. Unidos	Helmets	11/21/85	02/19/86	9.375	39,098
Empacadora Alus	Meat	11/21/85	02/19/86	9.375	133,201
Rancho Lorenzo	Meat	11/21/85	02/19/86	9.375	133,201
Carnilandia Comercial	Meat	11/21/85	02/19/86	9.375	133,201

22

TOTAL INELIGIBLE BLADEx CO-FINANCING LOANS MADE
AS OF MARCH 31, 1986

<u>Exporter</u>	<u>Product</u>	<u>Loan From</u>	<u>Dates To</u>	<u>Int. Rate</u>	<u>Amount</u>
Orinsa Oriente	Cheese	11/21/85	02/19/86	9.375	\$ 133,201
Apiarios Kipua	Cheese	11/21/85	02/19/86	9.375	133,201
Exp. Productos Naturales	Flour and Fruit	11/21/85	02/19/86	9.375	133,201
Exportadora Universal	Flour and Fruit	11/21/85	02/19/86	9.375	133,201
Productos Naturales del Caribe	Honey	11/21/85	02/19/86	9.375	133,201
Coop. Agro Apicola Pionera	Honey	11/21/85	02/19/86	9.375	133,201
Prod. y Mariscos	Shrimp	11/21/85	02/19/86	9.375	133,201
Exp. e Imp. Silam	Cheese and Curd	11/21/85	02/19/86	9.375	133,201
Mariscos del Caribe	Lobster	11/21/85	02/19/86	9.375	133,201
Paraiso de Honduras	Meat	11/21/85	02/19/86	9.375	133,201
Ind. de Armadores y Pesqueros	Fish	11/21/85	02/19/86	9.375	133,201
Ind. Pesquera del Caribe	Fish	11/21/85	02/19/86	9.375	133,201
Mariscos Hybur	Shrimp	11/21/85	02/19/86	9.375	133,201
Mariscos Bahia	Lobster	11/21/85	02/19/86	9.375	133,201
Mariscos Agua Azul	Shrimp	11/21/85	02/19/86	9.375	133,201
Fab. Ind. de Alimentos de Honduras	Curd	11/21/85	02/19/86	9.375	133,206
Mariscos Aguas Profundas de Utila, S.A.	Seafood	02/19/86	05/21/86	9.250	10,184
Mariscos del Caribe, S.A.	Seafood	02/19/86	05/21/86	9.250	660,759
Mariscos Hybur, S.A.	Seafood	02/19/86	05/21/86	9.250	347,272
Productos y Mariscos	Seafood	02/19/86	05/21/86	9.250	61,800
Mariscos Agua Azul	Seafood	02/19/86	05/21/86	9.250	1,636,744
Exportadora de Prod. Naturales	Fruit	02/19/86	05/21/86	9.250	11,111
Pina Antillana, S.A.	Pineapples	02/19/86	05/21/86	9.250	109,908
Viveros Tropicales	Fruit	02/19/86	05/21/86	9.250	24,005
Derivados de la Madera	Furniture	02/19/86	05/21/86	9.250	9,987
Marmoles de Honduras	Marble	02/19/86	05/21/86	9.250	56,070
Procesadora de Cacao Honduras	Cacao	02/19/86	05/21/86	9.250	72,160
Total					<u>\$ 6,000,000</u>
Total Ineligible Co-Financing Loans Made by Central Banks					<u>\$ 86,574,500</u>
Total Co-Financing Credit Extended					<u>\$106,796,474</u>
Percentage Ineligible (\$86,574,500/\$106,796,474.82)					<u>81.06%</u>

CENTRAL AMERICAN NON-TRADITIONAL EXPORTS
1980 THROUGH 1985
(Millions of Dollars)

C O U N T R I E S -----	1980 ----	1981 ----	1982 ----	1983 ----	1984 ----	1985 ----
(1) EXPORTS WITHIN CENTRAL AMERICA						
Costa Rica	\$ 270.3	\$ 238.0	\$ 167.2	\$ 198.2	\$ 193.0	\$ 130.2
El Salvador	295.8	206.5	174.2	168.1	157.2	129.0
Guatemala	440.8	407.2	337.4	347.1	338.4	207.8
Honduras	83.9	65.9	51.9	61.3	47.6	48.0
	-----	-----	-----	-----	-----	-----
SUB-TOTAL	\$1090.8	\$ 917.6	\$ 730.7	\$ 774.7	\$ 736.2	\$ 515.0
	-----	-----	-----	-----	-----	-----
(2) EXPORTS OUTSIDE CENTRAL AMERICA						
Costa Rica	\$ 164.6	\$ 189.3	\$ 167.1	\$ 148.1	\$ 216.1	\$ 239.0
El Salvador	52.9	54.4	43.5	55.8	63.7	75.9
Guatemala	166.8	157.4	135.1	84.5	87.7	226.4
Honduras	184.3	205.7	149.1	168.9	187.0	189.5
	-----	-----	-----	-----	-----	-----
SUB-TOTAL	\$ 568.6	\$ 606.8	\$ 494.8	\$ 457.3	\$ 554.5	\$ 730.8
	-----	-----	-----	-----	-----	-----
(3) TOTAL NON-TRADITIONAL EXPORTS						
Costa Rica	\$ 434.9	\$ 427.3	\$ 334.3	\$ 346.3	\$ 409.1	\$ 369.2
El Salvador	348.7	260.9	217.7	223.9	220.9	204.9
Guatemala	607.6	564.6	472.5	431.6	426.1	434.2
Honduras	268.2	271.6	201.0	230.2	234.6	237.5
	-----	-----	-----	-----	-----	-----
GRAND TOTAL	\$1659.4	\$1524.4	\$1225.5	\$1232.0	\$1250.7	\$1245.8
	*****	*****	*****	*****	*****	*****

Three-Year Administrative Cost Analysis
 (\$000)

<u>BLADEX Analysis:</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
(1) Number of AID loan transactions	107	465	679	1,251
(2) Variable cost factor (\$/tran)	\$14.71	\$15.59	\$16.53	\$ 15.99
(3) AID Program Variable Cost	\$ 1.6	\$ 7.2	\$ 11.2	\$ 20.0
(4) Total BLADEX Fixed Costs	\$3,624	\$3,826	\$4,016	\$11,466
(5) Fixed cost factor (%)	6.0	6.0	6.0	6.0
(6) AID Program Fixed costs	\$217.4	\$229.6	\$241.0	\$ 688.0
(7) Total AID Program Costs	<u>\$219.0</u>	<u>\$236.8</u>	<u>\$252.2</u>	<u>\$ 708.0</u>

Auditors' Computation of Overcharge:

1985 AID fixed cost per transaction
 \$241,000/679 = \$354.93
 less: auditors' estimated allowable
 fixed costs

(8) 1983 - \$354.93x107 =	\$ 38.0			
(9) 1984 - \$354.93x465 =		<u>\$165.0</u>		
(10) OVERCHARGE (Line 6-8 and 9)	\$179.4	\$ 64.6		<u>\$ 244.0</u>
(11) TOTAL ALLOWABLE ADMINISTRATIVE COSTS FOR 1983, 1984, 1985 (Line 7-10)				<u>\$ 464.0</u> =====

Original BLADEX Charge for Administrative Costs	\$1,000.5
Less: Total Allowable Costs	464.0
Overcharge	<u>\$ 536.5</u>
Less: Previously Refunded	292.5
Overcharge still to be Refunded	<u>\$ 244.0</u> =====

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**LISTING OF 21 LOANS WHOSE
INTEREST EARNINGS HAD NOT BEEN FULLY CREDITED
TO THE AID REVOLVING LOAN FUND**

Loan Number	Shareholder Bank	Loan Principal	Loan Dates		Interest Income Due the Revolving Fund
			From	To	
9011731	Banco de Guatemala	\$1,000,000.00	1/ 2/86	5/ 2/86	\$ 1,666.67
9011749	Banco de Guatemala	1,000,000.00	1/ 2/86	5/ 2/86	1,666.67
9011757	Banco de Guatemala	1,000,000.00	1/ 2/86	5/ 2/86	1,666.67
9011765	Banco de Guatemala	1,000,000.00	1/ 2/86	5/ 2/86	1,666.67
9011781	Banco de Guatemala	1,000,000.00	1/ 3/86	5/ 5/86	1,666.67
9011790	Banco de Guatemala	1,000,000.00	1/ 3/86	5/ 5/86	1,666.67
9012664	Banco de Guatemala	1,000,000.00	3/ 5/86	7/ 3/86	1,250.00
9013261	Banco de Guatemala	4,000,000.00	5/ 2/86	10/29/86	10,000.00
9013300	Banco de Guatemala	2,000,000.00	5/ 5/86	11/ 5/86	5,000.00
9011668	Banco Central de El Salvador	580,000.00	12/30/85	6/30/86	1,450.00
9011676	Banco Central de El Salvador	1,000,000.00	12/30/85	6/30/86	2,500.00
9011684	Banco Central de El Salvador	1,000,000.00	12/30/85	6/30/86	2,500.00
9011692	Banco Central de El Salvador	1,000,000.00	12/30/85	6/30/86	2,500.00
9011706	Banco Central de El Salvador	420,000.00	12/30/85	6/30/86	1,050.00
9011714	Banco Central de El Salvador	1,000,000.00	12/30/85	6/30/86	2,500.00
9013580	Banco Metropolitano Guatemala	75,000.00	5/23/86	7/22/86	62.50
9013661	Banco Mercantil	138,218.75	6/ 3/86	12/ 1/86	172.77
9013679	Banco Mercantil	98,434.46	6/ 4/86	12/ 4/86	123.04
9013725	Banco Mercantil	110,646.63	6/ 5/86	12/ 2/86	138.31
9012478	Crediticia, S. A.	62,951.90	2/21/86	5/22/86	19.67
9013695	Crediticia, S. A.	37,668.40	6/ 4/86	12/ 4/86	23.54
Total Loan Principal		\$18,522,920.14			
					\$ 39,289.85

26

LIST OF RECOMMENDATIONS

Recommendation No. 1

We recommend that ROCAP:

- a) formally advise the Latin American Export Bank (BLADEX) that the total amount of \$28,000,000 in loans outstanding as of March 31, 1986 to the Central Banks of Guatemala, El Salvador, and Honduras are ineligible under the project, and obtain recovery of all AID loan funds associated with those three countries; and
- b) complete actions to deobligate \$3.4 million of the undisbursed balance of the AID loan.

Recommendation No. 2

We recommend that ROCAP obtain evidence that the Latin American Export Bank has established programs with the Central Banks in El Salvador, Guatemala and Honduras to provide pre-export, export, and medium-term financing to eligible non-traditional export industries through their local banking systems. In designing these programs, the central banks should be encouraged to assume the exchange risk and provide the dollars (not directly linked to exports) to repay the Latin American Export Bank.

Recommendation No. 3

We recommend that ROCAP obtain evidence that the Latin American Export Bank (BLADEX):

- a) has prepared a complete and definitive administrative cost analysis based on its actual costs and all AID loan transactions by year of operation;
- b) has reimbursed the AID revolving loan fund \$243,980 in excessive administrative cost charges; and
- c) has established procedures to determine AID administrative costs based on actual administrative costs and AID loan transactions for 1986 and all future years.

Recommendation No. 4

We recommend that ROCAP obtain evidence that the Latin American Export Bank has made the adjustments necessary to credit approximately \$39,290 in interest income to the AID revolving fund.

APPENDIX 2

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20