

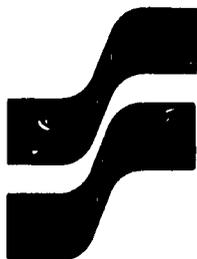
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REPORT  
ON  
TECHNICAL ASSISTANCE MISSION  
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (CABEI)

PREPARED FOR:  
OFFICE OF HOUSING  
AGENCY FOR INTERNATIONAL DEVELOPMENT

BY:  
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R E P O R T

on

TECHNICAL ASSISTANCE MISSION  
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (CABEI)

Prepared for:

Office of Housing  
Agency for International Development

by:

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Washington, D.C.

September 1983

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2. Audited Financial Statements
3. Scope of Work

## FINANCIAL REPORT - CABEI

### I. BACKGROUND

Over the past few years, political and economic turmoil has gripped Central America. Moreover media reports focussing on some problems in the region have fostered the perception in the rest of the world that the entire region is both unsafe and unstable. Regardless of the veracity of that perception, it is nevertheless true that many public and private sector international institutions have distanced themselves from the region and its problems. And while the problems differ both in magnitude and kind in each country, all five Central American nations are being tarred with the same brush.

Nowhere is the impact more deeply felt than in financial circles. For all practical purposes, the entire region has been redlined by private sector lending institutions. It is a fact that today no external private lenders are making loans available to the governments of the Central American nations, or to their quasi government agencies, or generally to the private sector. Host government guaranties, which once opened up the vaults of the major international banks, no longer suffice. Only direct financial aid from friendly governments outside the region and from some multilateral development finance agencies has been continued, offering some respite from the otherwise financial drought.

As a regional finance body, the Central American Bank for Economic Integration (CABEI) has suffered along with its member nations. Generally private sector external lenders have included CABEI within the redline and have withdrawn lines of credit. Since obtaining a \$50 million syndicated loan in 1981, CABEI, like its member countries, has been unable to secure any new financing from private banks. This has been the case in spite of its outstanding record with respect to foreign loans and its excellent balance sheet. The only bright spot, if it may be called that, is that CABEI still has some recourse to loans from external bilateral and multilateral public lending agencies. With their assistance, CABEI will be able to overcome many of its intermediate problems, and survive as a viable and major development finance agency for the region.

There are three major problems facing CABEI at this time. The first of these is the need to develop new sources of funds. With private markets all but inaccessible, CABEI has had increasingly to rely on USAID and other public lenders to provide operational support. However, CABEI has been attempting to open new private sources of funds both externally and from inside the region. Such efforts have met with little success, largely due to the economic and political problems of Central America. The second problem is the need to generate hard currency to repay foreign borrowing. This remains a continuing problem since CABEI's receipts are largely in local nonconvertible currencies. The final problem is the degree to which CABEI's loan portfolio is in arrears. The current arrearages rate is about 12 percent. CABEI, however, has taken a number of steps (discussed in Section II) to reduce these arrearages and collect on its loans.

Today, CABEI finds itself in a holding pattern. Its policy is to meet all existing contractual loan commitments to borrowers and, accordingly, it is searching actively to raise new sources of funds and generate internal flows. On the other hand, CABEI will not make any new loan commitments with regional borrowers unless a specific source of funds has been contracted for that specific project or loan purpose. In this way, CABEI intends to continue to alleviate, not exacerbate, its financial condition.

## II. FINANCIAL SOUNDNESS OF CABEI

One of the major questions raised by AID in its discussions with CABEI has been the latter's liquidity position and financial soundness. While the question has been considered within the context of the Housing Fund, the fact that CABEI does not segregate its funds requires that the overall financial position of the entire institution be examined. Accordingly, we have done so and formed some preliminary conclusions with respect to CABEI.

### A. RISK AND CABEI'S OPERATIONS

By the nature of its operations, CABEI faces four types of financial risks. The first two of these, interest rate risk and default risk, are common to all financial intermediaries. In brief, interest rate risk arises from fluctuations

in market interest rates that affect assets and liabilities differently. Increases in rates cause a decline in the value of fixed rate instruments, but affect short term instruments less than longer term instruments. Real problems occur when interest rates rise and assets are of longer maturity than liabilities. CABEI has avoided this risk to a great extent by relying on liabilities with longer maturity than its assets. While some of these liabilities are at floating rates, the bulk are of fixed rate.

The second type of risk is a default risk. This arises from the inability or unwillingness of borrowers to repay loans. In temporary situations, forbearance results in a reduction in net income. When default occurs, the loss of capital must be acknowledged through a drawing down of reserves. Prior to 1979, the arrearage record of CABEI was excellent and was cited as such in an evaluation done by Dillon Read. Since then, however, due to a deteriorating political situation in the region, CABEI's arrearage rate as reflected on Exhibit 1 has risen to over 12 percent of total portfolio (\$CA93 million of which approximately \$20 million is owed by the public sector and the remaining by private sector borrowers) and is expected to increase to over \$150 million by 1985. Exhibit 2 shows CABEI's projected arrearages from private sector for fiscal 1983 by status. While the largest portion of these arrearages are in the Ordinary Fund, the overall situation will nonetheless affect the Housing Fund. CABEI officials estimate that \$CA500,000 is currently absolutely uncollectable, but are working on the collection of the rest. While these arrearages pose a problem for CABEI's current operations, CABEI, in the medium run, has sufficient reserves to absorb adequately all potential defaults. In addition, CABEI is making real efforts to reduce arrearages, through loan rescheduling, direct supervision of loans and legal action.

AL 31 DE JULIO DE 1983

(Cifras en Miles de Pesos Centroamericanos)

FONDO Y ANTIGUEDAD	CAPITAL	INTERESES	COMISIONES	TOTAL	% MORA CAPITAL/CARTERA	% MORA TOTAL CARTERA
<u>FONDO ORDINARIO</u>						
A menos de 30 días	1.955	1.804	129	3.888	.90	1.79
Entre 31 y 90 días	4.085	3.095	101	7.281	1.88	3.35
Entre 91 y 180 días	1.177	554	19	1.750	.54	.81
A más de 180 días	23.765	25.039	1.031	49.835	10.94	22.94
Readecuaciones Pendientes de Escriturar	4.856	2.888	189	7.933	2.24	3.65
<b>TOTAL</b>	<b>35.838</b>	<b>33.380</b>	<b>1.469</b>	<b>70.687</b>	<b>16.50</b>	<b>32.54</b>
<u>FONDO CENTROAMERICANO DE INTEGRACION ECONOMICA</u>						
A menos de 30 días	1.627	1.328	197	3.152	37	71
Entre 31 y 90 días	1.702	3.064	235	5.001	38	1.13
Entre 91 y 180 días	1.225	1.688	21	2.934	28	67
A más de 180 días	5.291	3.667	254	9.212	1.20	2.09
<b>TOTAL</b>	<b>9.845</b>	<b>9.747</b>	<b>707</b>	<b>20.299</b>	<b>2.23</b>	<b>4.60</b>
<u>FONDO FINANCIERO DE VIVIENDA</u>						
Entre 31 y 90 días	349	215	44	608	37	65
Entre 91 y 180 días	182	152	32	366	20	39
A más de 180 días	857	158	50	1.065	92	1.15
<b>TOTAL</b>	<b>1.388</b>	<b>525</b>	<b>126</b>	<b>2.039</b>	<b>1.49</b>	<b>2.19</b>
<u>FONDO DE DESARROLLO SOCIAL</u>						
A menos de 30 días	.-	91	21	112	.-	44
Entre 31 y 90 días	.-	.-	16	16	.-	6
Entre 91 y 180 días	.-	99	.-	99	.-	38
A más de 180 días	.-	85	17	102	.-	40
<b>TOTAL</b>	<b>.-</b>	<b>275</b>	<b>54</b>	<b>329</b>	<b>.-</b>	<b>1.23</b>
<u>CONSOLIDACION</u>						
A menos de 30 días	3.582	3.223	347	7.152	.46	.92
Entre 31 y 90 días	6.136	6.374	396	12.906	.79	1.66
Entre 91 y 180 días	2.584	2.493	72	5.149	.33	.66
A más de 180 días	29.913	28.949	1.352	60.214	3.84	7.75
Readecuaciones Pendientes de Escriturar	4.856	2.888	189	7.933	.63	1.02
<b>TOTAL</b>	<b>47.071</b>	<b>43.927</b>	<b>2.356</b>	<b>93.354</b>	<b>6.05</b>	<b>12.01</b>
<u>SALDOS CARTERA AL 31 DE JULIO DE 1983</u>						
F.O.	217.202.683.83					1/
FCIE.	441.411.380.50					
F.F.V.	93.253.053.43					
F.D.S.	25.672.548.85					
	<u>777.539.666.61</u>					

1/ No incluye US\$ 1.979.070.63 que corresponde a saldos en descubierto por adjudicación de bienes.

Exhibit 2

ected Status of CABEI Arrearages  
as of June 30, 1983  
(Private Sector Only)

<u>Status</u>	<u>Number of Loans</u>	<u>Balance (\$m)</u>
Being restructured	16	43.5
In Process of Collection	37	46.6
Public Sector Assumption	5	13.1
Legal Action Pending	18	46.1
Pending Decisions/Action	8	6.4
Uncollectable	5	0.5
Total	<u>89</u>	<u>156.2*</u>

\*of which about \$73 million is past due

Source: CABEI

The third and fourth categories of risk for CABEI are connected with its regional nature. One of these is the risk related to devaluation of the currencies of CABEI's member countries. Loans denominated in local currency (as are CABEI's) will be reduced in value should the currency be devalued. CABEI has guarded against this possibility in two ways. First, while capital contributions of member countries may be in local currency, their value in terms of dollars must be maintained against exchange rate fluctuations. Second, CABEI engages in hedging transactions with the central banks in the region to cover its currency exposure on loans. By swapping local currency for dollars, CABEI automatically gains on currency transactions what it may lose in loan value.

The final type risk facing CABEI results from the fact that its liabilities are payable in hard currencies (dollars, marks, etc.) while its assets return local currency. While the hedging process noted above mitigates this risk to a certain extent, the availability of hard currency is a continuing problem for CABEI.

#### B. BALANCE SHEET ANALYSIS

Exhibit 3 presents a distribution of CABEI's assets and liabilities as of June 30, 1982, derived from the financial statements contained in Annex 2. Several points are worth noting. First, the exposure of CABEI in terms of hard currency loans is significant. Fully 57 percent of all CABEI resources require the generation of hard currency for repayment. Only 3 percent of resources are derived from other (non-convertible) sources. On the other side of the ledger,

Exhibit 3

CABEI Balance Sheet Distribution: June 1982

	<u>%</u>		<u>%</u>
Short-Term Assets	6.35	Loans Payable in Hard Currencies <sup>1/</sup>	57.30
Compensating Loans	8.50	Loans Payable in Other Currencies	3.00
Net Loans	72.10	Compensating Loans	8.50
Other Receivables	11.58	Other Liabilities	1.55
Fixed Assets	1.47	Paid-in Capital	15.92
		General Reserves	11.07
		Retained Earnings	1.18

Total Resources = \$1,048,699,000

<sup>1/</sup> Loans = \$534,991,000 (51.01%)	}	Average Rate = 9.9%
Bonds = \$ 73,321,000 ( 6.99)		
Certificates of Indebtedness = 12,143,000 (1.16)		
Certificates of Deposit = 11,901,000 (1.13)		

Source: Audited Financial Statements - See Annex 2

72.1 percent of assets consist of loans in member nations. The liquidity ratio (short-term assets to total assets) is lower than it has been in the past and reflects the increasing need for CABEI to use internally-generated funds to support long-term lending. The ratio, 6.35 percent, is still reasonable given CABEI's cash flow projections (see Section III).

The most striking aspect of the balance sheet, however, is the size of CABEI's capital accounts relative to its liabilities. As of the end of fiscal 1982, CABEI had a capital-asset ratio of about 28 percent and a debt-equity ratio of a little over 2.5 percent. This is small, even by CABEI policy, which seeks to maintain a debt-equity ratio between 2 and 4. By contrast, FNMA in the U.S. maintains a debt-equity ratio between 40 and 50. While one could never expect CABEI to approach such a point, there still exists considerable scope for safe expansion by CABEI. It should be noted that the debt-equity ratio at the World Bank was 7.7:1 as of June 30, 1982.

A qualification must be entered here. Only half of CABEI's cash and short term investments are held in hard currency. The rest is held in local currency, mostly Costa Rican colones. This means that the real ability of CABEI to use liquid assets to compensate for arrearages, commitments and bad debts is less than the balance sheet indicates, since external borrowing is, for the most part, due in hard currency.

CABEI's balance sheet depicts a conservative, sound institution that ought to be able to attract capital safely. Even if one were to recognize all reasonably potential loan defaults and write down both sides of the balance sheet for real market values, this conclusion would remain. Just writing off

all loans with any arrearages (a gross overstatement of real default risk) would increase the debt equity ratio to about 4.2, only slightly above CABEI's policy limit. The inability of CABEI to raise capital derives not from its own financial situation, which is potentially attractive to investors. Rather external attitudes toward Central America (see Section I) are hindering CABEI's ability to attract funds.

C. PROBLEM AREAS

Given this financial soundness, where are CABEI's problems? Essentially, if CABEI ceased lending operations today and merely stayed in business to collect on outstanding loans, it would maintain a positive cash flow. However, CABEI has a large overhang in outstanding loan commitments, contracts that have been signed but remain undisbursed due to lack of funds controlled by CABEI. Exhibit 4 details the \$CA480 million in outstanding CABEI loan commitments by fund and by country.

These commitments amount to nearly 65 percent of CABEI's outstanding loans. They are distributed roughly equally among member countries and among the various funds. Their size presents CABEI with a major problem in that its role in encouraging economic development is stifled by an inability to maintain a flow of funds to the projects it supports.

The current inability of CABEI to honor these commitments derives from two reasons. When the loan commitments now outstanding were made, CABEI did not arrange for the funds to finance those commitments. When financial markets

Exhibit 4

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

SALDOS DE PRESTAMOS PENDIENTES DE DESEMBOLSO

AL 30 DE JUNIO DE 1983

GUATEMALA

<u>NOMBRE</u>	<u>T O T A L</u>
INDE	3.459
GUATEL	682
Municipalidad Guatemala-Perforación Pozos	109
GOG. Mejoramiento carretera Guatemala-Don Justo	10.200
INDE-Intercomunicación Eléctrica con El Salvador	10.121
Municipalidad Guatemala-INTERCON CA-9	20.300
GOG. Tramo Escuintla-Taxisco	16.100
Municipalidad Quezaltenango-Red eléctric.	426
Banco Trabajadores-Ciudad Quetzal	2.361
BANVI	15.052
GOG. Proyecto Desarrollo integral	<u>4.000</u>
TOTAL PAIS	82.810

EL SALVADOR

GOES. 2a. Etapa Carretera San Salvador-San Miguel	16.530
GOES. Estudio Carreteras	266
GOES. Diseño Autopista Norte Sur	217
MULTIPESCA	25
GOES. Interconexión CA-12/CA-4	5.797
GOES.	1.434
GOES. Carretera San Salvador-San Miguel	7.661
ANTEL. TELECOM. Regional	23
GOES. Zona Export. San Bartolo	458
GOES. Intercon CA-12/CA-1	1.030
GOES. Carretera La Herradura-Playa Costa	5.600
GOES. Construcción Carretera del Norte	14.200
Complejo Ejecución Hidroeléctrico Río Lempa	6.597
BCR-Combate Roya	5.000
GOES. Abastecimiento Agua	10.083

SALDOS DE PRESTAMOS PENDIENTES DE DESEMBOLSO

AL 30 DE JUNIO DE 1983

EL SALVADOR

	<u>T O T A L</u>
Fondo Social para Vivienda	15
Fondo Social para Vivienda	948
GOES. Proyecto Desarrollo Comunal	4.000
MULTIPESCA, S.A. Proyecto Captura y procesamiento del langostino	1.000
República El Salvador-Proyecto Hidroeléctrico San Lorenzo	3.700
Financiera Nacional de la Vivienda-Compra de Hipotecas y/o Títulos Hipotecarios	<u>14.100</u>
TOTAL PAIS	98.684

HONDURAS

Tropical Plywood	204
GOH. Siembra Marañón Choluteca	1.410
GOH. Control Sigatoka	92
GOH. Proyecto Hidroeléctrico El Cajón	10.346
GOH. Extracción Aceite Palma Africana	1.725
ENEE	224
GOH. TELECOM Regional	113
GOH. Complejo Turístico Copán	80
GOH.	114
GOH. Silos	1.128
GOH. Proyecto Hidroeléctrico El Cajón	2.600
GOH. Carretera Tegucigalpa-Río del Hombre	7.280
GOH. Sistema Telefónico Tegucigalpa y Norte	8.204
GOH. Carretera La Ceibita-Santa Bárbara	7.791
GOH. Carretera La Ceibita-Santa Bárbara San Nicolás	8.700
La Vivienda de Sula	3.796
FINAVI	2.571
Banco Trabajadores-Resid. La Lima	2.700
FINAVI	3.639
INVA-Colonia Hato de Enmedio	1.500
GOH. Colonia Hato de Enmedio	6.100
GOH. PRODESBA (Parte I)	4.000

SALDOS DE PRESTAMOS PENDIENTES DE DESEMBOLSO

AL 30 DE JUNIO DE 1983

HONDURAS

T O T A L

República de Honduras-Carretera Tegucigalpa-Río del Hombre	1.500
República de Honduras-Tramo Siguatepeque-Valle Jesús de Otoro	6.886
República de Honduras-Tramo Valle Jesús de Otoro-La Esperanza	9.764
ENEE-El Nispero-Santa Rosa de Copán-La Entrada-15 Com.	2.730
ENEE-Const. Línea de Transmisión Tegucigalpa-Danlí	3.300
La Constancia, S.A. - Compra de Hipotecas Proyecto "Ciudad Central"	3.002
FINAVI	4.000
GOH. PRODESBA (II Parte)	7.000
TOTAL PAIS	112.499

NICARAGUA

GON. Estudio y Exploración Minas	53
GON. Estudio Carretero Sébaco-Matagalpa	15
GON. Sistema Almacenamiento MASA	190
GON. IRENA	201
Electroquímicas Pennwalt	1.356
GON. Ramal San Miguelito	3.383
GON. Aeropuerto Las Mercedes	5.894
INFONAC	1.145
GON. Adquisición Material y Equipo	330
GON. Mejoramiento caminos estación seca	2.611
GON. Centro Nacional Despacho de Carga	2.800
GON. " " " "	7.500
GON. Mejoramiento servicios transporte	11.600
GON. Construcción carreteras	17.500
GON. Construcción Línea Trasmisión	951
GON. Ampliación Sistema Almacenamiento	2.671
GON. Proyecto Desarrollo Rural Integr.	2.999
Banco Inmobiliario de Nicaragua	4.496

SALDOS DE PRESTAMOS PÉNDIENTES DE DESEMBOLSO

AL 30 DE JUNIO DE 1983

NICARAGUA

	<u>T O T A L</u>
GON. Proyecto Vivienda	321
GON. Proyecto Desarrollo Rural Integrado	8.001
GON. Estudio Factibilidad Cultivo Cacao	111
República de Nicaragua (BND)-Financiamien Proyecto de Riego Individual	5.500
República de Nicaragua-Control y Combate la Roya del Cafeto	4.800
República de Nicaragua (MINVAH)-Batahola	1.000
República de Nicaragua (TELCOR)-Ampliación Sistema TELEX	4.500
GON. Estudios Proyectos Viales	380
GON. Talleres y Garajes.T.U.	<u>12.200</u>
TOTAL PAIS	102.508

COSTA RICA

ICE	2.706
COOPESA	183
LANDMARK	33
LANDMARK	120
GOCR. Carretera Ciudad Colón-Puerto Caldó	392
GOCR. Diseño final Carretera Valle Central	125
GOCR. Equipamiento Escuela Ganadería	4.307
GOCR. Carretera Terrón Colorado Los Chiles	3.108
GOCR. Carretera Interamericana El Roble-El Caldó.	1.125
GOCR. Sistema Riego Cuenca Río Itiquis	1.128
ICE	183
IFAM	276
ICE- Interconexión Eléctrica con Nicaragua	277
GOCR. Ampliación Carretera Tres Ríos	2.776
GOCR. Carretera Barú-Palmar Norte	11.281
GOCR. Proyecto Orotina-Coyolar	15.000
GOCR. Programa Instituto Tecnológico	5.006
GOCR. " " " "	11.900
Lavim.Tárcoles-Loma	1.700

ALDOS DE PRESTAMOS PENDIENTES DE DESEME

AL 30 DE JUNIO DE 1983

COSTA RICA

	<u>T O T A L</u>
ICE- Construcción y Equipamiento Edificio	1.281
GOGR. Prevención Roya Cafeto	1.400
Banco Crédito Agrícola de Cartago	104
INVU	2.800
INA - Equipamiento y Asistencia Técnica	2.972
Corporación Zona Franca de Exportación, S.A.	8.500
República de Costa Rica-Proyecto Orotina- Coyolar-Tárcoles-P.C.	3.450
INVU-Compra de Hipotecas y/o Títulos Hipotecarios	<u>2.000</u>
TOTAL PAIS	84.126
TOTAL CENTROAMERICA	<u><u>480.627</u></u>

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Profi-agosto 29 de 1983  
AMT/aoac.-

Source: CABEI

subsequently turned, CABEI found itself unable to generate that financing. Second, the degree to which its portfolio is in arrears (see above) means that CABEI cannot fund the commitments through cash flows. This, however, is a minor factor and pales in comparison with the inability of CABEI to obtain new financing.

### III. THE LIQUIDITY PROBLEM

The reasons behind CABEI's liquidity problem has been explored in the previous section. While it is clear that better financial planning with respect to forward commitments would have prevented this problem, it is not so clear how to resolve it.

First, it should be pointed out that CABEI has a short-term problem; a long-term liquidity problem, in itself, implies bankruptcy, which would not appear to be very likely for CABEI at this time. CABEI officials contend, with good reason, that the problems in Central America must be resolved within two years. If not resolved, then CABEI would find it very difficult to sustain itself in its present form. CABEI would then have to wind down its lending operations, and resort to collecting loans from regional borrowers and repaying institutional lenders. But over the next two years, this does not have to take place. CABEI can continue to function as a lender, if additional sources of funds can be secured to meet its existing loan commitments.

A. EFFECT ON THE HOUSING FUND

CABEI's internal cash flow analyses indicate that the Housing Fund is solvent for the next two years (fiscal years 1983/84 to 1984/85) if it is able to contract \$18 million in housing guarantees and sell about \$5.5 million in CIV's (Housing Investment Certificates). The attached cash flow (see Exhibit 5) shows that \$3 million in 1983/84 and \$5.5 million in 1984/85 would be derived from HG (005) funds, while in 1984/85, an additional \$9 million would be forthcoming from a new external sources, (potentially, the \$9.5 million from the deobligated HG 004 program, now being considered for general housing use by CABEI). Including these additional sources, the cash flow for 1983/84 is negative \$3.98 million, while in 1984/85, it is a positive \$7.11 million, resulting in a positive cash flow over the two year period of \$3.13 million. CABEI should rearrange its disbursement schedule so that more HG funds are disbursed in 1983/84 to resolve the negative cash flow situation that year. If this is done, and its other projected sources (HG disbursement and the sale of CIV's) are realized, CABEI will be able to meet its commitment for housing loans. There are very good prospects that the Housing Fund will be able to solve its liquidity problem.

A collateral concern with respect to the deobligation of the undisbursed balance of HG loan 005 is the effect this action will have on BANVI's successful completion of the Nimajuya project. CABEI officials have stated categorically that other sources of financing will be allocated to this project to ensure that it is completed as planned and thereby compensate BANVI for the release of the funds. Our analysis of the financial statements (see Section II) indicates that

Exhibit 5

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA  
 F.V. UTILIZANDO PLENAMENTE LOS RECURSOS AID-005  
 PLAN OPERATIVO ANUAL 1983/84  
 7/66/83

EN MILES DE PESOS CENTROAMERICANOS

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	TOTAL
<b>INGRESOS</b>											
RECUP. DE PREST. B4	8769	7066	7502	6175	6226	6849	7241	5929	5593	6014	67341
INTERESSES Y COM. B4	10912	11261	12761	12328	13820	13662	14247	12640	12763	11270	125384
PRODUCTOS S/INVERSIONES	2251	2422	2439	1188	270	306	522	833	1085	1265	12501
UTILIZ REC EXT CONTRAT B4	3000	5500	0	0	0	0	0	0	0	0	12501
UTILIZ REC EXT POR NEG B4	0	9000	0	0	0	0	0	0	0	0	14500
CERTIF. DE INV. VIV. (CIV)	996	4500	4000	3736	0	0	0	0	0	0	9000
<b>TOTAL INGRESOS</b>	<b>25928</b>	<b>39749</b>	<b>26402</b>	<b>23427</b>	<b>20316</b>	<b>20817</b>	<b>22010</b>	<b>19402</b>	<b>19441</b>	<b>18549</b>	<b>236041</b>
<b>EGRESOS</b>											
GASTOS DE OPERACION	1355	1463	1580	1707	1707	1707	1707	1707	1707	1707	16347
GASTOS FINANCIEROS B4	9467	11905	12270	12218	12014	11758	11476	11174	10811	10329	113432
GTO. FIN REC POR NEG. B4	0	675	1350	1238	900	450	0	0	0	0	4613
AMORTIZACION FIJES B4	1738	1038	1953	2078	2714	3149	3292	3470	4132	5060	27426
AMORT RECURSOS AJIC B4	0	0	0	1500	3000	3000	1500	0	0	0	7090
DESEMPEÑOS PREST B4	9452	16500	16775	25000	0	0	0	0	0	0	67727
TRASPASO 10% UTIL. FDS	0	261	0	0	0	0	39	109	90	61	580
EGRESOS VARIOS	7892	0	0	0	0	0	0	0	0	0	7892
<b>TOTAL EGRESOS</b>	<b>27904</b>	<b>32642</b>	<b>33928</b>	<b>43741</b>	<b>20335</b>	<b>20064</b>	<b>18014</b>	<b>16460</b>	<b>16740</b>	<b>17177</b>	<b>249005</b>
<b>INGRESO NETO</b>	<b>-3976</b>	<b>7107</b>	<b>-7526</b>	<b>-20314</b>	<b>-19</b>	<b>753</b>	<b>3996</b>	<b>2942</b>	<b>2701</b>	<b>1372</b>	<b>-12964</b>
<b>SALDOS INICIALES Y FINALES</b>											
Saldo Inicial de Caja	907	901	138	112	198	179	132	128	170	171	907
Saldo Inicial de Invers.	27000	23030	30900	23400	3000	3000	3800	7800	10700	13400	27000
<b>TOTAL SALDO INICIAL</b>	<b>27907</b>	<b>23931</b>	<b>31038</b>	<b>23512</b>	<b>3198</b>	<b>3179</b>	<b>3932</b>	<b>7928</b>	<b>10870</b>	<b>13571</b>	<b>27907</b>
Saldo final de Caja	901	138	112	198	179	132	128	170	171	143	901
Saldo final de Invers.	23030	30900	23400	3000	3000	3800	7800	10700	13400	14500	23030
<b>TOTAL SALDO FINAL</b>	<b>23931</b>	<b>31038</b>	<b>23512</b>	<b>3198</b>	<b>3179</b>	<b>3932</b>	<b>7928</b>	<b>10870</b>	<b>13571</b>	<b>14943</b>	<b>23931</b>
<b>ESTADO DE PRODUCTOS Y GASTOS</b>											
<b>PRODUCTOS FINANCIEROS</b>											
Intereses y Comis. JUN-B4	11249	11609	12140	12709	13479	14005	12835	12031	12327	11617	126083
Productos de Inversion	2251	2422	2439	1188	270	306	522	833	1085	1265	12601
<b>TOTAL PRODUCTOS</b>	<b>13500</b>	<b>14031</b>	<b>14579</b>	<b>13897</b>	<b>13749</b>	<b>14391</b>	<b>14357</b>	<b>13864</b>	<b>13412</b>	<b>12884</b>	<b>138664</b>
<b>GASTOS FINANCIEROS</b>											
Gastos de Operacion	1422	1536	1659	1792	1792	1792	1792	1792	1792	1792	17161
Gastos Financieros JUN-B4	9467	11905	12270	12218	12014	11758	11476	11174	10811	10329	113432
Gast. Financ Rec Contrata	0	675	1350	1238	900	450	0	0	0	0	4613
<b>TOTAL GASTOS</b>	<b>10889</b>	<b>14116</b>	<b>15279</b>	<b>15248</b>	<b>14706</b>	<b>14000</b>	<b>13268</b>	<b>12966</b>	<b>12603</b>	<b>12121</b>	<b>135196</b>
Utilidad del Ejercicio	2611	-85	-700	-1351	-957	391	1089	898	809	763	3468

Source: CABEI.

CABEI has sufficient internal cash flows to continue to fund this project even if CABEI is unable to secure additional funds from external sources.

B. OVERALL CASH FLOW ANALYSIS

The overall cash flow situation, of CABEI, however, as exemplified in its projection, (see Exhibit 6) indicates that it will have difficulty meeting its loan commitments, particularly over the next 2 years. Other than the expected disbursement in 1983/84 of all \$18 million in HG funds, CABEI hopes to obtain an additional \$28 million from unidentified external sources as well as sell \$5.5 million worth of CIVs. Assuming all these funds materialize, the resulting cash flow deficit reaches \$26.2 million, almost equally divided between the 2 years. In a worst case scenario, under which CABEI is unable to obtain the additional \$28 million in external funds, there may be a cash short fall of as much as \$54.2 million for the two years. Thus, in this worst case, CABEI's cash flow projections indicate that an additional \$54.2 million is required to cover existing loan commitments to member countries and businesses. But even this worst case scenario will not result in CABEI's bankruptcy since it has accumulated cash or near cash reserves in excess of \$80 million.

To summarize, the \$18 million in HG funds that CABEI will be able to contract and disburse over the next 2 years will permit CABEI to meet its commitments in the area of housing; it will not however be sufficient for CABEI to meet its commitments in other lending sectors. This is significant because of the capability within CABEI of interfund transfers. It is not assured that the additional \$18 million will be used only for housing. A full solution of

Exhibit 6

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA  
 PROYECCION FINANCIERA DE LARGO PLAZO  
 CONSOLIDADO GLOBAL  
 22/06/83

PAG.

	1983/84	1984	1985	1986	1987	1988	1989	1990	1991	1992	TOTAL
<b>***** INGRESOS *****</b>											
REC.P. DE PREST. 84	57127	40275	73127	91570	101706	102702	104714	97935	86746	81672	845574
INTERESES Y COM.84	55330	59390	85837	73678	94148	72809	86342	62383	74801	52582	717300
PRODUCTOS S/INVERSIONES	5954	7344	6900	6445	6772	11766	20490	30000	41208	55014	191893
PRODUCTOS DEPOSITOS FCMC	5787	3250	0	0	0	0	0	0	0	0	9037
UTILIZ REC EXT CONTRAT 84	22370	39227	27427	0	0	0	0	0	0	0	89026
UTILIZ REC EXT POR NEG 84	18000	28000	17000	55000	46872	0	0	0	0	0	164872
CERTIF.DE.INV.VIV.(CIV)	996	4500	4000	3736	0	0	0	0	0	0	13232
PRINCIPAL PTMOS COMPENS.	13162	3662	7962	3662	3662	3662	3662	3662	3662	3662	50420
INTS PREST COMPENSATORIOS	5822	5136	13332	4438	4100	3753	3410	3065	2722	2365	48143
DO.ACIONES	677	1492	1157	1091	1092	1027	943	869	787	706	9841
INGRESOS VARIOS	14595	40000	0	0	0	0	0	0	0	0	54595
<b>TOTAL INGRESOS .....</b>	<b>199820</b>	<b>240278</b>	<b>236742</b>	<b>239620</b>	<b>258352</b>	<b>195719</b>	<b>219561</b>	<b>197914</b>	<b>209926</b>	<b>196001</b>	<b>2193933</b>
<b>***** EGRESOS *****</b>											
GASTOS DE OFERACION	12806	13830	14937	16132	17422	17422	17422	17422	17422	17422	162237
GASTOS FINANCIEROS 84	45220	46903	44116	38830	33885	30134	26618	23905	22044	20289	331944
GTGS FIN REC POR NEG 84	0	2100	5475	10525	16903	17692	13145	7649	3032	586	77107
GASTOS FINAN. REC. FCMC	5387	2950	0	0	0	0	0	0	0	0	8337
AMORTIZACION FTES 84	56803	38924	39380	62234	39485	38183	35107	30221	23978	25226	389541
AMCRT. RECURSOS FCMC	10000	40000	0	0	0	0	0	0	0	0	50000
AMORT RECURSOS ADIC 85	0	0	0	4666	12166	24165	36479	36792	24792	7812	146872
DESEMBOLSOS PREST 84	59374	100000	115000	115000	107131	0	0	0	0	0	496505
AMORT PRINC PREST COMPENS	10922	3662	4567	3662	3662	3662	3662	3662	3662	3662	44785
INTS PREST COMPENSATORIOS	2044	5136	6586	4438	4100	3753	3410	3065	2722	2365	37619
EGRESOS CAPITALIZABLES	800	0	0	0	0	0	0	0	0	0	800
EGRESOS VARIOS	9392	0	0	0	0	0	0	0	0	0	9392
<b>TOTAL EGRESOS .....</b>	<b>212748</b>	<b>253505</b>	<b>230061</b>	<b>255487</b>	<b>234754</b>	<b>135011</b>	<b>135843</b>	<b>122716</b>	<b>97652</b>	<b>77362</b>	<b>1755139</b>
<b>-----INGRESO NETO-----</b>	<b>-12928</b>	<b>-13227</b>	<b>6681</b>	<b>-15867</b>	<b>23598</b>	<b>60708</b>	<b>83718</b>	<b>75198</b>	<b>112274</b>	<b>118639</b>	<b>438794</b>
<b>***** SALDOS INICIALES Y FINALES *****</b>											
Saldo Inicial de Caja	749	821	1594	1675	834	1706	1714	1632	1530	1504	749
Saldo Inicial de Invers.	80600	67600	53600	60200	45174	67900	128600	212400	287700	400000	80600
<b>----- TOTAL SALDO INICIAL</b>	<b>81349</b>	<b>68421</b>	<b>55194</b>	<b>61875</b>	<b>46008</b>	<b>69606</b>	<b>130314</b>	<b>214032</b>	<b>289230</b>	<b>401504</b>	<b>81349</b>
Saldo final de Caja	821	1594	1675	834	1706	1714	1632	1530	1504	1543	1543
Saldo final de Invers.	67600	53600	60200	45174	67900	128600	212400	287700	400000	518600	518600
<b>----- TOTAL SALDO FINAL</b>	<b>68421</b>	<b>55194</b>	<b>61875</b>	<b>46008</b>	<b>69606</b>	<b>130314</b>	<b>214032</b>	<b>289230</b>	<b>401504</b>	<b>520143</b>	<b>520143</b>

CABEI's overall liquidity problem in the next two years could require an infusion of up to \$54.2 million in additional funds.

C. SOURCES OF FINANCING

CABEI's efforts to identify and tap alternate sources of finance in order to meet its current loan commitments to prospective borrowers have taken on renewed urgency. While it appears unclear at this time whether private international bankers will reverse their present position and reopen lines of credit and lending opportunities, CABEI continues in contact with all prospective lenders so as to exploit any openings, as well as to try to convince bankers that in spite of area wide problems, CABEI is, and will remain, a good credit risk. Results of recent contacts between CABEI and private bankers has left the former firmly optimistic that additional private sector lending will resume. More plausible is the likelihood of additional assistance from the bilateral and multilateral development finance agencies. Finally, CABEI has turned to the Central America region itself to obtain new capital and loans which in time could be used to help it overcome its financial dilemma.

1. External Assistance from the Private Sector

Japan's Export Import Bank may provide up to \$50 million, contingent on Japanese companies being awarded contracts for projects which will be developed in the region as a result of CABEI financing. CABEI understanding is that the terms of such credits would be approximately 8.7 percent interest rate for 10 years. Other than this prospective credit, no other private sector sources have been identified.

## 2. External Assistance from the Public Sector

CABEI has asked AID to waive certain conditions precedent on HG loan 005 which will permit CABEI to enter immediately into a loan contract with a US Investor for \$8.5 million of that loan not yet disbursed. In addition, AID was asked to deobligate \$9.5 million in HG loan 005 for CABEI programs in Guatemala and in turn permit CABEI to use these funds for its general housing program. The financial impact of \$18 million implies that CABEI will be able to meet its housing loan commitments. In addition CABEI has applied to AID for a \$50 million ESF grant, the state of which is not known as of the date of this mission.

CABEI has also appealed to the group of international creditors known informally as the London Club, to reopen credit lines. As of the last days of August, 1983, CABEI reports that the latest discussions with this group went favorably. One can only speculate as to whether these discussions will come to fruition and any new loans authorized.

CABEI is also coordinating closely with IDB in organizing a meeting in Brussels for 13-16 September, 1983, with private and public sector international lenders, to arrange for the reopening of lending operation to the Central American countries. Such a meeting, if successful, would help to relieve financial pressures in the region.

The World Bank will send a mission to CABEI in October, 1983, to discuss the possibility of an IBRD loan for various industrial, energy and telecommunication projects. While no dollar figure has been expressed, CABEI expects that such a

loan would be in the \$50 to 75 million range. Up until now, the Bank has been constrained from lending to a regional association like CABEI, due to the World Bank's requirements that all loans be guaranteed by the host country government. Under the proposed arrangement, the World Bank would purchase an equal amount of bonds from each of CABEI's member countries, with the bond proceeds to be disbursed to CABEI for relending to member countries. If this arrangement is accepted, it would still require a considerable amount of time to appraise and process the loan, as is the IBRD's usual practice, and thus would not likely be an immediate source of assistance.

The IDB is currently considering two \$30 million loans, one for agroindustry and the other for pre-investment studies. Neither project is now on IDB's list of signed commitments and as such, would not be applied to reducing the pipeline of unfunded loan commitments.

### 3. Regional Sources

CABEI is currently negotiating with its 5 member nations for an increase of \$50 million in its paid-in capital. According to CABEI officials, the members have approved in principle this increase although to date, it has not been formalized. Capital would be denominated in US dollars, but paid in local currency. Given the arrearages of at least one country's public sector debt, which is currently in excess of the \$10 million expected from each country in new capital, plus the generally poor condition of the financial sector of all countries, it would be surprising if the new capital contributions are forthcoming soon. But CABEI officials insist that it is only a matter of time before this transaction occurs.

Some two months ago, CABEI and the private Bank of Honduras negotiated an agreement whereby the Bank of Honduras would loan CABEI \$3.1 million lempiras, backed by a pool of mortgages on Honduran properties in CABEI's portfolio. Due to adverse local publicity, signing of this agreement has been postponed indefinitely. This initiative is described further in the next section. Conversations with private banks in several other countries on the same topic have been held but nothing has materialized, due in part to the uncertainties surrounding the stalled agreement with the Bank of Honduras.

#### IV. THE HOUSING FUND

The Housing Fund (FFV) is one of four portfolios of CABEI. As of June 30, 1983, it controlled 18.6 percent of total CABEI resources. Its major sources of funds are external loans and short-term bonds sold to institutions with which it deals. Exhibit 7 shows a breakdown of these liabilities. The CIV's are short-term and sight payable bonds paying 9.5 and 10 percent. Virtually all (95.3 percent) of these bonds have been sold in Guatemala and Honduras, with a minimal amount going to Costa Rica and none to El Salvador and Nicaragua. Exhibit 8 breaks down the distribution of CIVs. The majority of housing loans from external sources have maturities of 25 years or more at an average rate of 9.9 percent. Thus, the average cost of funds to the FFV is about 9.8 percent. The sources of funds for the FFV are polarized: they are either quite long or

Exhibit 7

DETALLE DE LA DEUDA DEL FONDO FINANCIERO DE VIVIENDA

AL 30 DE JUNIO DE 1983

(En Miles de \$CA)

<u>CREDITOS</u>	<u>SALDO</u>
AID-No.596-L-003	7.211
Morgan Guaranty Trust Co.	21.716
Federal Home Loan Bank of Boston	13.576
Federal Home Loan Bank of New York	3.702
Salomon Brothers Inc.	28.900
Payne Webber Real States Securities	<u>6.500</u>
	81.605
 <u>BONOS</u>	
The Equitable Life Assurance Societ	1.150
CIB-BCIE (Quetzales)	2.625
CIV-BCIE	<u>17.963</u>
	<u>21.738</u>
 T O T A L	 <u><u>03.343</u></u>

Source: CABEI

Exhibit 8

Status of CA\$ 20 Million

Issue of CIV's

(Thousand of US\$)

	<u>Currency Denomination</u>	<u>Balance 5/31/83</u>	<u>Balance 8/29/83</u>
<u>GUATEMALA</u>			
Banco Granai & Towson, S.A.	Quetzales	1,813.0	1,923.0
Banco de Occidente, S.A.	Quetzales	1,795.2	1,985.4
Lloyds Bank International Ltd.	Quetzales	2,375.0	225.0
Tesoreria BCIE	Quetzales	4,157.6	4,183.1
Sub-Total		10,140.8	8,346.5
<u>HONDURAS</u>			
Tesoreria BCIE	Col. Salv.	1,043.3	1,300.0
Tesoreria BCIE	Lempiras	3,726.0	2,675.4
Tesoreria BCIE	Cordobas	267.8	267.8
Tesoreria BCIE	US Dolares	1,789.9	2,107.0
Sub-Total		6,827.0	6,350.2
<u>COSTA RICA</u>			
Banco Nacional de Costa Rica	Col. Costarr.	182.9	182.9
Banco de Costa Rica	Col. Costarr.	156.1	156.1
Banco Anglo Costarricense	Col. Costarr	104.9	104.9
Banco Credito Agricola de Cartago	Col. Costarr	282.9	282.9
Sub-Total		726.8	726.8*
TOTAL		17,694.6	15,423.5

\*Exchange rate for Costa Rican colones - CR41: CA\$1

Source: CABEI

very short. CABEI has raised virtually no medium-term funds. This is not necessarily detrimental, however, as the average maturity of its liabilities exceeds that of its assets.

Assets of the FFV consist virtually entirely of loans to support housing projects. These loans typically are of 15 year maturity and carry interest rates of 10 5/8 percent. (The rate on CABEI housing loans was recently raised to 13 percent, but only a very small portion of the portfolio consists of loans at this rate). FFV liquidity is about 4.4 percent, somewhat below CABEI's overall average but sufficient to cover the 6.2 percent of liabilities payable at sight or within one year. Given the differential between the maturities and rates on its assets and liabilities, the FFV in fiscal 1983 achieved a net income equal to 7.6 percent of gross income, representing a return to assets of 0.7 percent and to capital of 8.0 percent. These returns represent the generally positive spread between the cost of funds and the return on loans to the housing fund.

A. CURRENT OPERATIONS

The FFV operates as a second-tier, primary lender. This means that it makes available funds for mortgages by direct lending to financial institutions in its member countries. While the terms of its loans are uniform, the mortgages these loans finance can be of varying types. FFV has not usually purchased mortgages, nor has it guaranteed the mortgaged-backed securities of either private or public lending institutions. It has thus not operated as a secondary market

institution, but rather as a bank for banks, which uses its regional nature and size to enhance the power of more local institutions to attract funds.

Part of the reason for FFV's inability to become the secondary market it was intended to be lies with the lack of financial sophistication in Central America. Several of the member countries, through AID Office of Housing assistance, have set up reasonably well-functioning primary mortgage markets. This is one of the prerequisites for a viable secondary market. However, there exists no functioning capital markets in Central America. This means that the mechanisms through which a real secondary market ought to operate is missing. Were FFV to issue its own mortgage-backed securities or guarantee those issued by others, there would be no local outlet. Sales of real estate related property are impossible across regions, so the U.S. market outlet is closed. Hence, it is extremely difficult to organize real secondary market entity in Central America in the absence of an organized capital market.

A second problem exists within the region. Even if FFV was to organize a secondary mortgage market, it is unclear whether member government would allow its success. Basically, mortgage-backed securities connected with the FFV would be direct competitors with member governments for a limited pool of funds. As these securities became more attractive, their interest rates and terms would be circumscribed to the point where government bonds again dominated. For example, the government of Honduras currently restricts interest rates on the bonds of private banks to 10 percent, while it issued public debt at 12 percent. A similar situation would prevail with FFV secondary market securities.

Finally, and it must be mentioned again, financial development in Central America is being hindered by international events. Regional problems have introduced a degree of uncertainty that generally precludes the issue of any financial instrument with maturity of more than one year. This condition severely reduces the potential viability of a secondary mortgage market. Adding to this, the association of Central America with the financial crises in Brazil and Mexico in the minds of international lenders removes the opportunity to base a secondary mortgage market on the contribution of external players.

Under all these conditions, it is clear why CABEI has had difficulty in developing a Central American secondary mortgage market. It has gone as far as it could, given constraints, and (see below) is beginning to develop some new instruments with secondary market characteristics. What the FFV has done is provide a liquidity source for housing finance in its member countries, and this is one of the functions of a secondary mortgage market.

#### B. NEW APPROACHES

As we discussed earlier, FFV raises part of its funds through the issue of Certificados de Inversiones de Vivienda (CIVs) which it sells to institutions in member countries. CIVs are bonds payable at sight or of one year maturity that transfer ownership of mortgages from FFV to bondholders. They represent a method for financial institutions in member countries to support housing through the acquisition of liquidity assets. To date, there has been an issue of \$20 million of CIVs, of which about \$15.4 million is still outstanding. CABEI plans to issue \$18.7 million additional CIVs through fiscal 1987, largely in Guatemala and Honduras.

CIVs are a secondary market instrument and their implementation represents progress in FFV's development. However, CIVs are constrained presently to be no more than one-year instruments. Even then, they are more salable with the sight redemption feature, since a one-year CIV is dominated (because of CABEI's regional nature) by one-year securities issued by private commercial banks in member nations. For CIVs to serve fully as secondary market vehicles, they must be marketable in intermediate maturities (5-10 years) to facilitate planning in the housing sector. Currently, however, and for the foreseeable future, Central American institutions and individuals will not accept an instrument of more than one-year maturity. Such a situation precludes the effective use of CIVs as the major vehicle of a secondary mortgage market. They do, however, represent a promising start.

An even more promising arrangement is represented by the arrangements now being made between FFV and the Governments of El Salvador, Costa Rica and Honduras for the issue of mortgage-backed securities. Under these agreements, mortgages are originated by local institutions under specified terms and sold to the Central Mortgage Institution (CMI) of the country. The CMI liquefies these mortgages by selling to CABEI mortgage-backed bonds guaranteed by the government. Proceeds from sales of these bonds are relent by the CMI to local institutions. CABEI, in turn, holds the bonds, financing them through external funding.

Arrangements in El Salvador and Costa Rica have been concluded, but not executed due to the inability of CABEI to secure funding. When such funding is found, these bonds can be issued and will mark the beginning of a secondary mortgage market in Central America. The missing link here, and the last element

necessary for a fully-operational secondary market, is the ability for CABEI to re-sell these bonds to other entities either within or outside the region. This, in turn, depends on the development of a capital market in Central America, the cooperation of member governments in marketing their own debt, and a restoration of confidence in the region by external investors.

A final development in FFV's movement toward a secondary market agency is a proposed contract with the Banco de Honduras to sell participations in an identified pool of mortgages to the bank. The participation will pay a return of 9 percent, and CABEI will receive servicing income. The initial contract, which CABEI hopes to follow with others, will be for \$3.1 million. The term of the contract will be for three years, with interest payments due annually, and repayment of the principal to occur at the end of the three-year period in either cash or mortgages, at the Bank of Honduras' option. If this transaction takes place, it will represent a big step forward with respect to lengthening the terms of CABEI issued paper and to opening up a new source of mortgage financing. Although the contract gives the Bank of Honduras the option to pay in either US dollars or Honduran lempiras, CABEI is certain that the Bank will elect to pay in lempiras. The proceeds from the sale of the participations will be used to meet commitments and expenses in local currency. A copy of the participation agreement with Banco de Honduras is contained in Annex 1. This agreement is typical of private placements which regularly occur in organized secondary mortgage markets.

All these activities are small steps for CABEI in becoming the secondary market institution envisioned many years ago. These steps may be disappointingly small especially when measured against both the activities of organized

secondary markets in the developed world, and against the technical assistance given to CABEI. However, against the backdrop of the financial underdevelopment of Central America and regional political turmoil, CABEI appears to be proceeding as well as it possibly can. Further development can be reasonably expected, but it will occur slowly and will be more conditioned by external events than could be wished.

C. CABEI's HOUSING PLANS

Until 1982, CABEI provided some financing for very low income families (below the 25th percentile) at highly subsidized rates. Since that time, CABEI has made no new commitments for housing loans, and due to the adverse economic conditions, does not plan to expand its housing programs now. Moreover, until these conditions improve, and the investment environment is more propitious, CABEI officials assert the development of housing plans for low-income families as well as five-year projections are inappropriate at this time.

V. CONCLUSIONS AND RECOMMENDATIONS

The political and economic situation in Central America today forces CABEI to focus on the short-term objective of surviving as a major development finance institution for the region. While efforts to improve the capabilities of CABEI, and especially its housing operations, should not cease, neither

should they take priority over more important matters, such as meeting existing loan commitments and raising additional sources of finance.

2. CABEI's financial condition is good, and should remain so for the next two years. Its balance sheet is strong; the institution has been able to turn a profit consistently and will probably do so again this year. Arrearages are high, but reserves are sufficient to cover expected non-payments and rescheduled payments. Assuming there are no major negative changes, i.e. defaults by one of its member countries, CABEI should be able to weather the region's financial storms for at least two more years. CABEI's conservative financial policies of the past are paying off.

3. CABEI's Housing Fund is also in good financial shape. If the proposed \$18 million in HG funds are disbursed, then CABEI will be able to meet its existing housing loan commitments. While the net return on income could be higher than the present 8 percent, it is not an issue of immediate concern.

4. CABEI's major concern now is to raise additional funds to meet its current loan commitments in areas other than housing. Up to \$54 million in new financing must be identified and obtained in the next two years. However, CABEI reserves can cover in part these commitments assuming no additional sources are secured. Alternatively, CABEI could elect not to meet all its loan commitments if financial consideration so warrants.

5. Significant advances toward converting CABEI from a primary mortgage lender to a secondary mortgage market are difficult today, given the reluctance of foreign lenders to invest in the region and the desire of local lenders to

maintain a high liquidity position. However, some positive initial steps are being planned and undertaken in which portend well when normalcy returns.

6. As a result, we recommend that CABEI plan to make use of its reserves to meet all or part of its loan commitments in the event that additional outside sources of financing are unobtainable. However, CABEI should retain its policy of maintaining a debt/equity ratio of no more than 4:1, (which is greater than the institution's current ratio) which would permit CABEI to increase its internal cash flows for investment purposes.

7. We recommend also that CABEI reinforce its efforts to reduce loan arrearages. Such a reduction, or at least prevention of expected increases in this account, would measurably improve CABEI's cash flow position and thereby help CABEI meet its current loan commitments.

8. We concur with CABEI's proposal to channel the uncontracted balances of HG loans 004 and 005 to meet CABEI's housing loan commitments, and recommend that this activity be expedited.

9. We recommend that AID support CABEI's efforts to obtain up to \$54 million in additional financing over the next two years (plus \$18 million in HG financing), so as to permit CABEI to meet existing loan commitments without necessarily dipping into its reserves. Concurrently CABEI should review its existing loan commitments with regional borrowers to eliminate any loans that are not wholly necessary, obtain additional financing from external lenders, and develop alternative sources of financing.

10. Due to the shortage of time to carry out the scope of work, we were unable to comply with item 3 of the scope of work, which requested that CABEI's operational procedures be examined. Assuming that AID wants to continue to pursue this subject, we recommend that a follow-up consultancy be mounted once it is clear that CABEI has significantly attained its objectives of securing additional sources of financing to meet its current commitments.

CONTRATO CELEBRADO ENTRE EL BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA Y EL BANCO DE HONDURAS, S.A.

CONSTE POR MEDIO DEL PRESENTE DOCUMENTO que en la ciudad de Tegucigalpa, Distrito Central, República de Honduras, el día \_\_\_\_\_ de \_\_\_\_\_ de 1983, DE UNA PARTE: EL BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA, en adelante llamado "el BCIE", persona jurídica de carácter internacional, con domicilio en la Ciudad de Tegucigalpa, Distrito Central, República de Honduras, Y DE OTRA: EL BANCO DE HONDURAS, S.A., en adelante llamado "el Banco", institución bancaria hondureña, con domicilio en Tegucigalpa, Distrito Central, República de Honduras, ambas partes debidamente autorizadas por este acto han convenido en celebrar y al efecto celebran, el presente Contrato en los términos, pactos, condiciones y estipulaciones siguientes:

PRIMERA: El BCIE de la Cartera Hipotecaria de su Programa Habitacional ha segregado un grupo de créditos hipotecarios y/o títulos hipotecarios sobre bienes inmuebles en la República de Honduras. Con estos valores ha constituido un Fondo Común por un monto total equivalente a \_\_\_\_\_, moneda de los Estados Unidos de América.

SEGUNDA: Por este Contrato el BCIE vende al Banco una Participación en dicho Fondo Común por un monto equivalente a TRES MILLONES CIENTO MIL DOLARES (US\$3.100.000), moneda de los Estados Unidos de América, que representa el \_\_\_\_\_ % del Fondo Común. Es entendido que la participación que adquiere el Banco no está referida a

determinados créditos hipotecarios y/o títulos hipotecarios, sino que representa una parte alícuota de dicho Fondo Común.

TERCERA: El precio de venta de la participación que adquiere el Banco lo es la suma de TRES MILLONES CIENTO MIL DOLARES (US\$3.100.000), pagadero en dólares, moneda de los Estados Unidos de América o en lempiras, moneda de curso legal de la República de Honduras, al tipo de cambio vigente en esta fecha. El Banco podrá optar por cualquiera de las dos monedas a su discreción.

CUARTA: La guarda y administración de los valores que constituyen el Fondo Común se encarga al BCIE, el cual actuará en este respecto a su entera discreción, pudiendo en todo momento sustituir créditos hipotecarios y/o títulos hipotecarios dentro del Fondo Común.

QUINTA: El BCIE reconocerá al Banco un rendimiento o interés del nueve por ciento (9%) anual sobre el monto de la Participación del Fondo Común que adquiere el Banco, o sea sobre la suma de TRES MILLONES CIENTO MIL DOLARES (US\$3.100.000). Este rendimiento o interés es totalmente independiente del rendimiento o interés, mayor o menor que efectivamente devenguen los valores que constituyen el Fondo Común y cualquier diferencia que pudiese resultar quedará a cargo o a favor del BCIE, según el caso.

SEXTA: El rendimiento o interés estipulado arriba lo pagará el BCIE al Banco anualmente en la misma moneda, dólares o lempiras, que ha utilizado el Banco para el

pago de la participación del Fondo Común que adquiere. De utilizar lempiras, moneda de curso legal de la República de Honduras, determinará el monto al tipo de cambio vigente en la fecha del pago respectivo.

SEPTIMA: El Banco reconocerá al BCIE una comisión del dos por ciento (2%) anual sobre el monto de la participación que adquiere por concepto de administración del Fondo Común, pagadero mediante cuotas anuales en la misma fecha de pago de los dividendos o intereses estipulados arriba.

OCTAVA: La comisión por administración a que se hace referencia en la cláusula precedente, la reconocerá el Banco al BCIE en la misma moneda, dólares o lempiras que haya utilizado para el pago de la Participación del Fondo Común que adquiere. En caso de ser la misma el lempira, moneda de curso legal de la República de Honduras, el monto de dicha comisión se determinará al tipo oficial de cambio vigente en la fecha de pago respectivo.

En este acto el Banco autoriza al BCIE para que de los dividendos o intereses sobre la participación que adquiere, a que hace referencia la cláusula sexta anterior, deduzca el monto correspondiente a la comisión por administración aquí establecido.

NOVENA: El día \_\_\_\_\_ de \_\_\_\_\_ de 1986, el Banco podrá, a su criterio, ejercitar una de las siguientes opciones:

- a) Requerir del BCIE la entrega de los créditos hipotecarios y/o títulos hipotecarios correspondientes a la parte alícuota representada por la participación que en este Contrato adquiere.

El BCIE, en tal caso, garantiza al Banco que en esa fecha, el Fondo Común no tendrá créditos hipotecarios y/o títulos hipotecarios cuyos deudores estén en mora, por lo que el Fondo Común estará financieramente sano;

- b) La recompra, por parte del BCIE, de la Participación del Fondo Común que me diante este Contrato adquiere.

El BCIE a su vez se compromete a recomprar dicha participación en la fecha estipulada, si así optare el Banco.

En el caso de ejercitarse esta opción, el precio de la recompra lo será la suma de TRES MILLONES CIENTO MIL DOLARES (US\$3.100.000), los cuales serán pagados por el BCIE al Banco en la misma moneda que éste utilizó para adquirir la Participación del Fondo Común, dólares o lempiras. De ser lempiras, moneda de curso legal de la República de Honduras, el BCIE determinará el monto equivalente, utilizando para ello el tipo oficial de cambio vigente el día \_\_\_\_\_ de \_\_\_\_\_ de 1986.

DECIMA: El Banco declara que acepta la compra-venta de la Participación, en las condiciones descritas en este Contrato y en este acto entrega al BCIE el cheque certificado número \_\_\_\_\_, por la suma de SEIS MILLONES DOSCIENTOS MIL LEMPIRAS (Lps. 6.200.000). El BCIE, a su vez, tiene por recibido a su entera satisfacción el precio de venta de la Participación a que se ha hecho referencia.

DECIMOPRIMERA: Así entonces, el BCIE, de acuerdo con las condiciones establecidas en las cláusulas precedentes, garantiza al Banco los siguientes pagos:

a) Por concepto de dividendos o intereses, deduciendo de los mismos la comisión por administración, tal y como ha quedado autorizado para hacerlo en la cláusula octava anterior, tres (3) cuotas anuales, iguales y consecutivas del equivalente de DOSCIENTOS DIECISIETE MIL DOLARES (US\$217.000), pagaderas en las siguientes fechas:

1) El \_\_\_\_\_ de \_\_\_\_\_ de 1984

2) El \_\_\_\_\_ de \_\_\_\_\_ de 1985

3) El \_\_\_\_\_ de \_\_\_\_\_ de 1986

Dichos pagos los efectuará en lempiras, moneda de curso legal de la República de Honduras, ya que es ésta la moneda que ha escogido el Banco para el pago de la Participación del Fondo Común que adquiere.

Para determinar el monto respectivo en lempiras, en las fechas estipuladas, el BCIE utilizará el tipo oficial de cambio vigente en cada una de esas fechas; y

b) La suma en lempiras equivalente a TRES MILLONES CIEN MIL DOLARES (US\$3.100.000), al tipo oficial de cambio vigente entonces, el día \_\_\_\_\_ de \_\_\_\_\_ de 1986, en caso de que el Banco opte por la recompra de la Participación que adquiere. Este pago lo hará el BCIE en lempiras, moneda de curso legal de la República de Honduras, ya que es ésta la moneda escogida por el Banco para el pago de la Participación del Fondo Común.

DECIMOSEGUNDA: Si al vencimiento de cualquiera de los pagos estipulados en la cláusula anterior, en las fechas dichas, el Banco no cobrase del BCIE las sumas respectivas en sus oficinas en Tegucigalpa, Distrito Central, República de Honduras, el BCIE mantendrá en depósito, sin causa de intereses o rendimientos, los montos respectivos, a riesgo del Banco.

DECIMOTERCERA: Arbitraje: Cualquier divergencia que surgiere en la interpretación de este Contrato, o en la solución de cualquier controversia que se derive del mismo y que no se resuelva por acuerdo entre ambas partes, éstas se someten incondicional e irrevocablemente al procedimiento y fallo de un Tribunal de Arbitraje, compuesto de tres (3) personas e integrado en la forma siguiente: uno de los Arbitros será designado por el BCIE y otro por el Banco, nombrando entre ambos un tercero en caso de discordia. De no ponerse de acuerdo con esa designación el tercer miembro será nombrado por el Instituto Centroamericano de Derecho Comparado, con sede en Tegucigalpa, Distrito Central, Honduras, Centroamérica. Es entendido que el tercer árbitro podrá decidir todas las cuestiones de procedimiento para aquellos casos en que las partes no estén de acuerdo sobre la materia. El fallo del Tribunal será apelable.

DECIMOCUARTA: Avisos y Notificaciones: Para efectos de cualquier aviso o notificación, solicitud o comunicación, que se dirija al BCIE por el Banco, en relación con el presente Contrato, deberá efectuarse sin excepción alguna por escrito y se considerará como dado, hecho o enviado por una de las partes a la otra, cuando se

ntregue por mensajero, correo, telegrama, cable, radiograma o telex, en las direcciones que a continuación se detallan:

PARA EL BCIE

Dirección Postal: Banco Centroamericano de Integración Económica  
Apartado Postal No. 772  
Tegucigalpa, D.C.  
Honduras, C.A.

Dirección Cablegráfica: BANCADIE  
Tegucigalpa, Honduras

PARA EL BANCO

Dirección Postal: Banco de Honduras, S.A.

Dirección Cablegráfica:

ACEPTACION: Ambas partes aceptan el presente Contrato en lo que a cada una de ellas concierne y suscriben el presente documento en dos (2) ejemplares de un mismo tenor e igual fuerza obligatoria, uno para cada parte, en el lugar y fecha al principio indicados.

BANCO CENTROAMERICANO DE  
INTEGRACION ECONOMICA  
("el BCIE")

BANCO DE HONDURAS, S.A.  
("el Banco")

ANNEX 2

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION  
ORDINARY CAPITAL

FINANCIAL STATEMENTS

\* \* \* \* \*

JUNE 30, 1982 AND 1981



3500 ONE BISCAYNE TOWER  
MIAMI, FL 33131  
305 358-3682

September 21, 1982

To the Assembly of Governors  
of the Central American Bank  
for Economic Integration

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and of change in financial position present fairly the financial position of the Central American Bank for Economic Integration - Ordinary Capital at June 30, 1982 and 1981, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse*

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION  
ORDINARY CAPITAL

BALANCE SHEET

(expressed in thousands of Central American pesos - Note 1)

June 30,

<u>Assets</u>	<u>1982</u>	<u>1981</u>
Cash	\$CA 737	\$CA 1,125
Short-term investments, principally time deposits	65,899	51,286
Receivable from Central American Common Market Fund	50,000	
Loans receivable (Note 2):		
Total loans approved, less amounts collected	1,245,768	1,182,586
Less undisbursed balance	(486,015)	(465,887)
Less allowance for loan losses	759,753	716,699
	(3,609)	(3,461)
Net loans	756,144	713,238
Compensating loans (Note 3)	89,096	79,819
Accrued interest and other charges:		
On loans	57,483	43,259
On investments	2,061	1,875
Funds receivable from member countries	11,915	12,143
Property, office equipment and fixtures - Net	4,550	3,887
Other assets	10,814	7,606
	<u>\$CA1,048,699</u>	<u>\$CA 914,238</u>
<u>Liabilities and capital</u>		
Liabilities:		
Loans payable (Note 4)	\$CA 534,991	\$CA 465,463
Bonds (Note 4)	73,321	77,751
Certificates of investment (Note 4)	12,143	7,516
Certificates of deposits (Note 4)	11,901	10,534
	632,356	561,264
Accrued interest on obligations	14,768	12,576
Accounts payable and other liabilities	1,436	1,091
Compensating loans (Note 3)	89,096	79,819
	737,656	654,750
Reserve for translation of currencies	15,610	14,336
Capital (Note 5):		
Authorized	600,000	200,000
Not suscribed	(240,000)	
Callable portion	(185,000)	(85,000)
Called portion not received	(8,000)	(5,000)
Paid-in capital	167,000	110,000
Special contributions of capital		20,000
Paid-in capital and special contributions of capital	167,000	130,000
Donations	5,933	4,997
General reserve (Note 6)	110,155	95,275
Retained earnings	12,345	14,880
	295,433	245,152
	<u>\$CA1,048,699</u>	<u>\$CA 914,238</u>

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION  
ORDINARY CAPITAL

STATEMENT OF INCOME AND RETAINED EARNINGS

(expressed in thousands of Central American pesos - Note 1)

	Year ended June 30,			
	1982	%	1981	%
Income:				
Loans -				
Interest	\$CA71,484	77.8	\$CA62,830	83.0
Commitment fees	4,309	4.7	3,174	4.2
Service charges	518	0.5	229	0.3
	76,311	83.0	66,233	87.5
Interest on receivables from Cen- tral American Common Market Fund	8,463	9.2		
Investment interest	6,928	7.6	9,316	12.3
Other income	197	0.2	175	0.2
Total income	91,899	100.0	75,724	100.0
Expenses:				
Interest, commissions and other expenses on borrowings	67,114	73.0	48,605	64.2
Administrative expenses	11,743	12.8	11,281	14.9
Exchange adjustments	697	0.8	958	1.2
Total expenses	79,554	86.6	60,844	80.3
Net income	12,345	13.4	14,880	19.7
Retained earnings at beginning of year	14,880		16,981	
Transferred to general reserve	(14,880)		(16,981)	
Retained earnings at end of year	\$CA12,345		\$CA14,880	

The accompanying Notes are an integral part of these financial statements

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION  
ORDINARY CAPITAL

STATEMENT OF CHANGES IN FINANCIAL POSITION

(expressed in thousands of Central American pesos - Note 1)

	Year ended June 30	
	1982	1981
Financial resources were provided by:		
Nec income	\$CA 12,345	\$CA 14,880
Items not requiring or providing cash:		
Changes in accrued income and expenses	(11,873)	(15,813)
Net provision for loan losses	380	761
Depreciation	433	302
Amortization and other provisions	704	312
Funds provided by operations	1,989	442
Loans received and bonds and certificates placed	137,701	53,321
Collection of loans receivable	66,934	48,018
Contributions of capital	37,000	20,000
Compensating loans	9,277	21,295
Donations received	936	1,323
Maintenance of value	3,556	12,147
Currency fluctuations	1,274	9,035
	\$CA258,667	\$CA165,581
Financial resources were used for:		
Loan disbursements	\$CA110,220	\$CA110,253
Repayment of borrowings	66,609	77,513
Loan to Central American Common Market Fund	50,000	
Compensating loans	9,277	21,295
Funds receivable from member countries	3,328	12,143
Other	5,008	3,633
	244,442	224,837
Increase (decrease) in cash and investments	14,225	(59,256)
	\$CA258,667	\$CA165,581

The accompanying Notes are an integral part of these financial statements

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

ORDINARY CAPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1982 AND 1981

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Central American Bank for Economic Integration (CABEI) is an international institution established through Constitutive Agreement signed by the Republics of Guatemala, El Salvador, Honduras and Nicaragua on December 13, 1960. CABEI commenced operations officially on May 31, 1961, with headquarters in Tegucigalpa, Honduras. On September 23, 1963 Costa Rica became a member country. As the financing entity of the Economic Integration Program, and according to its Constitutive Agreement, CABEI is both a development - financing entity and an institution for the promotion and execution of economic integration in Central America through its sectoral policy of investment. Its significant accounting policies are summarized as follows:

Translation of currencies

The accounting records are maintained in United States dollars. The financial statements are expressed in Central American pesos, denoted by the symbol \$CA. The Central American peso is a symbolic monetary unit equivalent to the United States dollar used by CABEI for the presentation of its financial information. Assets and liabilities denominated in other currencies are translated to United States dollars at the approximate market rates of exchange prevailing at the dates of the financial statements. CABEI, in general, matches its borrowing obligations in any one currency with assets in the same currency primarily by lending the proceeds of borrowings in the currencies borrowed. Under CABEI's policies, unrealized translation gains and losses have not been significant to operations and are credited or charged to the reserve for translation of currencies. Income and expenses are translated at the applicable rates of exchange during the year. Realized exchange gains or losses are included in income.

Maintenance of value

In accordance with the Constitutive Agreement of CABEI and a resolution by the Board of Governors, each member country is required to maintain the value of its paid-in capital. Due to devaluations in Costa Rica and Nicaragua, these countries made additional contributions to maintain the value of their capital in relation to the United States dollar. These amounts were recorded in the reserve for translation of currencies and amounted to \$CA15,600,000 at June 30, 1982.

Loans and allowance for loan losses

The allowance is established through a provision for loan losses charged to expenses. The allowance represents an amount which, in management's judgement, will be adequate to absorb probable losses. The provision is based on an evaluation of the collectibility of each loan.

During 1982, after considering current economic and business conditions, CABEI placed certain loans totaling \$CA9,500,000 on a nonaccrual status. Nonaccrued interest income for such loans amounted to approximately \$CA1,918,000.

Basis of presentation

CABEI records its Ordinary Capital transactions in four individual funds which are described in Note 2. For purposes of financial statement presentation these funds have been combined.

NOTE 2 - LOANS RECEIVABLE:

Loans receivable at June 30, by countries, were as follows:

	<u>1982</u>	<u>1981</u>
	(in thousands)	
Guatemala	\$CA132,242	\$CA118,689
El Salvador	105,040	93,600
Honduras	168,264	166,934
Nicaragua	164,400	155,808
Costa Rica	189,807	181,668
	<u>759,753</u>	<u>716,699</u>
Less allowance for loan losses	<u>(3,609)</u>	<u>(3,461)</u>
	<u>\$CA756,144</u>	<u>\$CA713,238</u>

The loans are collectible in the following currencies (in thousands): United States dollars - \$CA705,554; Japanese yen - \$CA21,207; German marks - \$CA19,155; Venezuelan bolivars - \$CA11,715; and other currencies - \$CA2,122.

CABEI grants loans through the following Funds:

- a) Ordinary Fund: This Fund is used principally to finance productive and infrastructure projects in the private and public sector, respectively.
- b) Central American Economic Integration Fund. This Fund is used to finance governments of member countries, Central American international organizations, local and municipal governments, and autonomous institutions in the construction of infrastructure projects.
- c) Housing Fund. This Fund is used to make loans to financial institutions for the purpose of financing medium and low-cost housing construction.

- d) Social Development Fund. This Fund is used to finance projects relating to social development in rural and marginal urban areas.

For loans to member countries and their autonomous institutions, CABEI normally has the guarantee of the member country. For other loans CABEI obtains the guarantees it deems appropriate, such as mortgages, pledges, and bank guaranties. The guarantees obtained for loans to the private sector, in general, equal 150% of the related loan granted. At June 30, the guarantees were distributed, in approximate percentages, as follows:

	<u>1982</u>	<u>1981</u>
Mortgages	23%	28%
Pledges	19%	18%
Bank guaranties	5%	7%
Governmental guaranties and others	<u>48%</u>	<u>47%</u>
	<u>100%</u>	<u>100%</u>

Loans approved are disbursed to borrowers in accordance with the requirements of the project being financed. Disbursements do not begin until certain requirements established in the loan agreements have been met to CABEI's satisfaction. Funds are advanced in accordance with the progress of the project. At June 30, 1982 CABEI was committed to disburse approximately \$CA486,000,000.

NOTE 3 - COMPENSATING LOANS:

In connection with its housing programs, CABEI lends United States dollars to the Central Banks of member countries and receives an equivalent amount in local currency. The reciprocal loans are repayable in the same currency in which the loan was received and thus protect CABEI against possible currency fluctuations.

At June 30, the loan balances were as follows:

	<u>1982</u>	<u>1981</u>
	(in thousands)	
Bank of Guatemala	\$CA 5,192	\$CA 3,877
Central Reserve Bank of El Salvador	12,714	5,363
Central Bank of Honduras	16,986	13,709
Central Bank of Costa Rica	<u>54,204</u>	<u>56,870</u>
	<u>\$CA89,096</u>	<u>\$CA79,819</u>

In Nicaragua the loans to borrowers of housing funds are granted and repayable in United States dollars.

NOTE 4 - DEBT AND OTHER OBLIGATIONS PAYABLE:

CABEI's debt consists of loans, certificates and bonds issued in several currencies, principally of non-member countries. The average effective interest rates on the outstanding principal of borrowings were approximately 9.9% and 8.6% at June 30, 1982 and 1981 respectively. Appendix I shows by lender the debt and other obligations payable.

Approximate annual maturities of debt for years after June 30, 1982, expressed in thousands, are as follows:

1983	\$CA 64,308
1984	48,516
1985	92,936
1986	43,139
1987	39,102
1988/1992	124,175
1993/1997	87,486
1998/2002	62,324
2003 and thereafter	<u>70,374</u>
	<u>\$CA632,356</u>

The debt is payable in the following currencies (in thousands): United States dollars - \$CA559,608; German marks - \$CA22,772; Japanese yen - \$CA18,510; Venezuelan bolivars - \$CA19,534; and other currencies - \$CA11,932.

At June 30, 1982, the unused portion of loan commitments amount to \$CA195,564,000.

NOTE 5 - CAPITAL:

According to the Constitutive Agreement, the authorized capital is expressed in terms of United States dollars and is paid by member countries in their respective local currencies, the value of which is maintained as described in Note 1. The authorized capital is subscribed and paid-in in equal parts by the five member countries.

The following table presents a summary of the changes, expressed in thousands, in the capital accounts:

	<u>Paid-in capital</u>	<u>Donations</u>	<u>General reserve</u>	<u>Retained earnings</u>
Balance at June 30, 1980	\$CA110,000	\$CA3,674	\$CA 78,294	\$CA16,981
Transfer to general reserve			16,981	(16,981)
Donations		1,323		
Net income for the year				14,880
Balance at June 30, 1981	110,000	4,997	95,275	14,880
Transfer to general reserve			14,880	(14,880)
Capital contributions	37,000			
Transfer of special contri- butions of capital	20,000			
Donations		936		
Net income for the year				12,345
Balance at June 30, 1982	<u>\$CA167,000</u>	<u>\$CA5,933</u>	<u>\$CA110,155</u>	<u>\$CA12,345</u>

A donation from the European Economic Community of up to \$CA2,944,000 is available to CABEI for use in preinvestment studies and investments.

NOTE 6 - GENERAL RESERVE:

In accordance with the Constitutive Agreement and Board of Governor's resolutions, the net income is transferred to the General Reserve to strengthen the financial position of CABEI.

NOTE 7 - EMPLOYEE BENEFIT PLAN:

CABEI has a benefit plan for its officials and employees. The plan operates under regulations issued by the CABEI's Board of Directors and is managed by an administrative board. The officials and employees contribute a percentage of their salaries to the plan. CABEI's contributions to the plan during 1982 and 1981 were \$CA1,179,000 and \$CA1,051,000 respectively, which were charged to administrative expenses. The accounting for the plan's fund is separate from that of CABEI, and the accompanying financial statements do not include the assets, liabilities and fund balance of the plan.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATIONORDINARY CAPITALDEBT AND OTHER OBLIGATIONS PAYABLEJUNE 30, 1982

(expressed in thousands of Central American pesos)

Loans	Loan Balances
Agency for International Development (AID)	\$CA168,113
Inter-American Development Bank	72,092
Société Générale de Banque	25,000
Morgan Guaranty Trust Co.	22,217
Kreditanstalt für Wiederaufbau	20,458
The Industrial Bank of Japan, Limited	13,81
The Bank of Yokohama, Limited	
The Chou Trust and Banking Company, Limited	
The Long Term Credit Bank of Japan, Limited	
The Mitsubishi Trust and Banking Corporation	
The Mitsui Bank, Limited	
The Mitsui Trust and Banking Company, Limited	
The Yasuda Trust and Banking Company, Limited	
The Industrial Bank of Japan, Limited	20,00
Arab Latin American	
International Mexican Bank, Limited	
The Mitsui Trust and Banking Company, Limited	
Arab-Spanish Bank	
National Bank of Mexico	
Tokai Bank Nederland, N. V.	
Nippon European Bank, S. A.	
Libra Bank, Limited	25,00
The Industrial Bank of Japan, Limited	
Banco Mercantil Venezolano	
Interunion Banque	
Marine Midland Interamerican	
Orion Royal Bank, Limited	
International Mexican Bank, Limited	
Nomura Europe, N. V.	
Nippon European Bank	
Libra Bank, Limited	6,00
The Chase Manhattan Bank, N. A.	
Lloyds Bank International, Limited	
Society National Bank of Cleveland	
The Bank of Tokyo, S. A. - Panamá	
First Pennsylvania Bank, N. A.	
The Bank of Nova Scotia	
National Bank of North America	
Latin America Export Bank	4,00
Forward	<u>\$CA376,70</u>

Loan	Loan Balances
Forwarded	\$CA376,704
The Royal Bank of Canada	18,954
The Sumitono Trust & Banking Company, Limited	
The Tokai Bank	
The Mitsui Trust and Banking Company, Limited	
Tokai Bank Nederland, N. V.	
Nomura Europe, N. V.	
The Mitsui Bank, Limited	
Singapore Nomura Merchant Banking, Limited	
Orion Royal Bank, Limited	
Libra Bank, Limited	
Daiwa Europe, N. V. - The Nippon Credit Bank, Limited	6,666
The Mitsubishi Trust and Banking Corporation	
The Mitsui Trust and Banking Company, Limited	
The Sumitomo Trust and Banking Co., Limited	
International Mexican Bank, Limited	3,273
Compagnie Financiere of the Deutsche Bank A. G. (Luxembourg)	
European Brazilian Bank, Limited	
The Royal Bank of Canada	
Salomon Brothers, Inc.	24,900
The Export Import Bank of Japan	10,186
Federal Home Loan Bank of Boston	13,978
Federal Home Loan Bank of New York	3,884
The Chase Manhattan Bank, N. A.	6,818
Wells Fargo Bank, N. A.	1,420
J. P. Morgan Interfunding Corporation	3,750
Bank of America, N. T & S. A.	14,181
Netherlands Investment Bank	277
American Express International Banking	50,000
Latin American Export Bank	
Wells Fargo Bank, N. A.	
Euro Latin American Bank, Limited	
Bank of London & South America, Limited	
	<u>\$CA534,991</u>

Bonds

Venezuela Investment Fund	\$CA 37,534
Floating rate serial notes - 1994	17,232
Dillon Read Overseas Co.	
IBJ International, Limited	
Banque Nationale de Paris	
Genossenschaftliche Zentralbank AG - Vienna	
Manufacturers Hanover, Limited	
Nippon Credit International (HK), Limited	
Nomura Europe, N. V.	
Scandinavian Bank, Limited	
Société Générale	
Société Générale de Banque, S. A.	
Sumitomo Finance International	
The Taiyo Kobe Bank (Luxembourg), S. A.	
Union de Banques Arabes Et Francaises - UBAF	

Forward

\$CA 54,766

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Bonds	Loan Balances
<hr/>	
Forwarded	\$CA 54,766
The Equitable Life Assurance Society	6,000
Chase Bank, A. G.	6,560
Aetna Life Insurance Company	
Pan American Life Insurance Company	
Managua Emergency Bonds	5,995
	<u>\$CA 73,321</u>
<hr/>	
Certificates of investment	
<hr/>	
Guatemala	\$CA 4,693
El Salvador	262
Honduras	5,729
Nicaragua	27
Costa Rica	1,432
	<u>\$CA 12,143</u>
<hr/>	
Certificates of deposit	
<hr/>	
Guatemala	\$CA 2,200
El Salvador	3,364
Honduras	1,158
Nicaragua	2,040
Costa Rica	939
México	2,200
	<u>\$CA 11,901</u>

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION  
ORDINARY CAPITAL

ADDITIONAL INFORMATION

\* \* \* \* \*

JUNE 30, 1982



3500 ONE BISCAYNE TOWER  
MIAMI, FL 33131  
305 358-3682

September 21, 1982

To the Assembly of Governors  
of the Central American Bank  
for Economic Integration

OPINION ON ADDITIONAL INFORMATION

In our opinion, the accompanying additional information, presented in Exhibits I to III, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole of Central American Bank for Economic Integration - Ordinary Capital for the year ended June 30, 1982 which is covered by our report dated September 17, 1982 presented in the first section of this document. Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. This information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements.

*Price Waterhouse*

COMBINING BALANCE SHEET  
(expressed in thousands of Central American pesos)

June 30, 1982

<u>Assets</u>	<u>Ordinary Fund</u>	<u>Integration Fund</u>	<u>Housing Fund</u>	<u>Social Development Fund</u>	<u>Combined</u>
Cash	\$CA 1,588	\$CA (843)	\$CA (39)	\$CA 31	\$CA 737
Short-term investments, principally time deposits	14,555	38,435	8,534	4,375	65,899
Receivable from Central American Common Market Fund	50,000				50,000
Loans receivable:					
Total loans approved less amounts collected	299,112	756,902	130,460	59,294	1,245,768
Less undisbursed balance	(101,147)	(304,110)	(40,030)	(40,728)	(486,015)
Less allowance for loan losses	197,965	452,792	90,430	18,566	759,753
Net loans	(3,609)				(3,609)
Compensating loans	194,356	452,792	90,430	18,566	756,144
Accrued interest and other charges:			89,096		89,096
On loans	33,135	17,770	6,175	403	57,483
On investments	836	1,070	59	96	2,061
Funds receivable from member countries		11,228		687	11,915
Property, office equipment and fixtures	3,091	1,436	15	8	4,550
Other assets	9,045	1,207	519	43	10,814
	<u>\$CA306,606</u>	<u>\$CA523,095</u>	<u>\$CA194,789</u>	<u>\$CA24,209</u>	<u>\$CA1,048,699</u>
<u>Liabilities and capital</u>					
Liabilities:					
Loans payable	\$CA196,019	\$CA261,455	\$CA 72,517	\$CA 5,000	\$CA 534,991
Bonds	4,000	67,941	1,380		73,321
Certificates of investment			12,143		12,143
Certificates of deposit	1,172	10,229		500	11,901
Accrued interest on obligations	201,191	339,625	86,040	5,500	632,356
Accounts payable and other liabilities	3,567	5,608	5,546	47	14,768
Interfund accounts	1,411		25		1,436
Compensating loans	35,886	(25,167)	(1,393)	(9,326)	
	89,096		89,096		89,096
	<u>242,055</u>	<u>320,066</u>	<u>179,314</u>	<u>(3,779)</u>	<u>737,656</u>
Reserve for translation of currencies	4,605	13,179	(1,581)	(593)	15,610
Capital:					
Authorized	600,000				600,000
Not subscribed	(240,000)				(240,000)
Callable portion	(185,000)				(185,000)
Called portion not received	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)
Interfund capital	(151,350)	125,350	10,000	16,000	
Paid-in capital	21,650	123,350	8,000	14,000	167,000
Donations	2,666	50		3,217	5,933
General reserve	34,437	56,144	8,955	10,619	110,155
Retained earnings	1,193	10,306	101	745	12,345
	<u>59,946</u>	<u>189,850</u>	<u>17,056</u>	<u>28,581</u>	<u>295,433</u>
	<u>\$CA306,606</u>	<u>\$CA523,095</u>	<u>\$CA194,789</u>	<u>\$CA24,209</u>	<u>\$CA1,048,699</u>

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION  
ORDINARY CAPITAL

EXHIBIT II

COMBINING STATEMENT OF INCOME AND RETAINED EARNINGS  
(expressed in thousands of Central American pesos)

Year ended June 30, 1982

	<u>Ordinary Fund</u>	<u>Integration Fund</u>	<u>Housing Fund</u>	<u>Social Development Fund</u>	<u>Combined</u>
Income:					
Loans -					
Interest	\$CA22,524	\$CA31,153	\$CA16,918	\$CA 889	\$CA71,484
Commission fees	1,340	2,283	453	233	4,309
Service charges	462	55		1	518
	<u>24,326</u>	<u>33,491</u>	<u>17,371</u>	<u>1,123</u>	<u>76,311</u>
Interest on balances from Central American Common Market Fund	8,463				8,463
Investments interest	1,438	4,435			6,928
Other income	167	25	541	514	1,977
Total income	<u>34,394</u>	<u>37,951</u>	<u>17,915</u>	<u>1,639</u>	<u>91,899</u>
Expenses:					
Interest, commission and other expenses on borrowings	23,835	26,754	15,675	850	67,114
Administrative expenses	6,198	4,161	880	504	11,743
Exchange adjustments	391	302	1	3	697
Total expenses	<u>30,424</u>	<u>31,217</u>	<u>16,556</u>	<u>1,357</u>	<u>79,554</u>
Interfund transactions - Net	(2,777)	3,572	(1,258)	463	79,554
Net income	1,193	10,306	101	745	12,345
Retained earnings at beginning of year	5,894	7,686	1,270	30	14,880
Transferred to general reserve	(5,894)	(7,686)	(1,270)	(30)	(14,880)
Retained earnings at end of year	<u>\$CA 1,193</u>	<u>\$CA10,306</u>	<u>\$CA 101</u>	<u>\$CA 745</u>	<u>\$CA12,345</u>

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION  
ORDINARY CAPITAL

COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION  
(expressed in thousands of Central American pesos)

	Year ended June 30, 1982				
	Ordinary Fund	Integracion Fund	Housing Fund	Social Development Fund	Combined
<u>Financial resources were provided by:</u>					
Net income	SCA 1,193	SCA10,306	SCA 101	SCA 745	SCA 12,345
Items not requiring or providing cash:					
Changes in accrued income and expenses	(5,757)	(5,835)	(213)	(68)	(11,873)
Net provision for loan losses	380				380
Depreciation	259	141	26	7	433
Amortization and other provisions	285	358	46	15	704
Fund provided by operations	(3,640)	4,970	(40)	699	1,989
Loans received and bonds and certificates placed	95,908	6,523	34,770	500	137,701
Collection of loans receivable	21,373	36,585	6,496	2,480	66,934
Contributions of capital	8,000	11,800	8,000	9,200	37,000
Compensating loans			9,277		9,277
Donations received	(24)			960	936
Maintenance of value	1,507	2,049			3,556
	2	(100)	1,272	(12)	
<u>Financial resources were used for:</u>					
Loan disbursements	SCA 37,727	SCA37,387	SCA23,233	SCA11,873	SCA110,220
Repayment of borrowings	30,753	29,060	6,796		66,609
Transferred to Central American Common Market Fund	50,000				50,000
Compensating loans			9,277		9,277
Funds receivable from member countries		2,641		687	3,328
Other	(2,694)	(13,352)	15,504	5,550	5,008
	115,786	55,736	54,810	18,110	244,442
(Decrease) increase in cash and investments	7,340	6,063	5,105	(4,283)	14,225
	<u>SCA123,126</u>	<u>SCA61,799</u>	<u>SCA59,195</u>	<u>SCA13,827</u>	<u>SCA258,667</u>

Doesn't look too hot!

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION  
CENTRAL AMERICAN COMMON MARKET FUND

FINANCIAL STATEMENTS

\* \* \* \* \*

JUNE 30, 1982



3500 ONE BISCAYNE TOWER  
MIAMI, FL 33131  
305 358-3682

September 21, 1982

To the Assembly of Governors  
of the Central American Bank  
for Economic Integration

In our opinion, the accompanying balance sheet and the related statements of income and deficit and of changes in financial position present fairly the financial position of the Central American Bank for Economic Integration - Central American Common Market Fund at June 30, 1982, and the results of its operations and the changes in its financial position for the year, in conformity with generally accepted accounting principles. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances

*Price Waterhouse*

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

CENTRAL AMERICAN COMMON MARKET FUND

BALANCE SHEET

JUNE 30, 1982

(expressed in thousands of Central American pesos - Note 1)

Assets

Time deposits	\$CA 3,202
Loans approved less amounts collected (Note 2)	46,609
Accrued interest on loans and investments	274
Deferred charges	350
	<u>\$CA50,435</u>

Liabilities and fund balance

Liabilities:

Loan payable (Note 3)	\$CA50,000
Accrued interest on obligations	25
Other liabilities	432
	<u>50,457</u>

Fund balance:

Fund established by member countries (Note 1)	-0-
Deficit	(22)
	<u>\$CA50,435</u>

The accompanying Notes are an integral part of these financial statements

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

CENTRAL AMERICAN COMMON MARKET FUND

STATEMENT OF INCOME AND DEFICIT  
FOR THE YEAR ENDED JUNE 30, 1982

(expressed in thousands of Central American pesos - Note 1)

Income:

Interest on loans	\$CA8,182
Interest on investments	<u>805</u>
	<u>8,987</u>

Expenses:

Interest and commission on borrowings	\$CA8,572
Administrative expenses charged by CABEI - Ordinary Capital	<u>437</u>

Net loss

9,009  
\$CA (22)

The accompanying Notes are an integral part of these financial statements

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

CENTRAL AMERICAN COMMON MARKET FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEAR ENDED JUNE 30, 1982

(expressed in thousand of Central American pesos - Note 1)

Financial resources were provided by:

Net loss	\$CA (22)
Changes in accrued income and expenses - Net	184
Fund provided by operations	162
Collection of loans receivable	3,328
Loan received from CABEI - Ordinary Capital	50,000
	<u>\$CA53,490</u>

Financial resources were used for:

Loan disbursements	49,938
Increase in deferred charges	350
	50,288
Increase in time deposits	3,202
	<u>\$CA53,490</u>

The accompanying Notes are an integral part of these financial statements

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

CENTRAL AMERICAN COMMON MARKET FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1982

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Central American Common Market Fund was established by resolution issued on May 29, 1981 by Assembly of Governors of the Central American Bank for Economic Integration (CABEI). Total resources for the Fund were set at the equivalent of \$CA100,000 and are to be provided by the member countries of CABEI in their respective currencies. These resources will be made available when called by the Board of Directors of CABEI. Such resources not exceed the external borrowings of the Fund.

The purpose of the Fund is to finance interbank clearing operations relating to the financing of trade between the member countries of CABEI.

The Fund commenced operations on July, 1981, with headquarters in Tegucigalpa, Honduras. Its significant accounting policies are summarized as follows:

Translation and currencies

The accounting records are maintained in United States dollars. The financial statements are expressed in Central American pesos denoted by the symbol \$CA. The Central American peso, is a symbolic monetary unit equivalent to the United States dollar used by the Fund for the presentation of its financial information. Assets and liabilities denominated in other currencies are translated to United States dollars at the approximate market rates of exchange prevailing at the dates of the financial statements.

NOTE 2 - LOANS RECEIVABLE:

Loans receivable at June 30, 1982 by country, were as follows:

Central Bank of:

	<u>(in thousands)</u>
Guatemala	\$CA10,000
El Salvador	10,000
Honduras	6,609
Nicaragua	10,000
Costa Rica	10,000
	<u>\$CA46,609</u>

The loans are collectible in United States dollars.

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NOTE 3 - LOAN PAYABLE:

In 1981 the Fund received from the Ordinary Capital of CABEI \$CA50,000,000 payable in United States dollars in quarterly installments of \$CA10,000,000 commencing on June 26, 1984 with interest at LIBOR plus 1%.

**ACTION COPY**

**UNCLASSIFIED**  
*Department of State*

**INCOMING TELEGRAM** **ANNEX 3**

PAGE 01 TEGUCI 03826 01 OF 03 2217092 0357 023124 A105840  
ACTION AID-00

TEGUCI 03826 01 OF 03 2217092 0357 023124 A105840

ACTION OFFICE HO-04  
INFO LAEM-02 LAGE-03 LADP-03 LADR-03 FM-02 FHLB-01 HUD-02  
RELO-01 MACT-01 /022 A1 1125

THIS PROJECT, A QUALIFIED HOUSING FINANCE SPECIALIST/CHARI-  
TIES PORTFOLIO SPECIALIST [REDACTED] SHOULD  
ASSIST CABEI TO ACHIEVE THE FOLLOWING OVERALL OBJECTIVE  
DURING TECHNICAL ASSISTANCE MISSION: ADDRESS HOUSING FUND  
LIQUIDITY PROBLEMS AND MAXIMIZE USE OF HOUSING FUND SO THAT  
CABEI'S FINANCIAL PARTICIPATION IN THE CENTRAL AMERICAN  
SHELTER SECTOR CAN CONTINUE TO BE MEANINGFUL IN FUTURE  
YEARS. TO ACCOMPLISH THE ABOVE OBJECTIVE, THE SPECIALIST  
WILL PERFORM THE FOLLOWING TASKS:

INFO OCT-88 ARA-00 /051 W  
-----004017 230022 /38

R 211516Z APR 83  
FM AMEMBASSY TEGUCIGALPA  
TO SECSTATE WASHDC 3845  
INFO AMEMBASSY PANAMA

UNCLAS SECTION 01 OF 03 TEGUCIGALPA 3826

AIDAC

STATE FOR H. KAUFMAN, PRE/H

PANAMA FOR M. PITA, RHUDO/LA

E.O. 12356: N/A  
SUBJ: CABEI HG DOS, FINANCIAL MGMT T.A.

REF: (A) 3/7/83 PITA'S TEGUCIGALPA TDY MEMO,  
(B) PANAMA 83396

1. IN RESPONSE TO REF (A), WORK SCOPE FOR INDICATED T.A.  
PREPARED BY LOW WAS REVIEWED WITH CABEI STAFF, ON 3/29/83, AND  
APPROVED BY CABEI WITH GENERAL COMMENT THAT CONSULTANT MUST  
APPROACH CABEI'S NEEDS WITH REGIONAL PROBLEM SOLVING  
PERSPECTIVE AND NOT PRESENT NARROW SPECIFIC COUNTRY APPROACHES  
TO SOLVE PROBLEMS BECAUSE VIABLE SOLUTIONS MUST WORK SUCCESS-  
FULLY IN FIVE VERY DIFFERENT COUNTRIES.

2. PROPOSED WORK SCOPE REVISED PER REF (B) COMMENTS FOLLOW:  
I. BACKGROUND: IN 1979, A.I.D. AUTHORIZED A DOLS 25  
MILLION HG LOAN TO BE COMBINED WITH DOLS 50 MILLION OF CABEI  
FUNDS FOR A DOLS 75 MILLION PROGRAM TO ESTABLISH A VIABLE  
SECONDARY MORTGAGE MARKET PROGRAM IN CABEI WHICH WOULD BE  
CAPABLE OF SUPPORTING HOUSING FINANCE INSTITUTIONS AND HOUSING  
PROJECTS FOR THE POOR IN CENTRAL AMERICA. SINCE PROJECT  
AUTHORIZATION, CABEI HAS PURCHASED BY DECEMBER 31, 1982, FROM  
NATIONAL HOUSING FINANCE INSTITUTIONS IN THE CENTRAL AMERICAN  
REGION DOLS 48.9 MILLION OF MORTGAGES GENERATED BY THE PRO-  
DUCTION OF LOW AND MIDDLE-COST HOUSING UNITS AND PROVIDED  
DOLS 8.95 MILLION IN CONSTRUCTION ADVANCES. THEREFORE,  
RELATIVE TO THE DOLS 75 MILLION PROGRAM, A.I.D. HAS DISBURSED  
TO CABEI DOLS 16.5 MILLION OF THE DOLS 25 MILLION OF HG RE-  
SOURCES AUTHORIZED FOR THIS PROJECT. AT THE SAME TIME, CABEI  
HAS INVESTED DOLS 32.4 MILLION OF THE DOLS 50 MILLION OF  
COUNTERPART IT HAS COMMITTED TO THIS PROGRAM. UNFORTUNATELY,  
HOWEVER, ALL OF CABEI'S OWN RESOURCES COMBINED WITHA SHHS  
HAVE ONLY BEEN USED TO DATE FOR LONG-TERM DIRECT MORTGAGE  
FINANCING IN THIS PROGRAM. IN THE MEANTIME, THE HOUSING FUND,  
WHERE THE BULK OF CABEI'S INVESTMENTS IN HOUSING ARE SUPPOSED  
TO BE DRAWN FROM, HAS BECOME LESS AND LESS LIQUID IN RECENT  
YEARS. IN FACT, THE HOUSING FUND'S RATE OF RETURN FOR 1982  
WAS TO BE ONLY 0.7 PERCENT WHILE IT SHOULD BE AT LEAST 1.5  
PERCENT TO BE CONSIDERED SATISFACTORY. ACCORDING TO RHUDO/LA'S  
PES EVALUATION COMPLETED IN MAY, 1982, CABEI HAS TAKEN A  
NUMBER OF MEASURES AND PROPOSED OTHERS TO ADDRESS THE HOUSING  
FUND'S LIQUIDITY PROBLEMS. ACHIEVEMENT OF SEVERAL OF THESE  
MEASURES WOULD ENABLE THIS PROJECT TO ACCOMPLISH ITS MAJOR  
PURPOSE - ESTABLISHMENT OF A VIABLE SECONDARY MORTGAGE MARKET  
PROGRAM.

II. REQUIRED TECHNICAL ASSISTANCE: - BEFORE CABEI INVESTS  
THE REMAINDER OF ITS COMMITTED RESOURCES TO THIS PROGRAM AND  
A.I.D. AUTHORIZES CABEI TO CONTRACT AND SUBSEQUENTLY BE  
DISBURSED THE REMAINING DOLS 8.5 MILLION OF HG AVAILABLE TO

APR 25 12 40 PM '83  
A.I.D.  
OFFICE OF HOUSING  
ELEMENT

**UNCLASSIFIED**

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ACTION  
COPY

UNCLASSIFIED  
Department of State

INCOMING  
TELEGRAM

PAGE 01 TIGUCI 0326 02 OF 03 7216732 0603 073123 A105867

TEGUCI 0326 02 OF 03 7216732 0601 073123 A105867

ACTION AID-00

ACTION OFFICE HQ-04

INFO LAIM-02 LACE-03 LADP-03 LADR-03 FM-02 FHIB-01 HUD-02  
RELO-01 MACT-01 /022 A1 1125

INFO OCT-00 COPY-01 ARA-00 /052 V

-----001533 230056Z /73 37

R 211510Z APR 83  
FM AMEMBASSY TEGUCIGALPA  
TO SECSTATE WASHDC 3846  
INFO AMEMBASSY PANAMA

UNCLAS SECTION 02 OF 03 TEGUCIGALPA 3826

AIDAC

STATE FOR H. KAUFMAN, PRE/H

PANAMA FOR M. PITA, RHUDD/LA

HOUSING FUND LIQUIDITY PROBLEM/SECONDARY MORTGAGE MARKET  
PROGRAM (1) WORK DAYS

1. REVIEW WITH CABEI THE FINANCIAL SOUNDNESS BASIS AND PRO-  
BAGILITY OF SUCH PROPOSALS THAT IT IS CURRENTLY CONSIDERING

SUCH AS: (A) OFFERING HOUSING INVESTMENT CERTIFICATES OR  
OTHER INSTRUMENTS WHICH ARE DENOMINATED IN U.S. DOLLARS;

(B) OFFERING HOUSING INVESTMENT CERTIFICATES OR OTHER INSTRU-  
MENTS WHICH ARE DENOMINATED IN CENTRAL AMERICAN CURRENCIES  
AND WHICH ARE NOT SIGHT REDEEMABLE; (C) SEGREGATION AND SALE  
OF PORTIONS OF ITS HOUSING PORTFOLIO TO FINANCIAL INSTITU-  
TIONS TO SUPPORT SECURITY ISSUES TO ATTRACT FUNDS; AND

(D) INCREASED CAPITALIZATIONS OR CONTRIBUTIONS FROM PARTICI-  
PATING MEMBER COUNTRIES OR OTHER SUCH VEHICLES OR TRANSACTIONS  
TO IMPROVE HOUSING FUND LIQUIDITY. REVIEW WITH CABEI THE  
DEMAND FOR SUCH TRANSACTIONS AS THOSE CITED ABOVE IN THE  
CENTRAL AMERICAN AND WORLD-WIDE FINANCIAL COMMUNITY AND ADVISE  
CABEI ABOUT CHARACTERISTICS INCLUDING TERMS, RATES,  
GUARANTEES, ETC. OF INSTRUMENTS TO BE USED IN SUCH TRANS-  
ACTIONS, HOW THEY SHOULD BE PREPARED AND PACKAGED TO INSURE  
MARKETABILITY, AND REVIEW THEIR IMPACT UPON THE HOUSING FUND.  
ALSO, THE REVIEW SHOULD LOOK AT PAST INSTRUMENTS/TRANSACTIONS  
USED TO IMPROVE THE FUND'S LIQUIDITY.

2. REVIEW WITH CABEI THE SOURCES WHERE ITS HOUSING FUND HAVE  
BEEN DERIVED AND THE COMPOSITION OF THE FUND PORTFOLIO TO  
DETERMINE WHAT ITS MIX MUST BE -SHORT-, MEDIUM-, AND LONG-  
TERM- TO PROVIDE IT GREATER LIQUIDITY IN THE SHORTEST TIME  
FRAME POSSIBLE. GIVEN REALITIES OF WORKING IN CENTRAL AMERICA,  
RECOGNITION OF CHARACTERISTICS AND ECONOMIC, FINANCIAL, AND  
LEGAL CONDITIONS OF COUNTRIES IN THE REGION, AND RECOGNITION  
OF REALITIES OF DEALING IN CURRENT WORLD OF FINANCE, EXPLORE  
WITH CABEI OPTIONS FOR EMPLOYING SHORT AND MEDIUM TERM  
LENDING TO SUPPORT HOUSING FUND WHICH WOULD REDUCE FINANCIAL  
RISKS FOR FUND AND HELP CABEI ADDRESS FUND'S LIQUIDITY  
PROBLEMS. TERMS AND RATES OF INSTRUMENTS AVAILABLE TO CABEI  
SHOULD BE EXAMINED PLUS CORRESPONDINGLY TERMS AND RATES  
WHICH CABEI COULD OFFER TO COUNTRIES IN THE REGION FOR  
INSTRUMENTS IT CHOOSES TO MARKET. ALSO, DISCUSS WITH CABEI  
A SHORT-MEDIUM TERM STRATEGY TO MOBILIZE RESOURCES FOR SHELTER  
USING THE HOUSING FUND AND CABEI'S INSTITUTIONAL CONTACTS IN  
THE REGION AND DEVELOP RECOMMENDATIONS OF HOW SUCH A STRATEGY  
MAY BE ACHIEVED.

3. EXAMINE CABEI'S OPERATIONAL PROCEDURES VIS-A-VIS HOUSING  
FINANCE AND DETERMINE THE EXTENT TO WHICH THOSE PROCEDURES  
WOULD BE AFFECTED WERE CABEI TO SHIFT FROM A ROLE OF PRIMARY  
LENDING (MORTGAGE FINANCING) AND PROJECT MANAGEMENT  
(CONSTRUCTION LOANS) TO ONE OF ACTING AS A SECONDARY LENDING  
INSTITUTION THAT FOCUSED MORE ON ATTRACTING AND CHANNELING

RESOURCES TO STIMULATE NATIONAL HOUSING FINANCE SYSTEMS AND  
MAINTAINED A MORE PASSIVE ATTITUDE TOWARD PROJECTS THEMSELVES.  
GENERAL RECOMMENDATIONS SHOULD BE MADE ABOUT WHAT CABEI  
DIVISIONS AND SUBDIVISIONS WOULD BE MOST AFFECTED BY  
STRENGTHENING SECONDARY MORTGAGE OPERATIONS, THE IMPACTS OF  
SUCH NEW OPERATIONAL DIRECTIONS ON THE STAFFS OF THOSE  
DIVISIONS AND SUBDIVISIONS AND TRAINING AND EXPERTISE FOR  
THOSE ROLES REQUIRED TO BE FULFILLED. IF SUCH INSTITUTIONAL  
ADJUSTMENTS WERE TO BE MADE, RECOMMENDATIONS SHOULD BE MADE  
AS TO HOW CABEI COULD STRENGTHEN ITS ABILITY TO ADMINISTER A  
SECONDARY MORTGAGE MARKET OPERATION.

4. REVIEW WITH CABEI FINANCIAL, LEGAL, AND PROGRAMMING AND  
PROMOTIONS DIVISIONS ACTIONS THEY HAVE TAKEN TO DATE TO  
PROMOTE SECONDARY MORTGAGE OPERATIONS.

5. REVIEW WITH CABEI ITS IN-PROGRESS TRANSACTIONS TO PURCHASE  
MORTGAGE BACKED BONDS FROM COSTA RICA AND EL SALVADOR TO  
DETERMINE WHAT ASSISTANCE, IF ANY, MAY BE PROVIDED TO ELIMINATE  
OBSTACLES FOR INCURRING SUCCESSFUL COMPLETION OF THESE TRANS-  
ACTIONS. COMMENT ON THE CHARACTERISTICS OF THESE TRANSACTIONS  
AND MAKE RECOMMENDATIONS AS APPROPRIATE. ALSO, DISCUSS WITH  
CABEI THE POTENTIALITIES FOR INITIATING OTHER TRANSACTIONS  
IN OTHER COUNTRIES (E.G. GUATEMALA, HONDURAS) ASSUMING  
CABEI COULD ATTRACT FRESH LIQUIDITY. ALSO, OTHER TECHNIQUES  
THAT MIGHT BE USED IN THE FUTURE SHOULD BE EXPLORED.

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PANAMA FOR M. PITA, RHUDO/LA

6. REVIEW WITH CABEI POSSIBLE ALTERNATIVES AS TO HOW IT MIGHT  
REDUCE THE DIFFERENTIAL BETWEEN THE COST OF ITS RESOURCES  
SECURED FROM EXTERNAL BORROWINGS AS COMPARED TO THE YIELD OF  
ITS PORTFOLIO.

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7. REVIEW WITH CABEI RESULTS AND IMPLICATIONS OF ITS ANALYSIS  
OF IMPACT OF THE LATEST HG BORROWING -DOLLARS 16.5 MILLION- UPON  
THE HOUSING FUND.

8. UNTIL 1982 WHEN CABEI DECIDED TO CHANGE ITS POLICY, ALL  
HOUSING FOR FAMILIES BELOW THE 25TH PERCENTILE HAD BEEN  
FINANCED WITH RESOURCES FROM ITS SOCIAL FUND AT VERY HIGHLY  
SUBSIDIZED RATES. REVIEW WITH CABEI HOW IT PLANS TO SERVE  
THE HOUSING NEEDS OF SUCH FAMILIES IN THE NEXT 5 YEARS AND WHAT  
PERCENT OF CABEI'S TOTAL INVESTMENTS IN HOUSING FOR THE NEXT  
5 YEARS WILL BE DESIGNATED FOR SUCH A TARGET GROUP.

III. ADMINISTRATIVE ARRANGEMENTS

1. SUPERVISION: THE HOUSING FINANCE SPECIALIST/SECURITIES  
PORTFOLIO SPECIALIST SHALL WORK UNDER THE SUPERVISION OF  
THE REGIONAL HOUSING OFFICER, RHUDO/ROCAP.
2. LOGISTICS: THE SPECIALIST SHALL WORK OUT OF CABEI'S OFFICES  
IN TEGUCIGALPA AND RECEIVE FULL LOGISTICAL AND CLERICAL  
SUPPORT FROM RHUDO/ROCAP IN TEGUCIGALPA.
3. TRAVEL: THE SPECIALIST SHALL BE REQUIRED TO TRAVEL TO  
TEGUCIGALPA AND MAY ALSO BE REQUIRED TO ACCOMPANY CABEI  
STAFF TO TRAVEL TO EL SALVADOR AND/OR COSTA RICA TO  
PERFORM THE WORK SCOPE. FOLLOWING COMPLETION OF THE TECH-  
NICAL ASSISTANCE MISSION, THE SPECIALIST WOULD TRAVEL TO  
PANAMA TO DEBRIEF RHUDO/LA ON THE RESULTS.
4. REPORTS: THE SPECIALIST SHALL LEAVE A DRAFT REPORT  
SUMMARIZING THE RESULTS AND KEY RECOMMENDATIONS  
OF THE TECHNICAL ASSISTANCE MISSION PRIOR TO DEPARTURE  
FROM TEGUCIGALPA. WITHIN TWO WEEKS AFTER RETURN TO THE  
UNITED STATES, THE SPECIALIST SHOULD SUBMIT TO RHUDO/ROCAP  
FIVE COPIES OF A FINAL REPORT OF THE TECHNICAL ASSISTANCE  
MISSION WHICH ADDRESSES EACH ITEM OF THE WORK SCOPE. ALSO,  
COPIES OF ALL MATERIALS DEVELOPED PER THE TECHNICAL ASSIS-  
TANCE SHOULD BE ATTACHED.

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