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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

NICARAGUA

PROJECT PAPER

ECONOMIC SUPPORT FUND (ESF)
(PAAD)

AID/LAC/P-769

PROJECT NUMBER: 52⁴~~6~~-0325

UNCLASSIFIED

<p>AGENCY FOR INTERNATIONAL DEVELOPMENT</p> <p>PROGRAM ASSISTANCE</p> <p>APPROVAL DOCUMENT</p> <p>(PAAD)</p>	1. PAAD Number	524-0325
	2. Country	Nicaragua
	3. Category	Cash Transfer
	4. Date	December 4, 1992
5. To	6. OYB Change Number	LAC-93-019
AA/LAC: James H. Michel	8. OYB Increase	40,000,000
7. From	To be taken from:	
LAC/DR: Peter Bloom <i>for JW</i>	Economic Support Fund (ESF)	
9. Approval Requested for Commitment of	10. Appropriation Budget Plan Code	270-50-524-00-50-31
\$ 40,000,000	LES293-35524KG31	72-112/31037
11. Type Funding	12. Local Currency Arrangement	13. Estimated Delivery Period
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Informal <input checked="" type="checkbox"/> Formal <input type="checkbox"/> None	FY 93
15. Commodities Financed	14. Transaction Eligibility Date	

16. Permitted Source	17. Estimated Source
U.S. only	U.S.
Limited F.W.	Industrialized Countries
Free World	Local
Cash 40,000,000	Other

18. Summary Description Economic Stabilization and Recovery (ESR) IV continues USG support for Nicaragua's economic reform. The \$40 million cash transfer is premised on compliance with the IMF Stand-by Agreement and specific policy reforms in the following areas: 1) foreign exchange market liberalization, to ensure equal access, with some control over capital exports; 2) increased competition, to assure that parastatals do not distort markets; 3) trade liberalization, to open the trading system; and 4) financial market reform, to reduce targeting of financial resources and to equilibrate state and private banks.

The U.S. dollars will be deposited in an escrow account at the Federal Reserve Bank of N.Y. to pay debt service coming due or in arrears in the last quarter of CY 92 and to reimburse the GON for debt service due and paid by it on or after January 1, 1992. Eligible creditors include the multilateral creditors, the IMF, the USG for non-military obligations and Mexico and Venezuela for petroleum imports. In order to ensure that the program funds are used to support economic development objectives, the GON will use the U.S. dollars which are for reimbursement of previously paid debt obligations to finance the importation of eligible commodities. The use of program funds for such imports will require AID review and approval and be subject to audit of actual import transactions.

Local currency will be generated only by the funds provided for reimbursement of previously paid debt obligations used for private sector imports. Any local currency generated will be deposited into blocked accounts in the Central Bank of Nicaragua and be subject to AID control with respect to any future use. Methods of implementation, financing and audit are in accordance with Payment Verification Policy Implementation Guidance.

19. Clearances	Date	20. Action
LAC/DPP: EZallinan <i>EZ</i>		<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
LAC/CEN: WSRhodes <i>WR</i>		
GC/LAC: JDoyle <i>JD</i>		Authorized Signature
ARA/ECP: JHamilton <i>JH</i>		Date
FM/CONT: ES Owens <i>ES</i>		Title
LAC/CEN: LButler <i>LB</i>		
		Assistant Administrator, LAC

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

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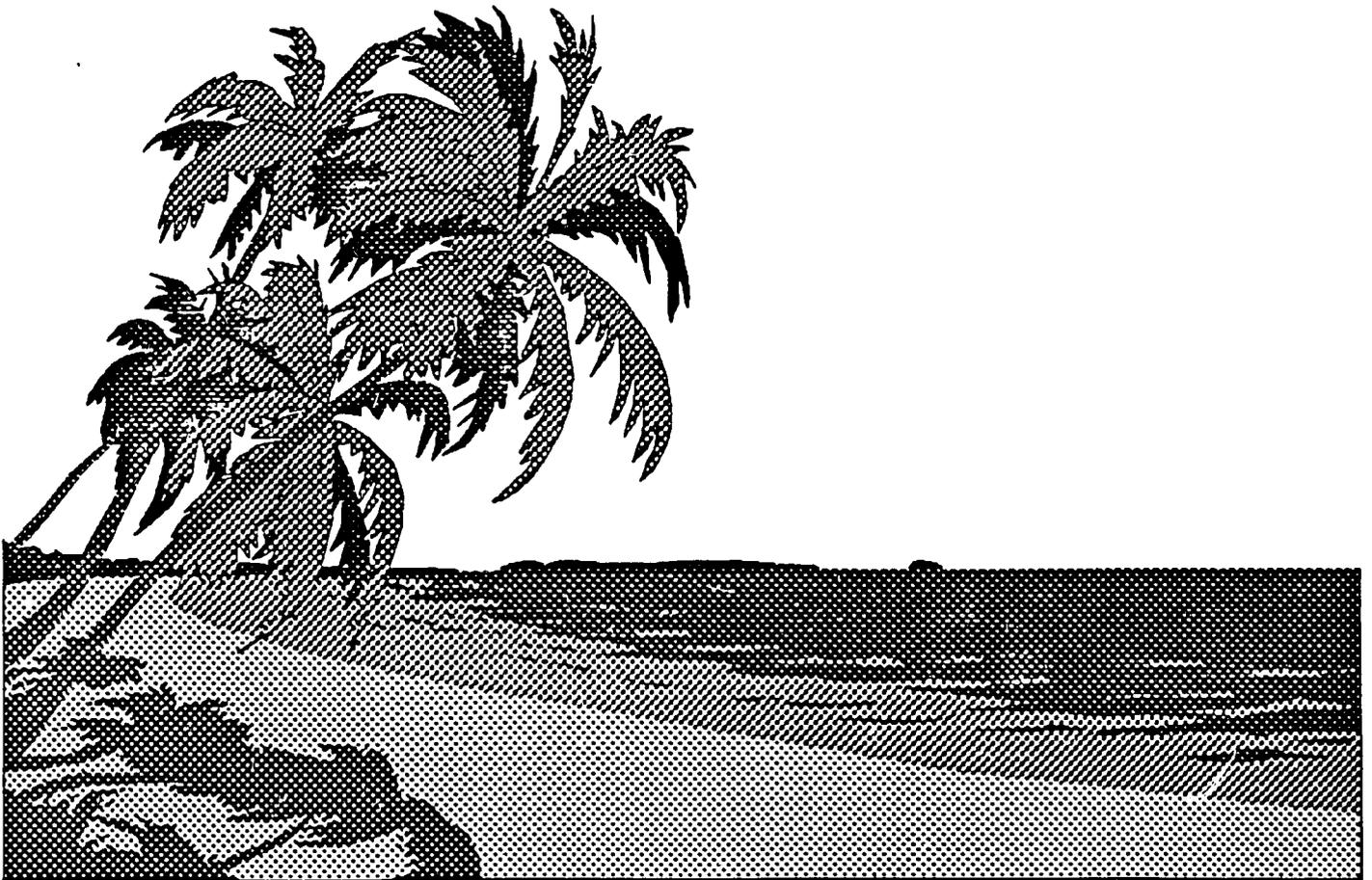
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19. Clearances	Date	20. Action
LAC/DPP: E. Zallman <i>[Signature]</i>		<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED Authorized Signature: <i>James H. Michel</i> Date: 12/4/92 Title: Assistant Administrator, LAC
LAC/CEN: R. S. Hodson <i>[Signature]</i>		
GC/LAC: J. Doyle <i>[Signature]</i>		
ARA/ACP: J. Hamilton <i>[Signature]</i>		
EM/CON: B. S. O'Connell <i>[Signature]</i>		
LAC/CEN: L. Butler <i>[Signature]</i>		

USAID/Nicaragua

ECONOMIC STABILIZATION & RECOVERY IV

Program Assistance Approval Document



March, 1992

Approval of Methods of Financing

This PAAD complies with current Agency guidance on methods of financing and has provided adequate audit coverage in accordance with the Payments Verification Policy Implementation Guidance.

Richard C. McClure 6/16/92
Richard C. McClure, Controller, LAC

**ECONOMIC STABILIZATION AND RECOVERY IV
PROGRAM ASSISTANCE APPROVAL DOCUMENT**

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I. INTRODUCTION & SUMMARY

Nicaragua has completed the first, highly successful year of its stabilization program. The sources of hyperinflation, the fiscal deficit and the quasi-fiscal losses of the state financial system, have been decisively controlled. However, price stabilization is not an end in itself. The strategic objectives of the USAID program in Nicaragua include the promotion of investment and the expansion of competition and diversification in the economy so that Nicaragua can achieve sustainable, broad-based economic growth during the next half decade. If this is to be achieved, Nicaragua must move beyond stabilization to address serious structural impediments to increased investment and diversification. Some of these impediments arise out of external shocks and some reflect continuing structural distortions in the Nicaraguan economy. Unless these difficulties are resolved successfully, the nascent economic recovery which began in the second half of 1991 will stall, with serious consequences for the continued political and economic stability of the country.

In most respects, the GON's reform efforts, undertaken in 1991, were spectacularly successful. Hyperinflation, which had plagued Nicaragua for the past five years, was eliminated. Price increases, which had averaged 45 percent per month in late 1990 and the first two months of 1991, were reduced, after a two month adjustment period, to essentially zero for the period May 1991 through February 1992.

While undertaking this stabilization effort, the GON also undertook substantial reforms to remove structural impediments to economic recovery. These reforms included a transformation of the financial system; a substantial reduction of government intervention in price formation and international trade; a substantial reduction of state participation in directly productive activities; and a redirection of the state's role as that of a neutral promotor of productive activity by the private sector.

Before stabilization can be transformed into recovery, however, it is essential that certain additional measures be implemented. These unresolved issues include:

- the beginning of a resolution of unresolved property claims from the previous government,
- the effective enforcement of property rights by both the police and the legal system,
- the establishment of a foreign exchange system that will assure domestic producers of timely and automatic access to needed imports, and foreign investors of timely and automatic right to repatriate profits,
- the elimination of unfair competition by state marketing enterprises in the purchase and sale of agricultural products,
- the elimination of the state monopoly of insurance,
- the elimination of quantitative restrictions on the export of beans and basic grains,

- the systematic reduction of the practice of targeting of Central Bank lending resources through specific institutions, to particular borrowers and uses, and the reliance on market mechanisms, particularly for medium-term resources, and
- the elimination of administrative setting of interest rates, particularly where the result is to dictate the spread, and thus the costs of financial intermediation.

These policy areas have been extensively discussed with the Government of Nicaragua and they fully support the resulting series of reform measures as necessary and logical next steps to the demand management control, financial market reform, deregulation of marketing, and privatization, which have been the central features of the present government's economic strategy since it took office.

In addition to this unfinished reform agenda, Nicaragua has recently experienced a number of adverse developments beyond its control which are having an adverse impact on economic activity and the prospects for economic growth in the current year, and as a result, on the prospects for sustaining the reform program. The most important of these adverse developments are the recent fall in world coffee and cotton prices. Spot prices for Nicaragua's coffee have fallen in February to 73 cents per pound, down from an average of 83.8 cents in 1991. At the same time spot prices for cotton have fallen to 48 cents per pound from an average of 69.8 cents in 1991. The combined effect of these adverse price developments has been to reduce Nicaragua's exports to a projected \$270.2 million in 1992, from an earlier projected \$295.7 million. This \$25 million export shortfall will have a serious negative effect on Nicaragua's growth prospects if some way cannot be found to offset it.

This shortfall in exports receipts, if it cannot be made up from other sources, will reduce import capacity by \$25 million. This will have the effect of reducing 1992 growth from an earlier projected 4.7 percent to 2.4 percent. Thus, instead of achieving a modest increase in per capita GDP in 1992, Nicaragua will have essentially no per capita growth. The effect of such a deterioration on the sustainability of public support for adjustment measures could be devastating.

In order to expand domestic consumption and to make possible the projected expansion in private sector investment and critical public infrastructure investment, it is essential that AID provide to the GON \$125 million in balance of payments support as quickly as possible. \$25 million has already been provided in support of the GON's Occupational Conversion Program, in the form of an amendment to the ESR III program. The present PAAD document describes Economic Stabilization and Recovery IV. This program will be implemented in several tranches, the first of which will be for \$40 million, upon the implementation of specified policy reforms. The \$40 million first tranche will be used to bolster Nicaragua's rapidly diminishing foreign exchange reserve by financing external debt payments as follows:

--to service debt coming due during the last quarter of CY 1992 from eligible multilateral creditors, such as the World Bank (including IDA) and the IDB, as well as the IMF, non-military U.S. bilateral debt, and petroleum imports from Venezuela or Mexico; and,

--the remainder for replenishment of GON foreign currency reserves expended in debt service payments made after January 1, 1992, for debt due and paid to eligible IFIs and non-military U.S. bilateral debt.

Subsequent tranches will be used for this or similar purposes to relieve foreign exchange shortfalls. In order to ensure that the full amount of program funds are used to support development objectives, the U.S. dollars disbursed under ESR IV for reimbursement of previously paid debt obligations will be used by the GON to finance the importation of raw materials, intermediate goods, non-luxury good commodities and food from the U.S. and Central America, as well as for the procurement of petroleum products from Mexico and Venezuela. The use of program funds for productive imports, in an amount up to the amount disbursed for reimbursements of previously paid debt obligations, will require AID review and approval and be subject to an audit of actual import transactions.

Local currency will be generated only on the program funds disbursed for reimbursement of previously paid debt obligations which are subsequently used for private sector imports. No local currency will be generated under the ESR IV program for which the funds are used directly to finance the payment of debt coming due or in arrears to eligible institutions. The local currency thus generated will be deposited into a blocked account and any interest earned will be deposited, as it is earned, into the same account. The local currency generations are subject to future negotiations on their eventual use.

II. MACROECONOMIC PERFORMANCE FOR 1991

A. Inflation, Fiscal, and Financial System Performance

Economic performance through 1991 improved dramatically from 1990, as a result of the economic stabilization program of March 3, 1991. The primary objective of the stabilization program was the elimination of hyper-inflation through the elimination of domestic financing of the deficits of the central government and

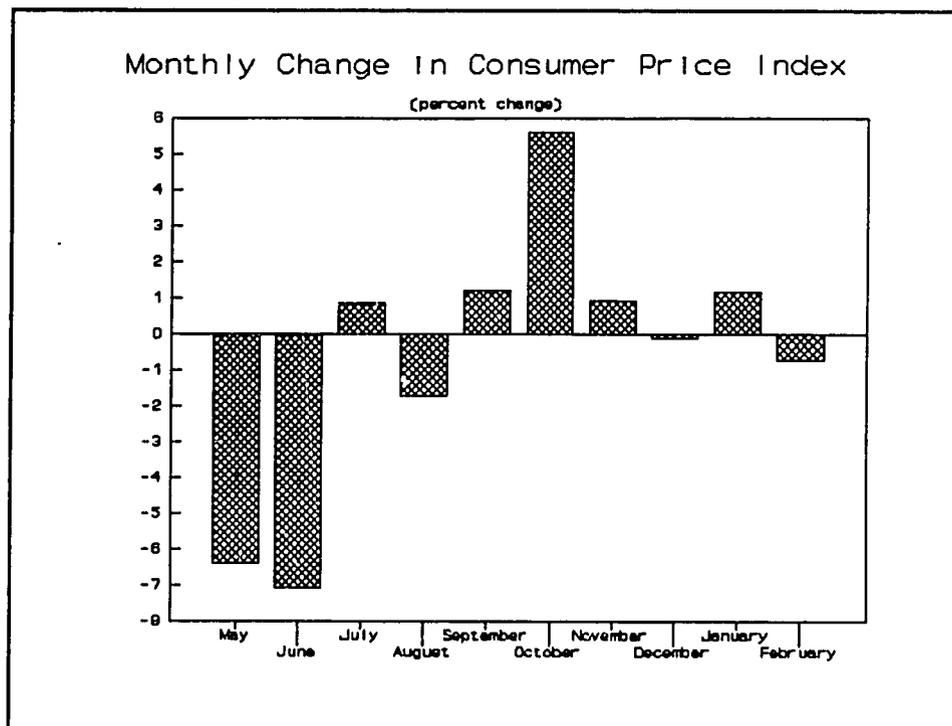


Figure 1

the elimination of the quasi-fiscal losses of the state-owned commercial banks. As a result of the tight fiscal controls, price increases, which had averaged 50 percent per month during 1990, quickly fell to an average of negative one percent in the period May through February 1992 (See Fig. 1).

The GON's success in reducing inflation was due to its significant success in reducing the two principal engines of inflation: (a) the fiscal deficit and its financing through monetary emission, and (b) the quasi-fiscal losses of the financial system. The GON's success in reducing the fiscal deficit is illustrated in Figure 2.

The steady narrowing of the fiscal gap has been achieved through a tax reform which widened the tax base, a highly successful program of improved tax administration, together with a significant reduction in the size of the Central Government work force, both civilian and military, and skillful control of public sector wage concessions. As a result of these factors, the GON enters 1992 with a budget in which tax revenues essentially cover non-interest current expenditures. While this is not definitive success by any means, it is a vast improvement over the situation faced by the GON one year ago.

On February 28, 1992, the GON announced a series of tax reform measures. These measures included the abolition of the burdensome Patrimony Tax (a tax on the net assets of private business), a reduction in the maximum income tax rate from 36 percent to 30 percent, and a reduction in the sales tax from 15 percent to ten percent. While the direction

of the changes are ones which we have urged on the government, the timing of their announcement, when collapsing cotton and coffee prices were putting serious pressure on the stabilization, was unfortunate.

The cost to the Treasury of these measures has been variously estimated at 2.7 percent of GDP, 1.3 percent, and 0.7 percent (the GON's official estimate).

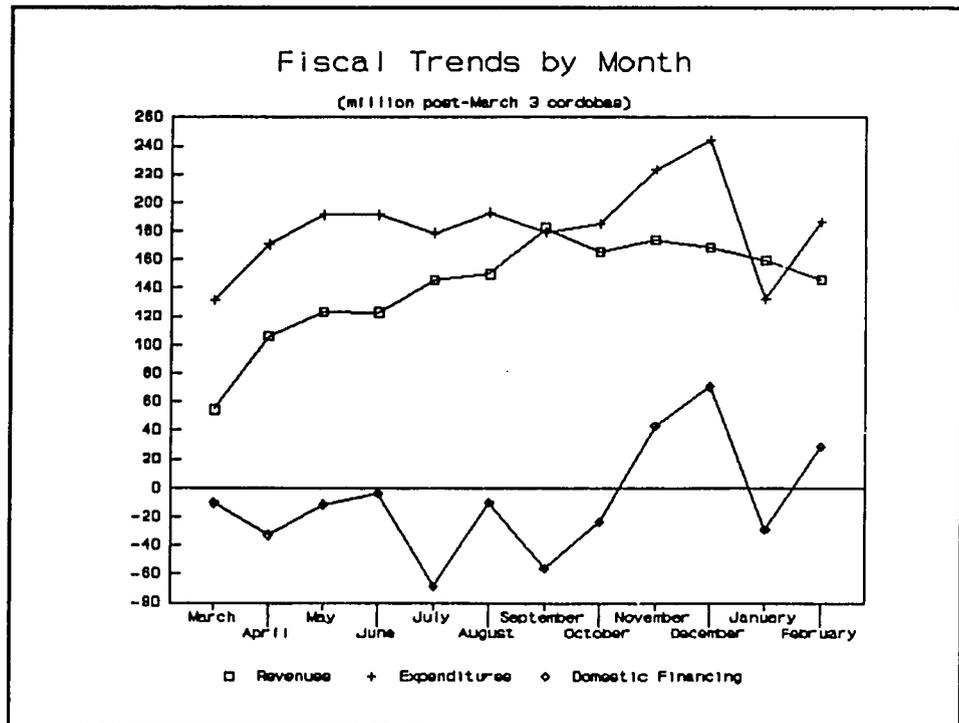


Figure 2

The differences reflect different views of the persistence of a recent strong upward trend in receipts from "fiscal industries" (alcoholic beverages, petroleum products, etc.). Only time will tell which of these estimates are correct. Meanwhile, the GON has informally agreed with the IMF to prepare contingency expenditure cuts, chiefly in the investment budget, in case their optimistic revenue projections do not come to pass.

The second major source of inflationary pressures has been credit expansion within the state financial system, chiefly through failure to recover loans in real terms. Statistics on net credit delivery in 1991, shown in Figure 3, show that repayment of past loans have been an important source of financing for the credit cycle. This, combined with a substantially increased deposit base for the state financial system has made it possible to substantially increase total banking system lending without inflationary monetary emissions.

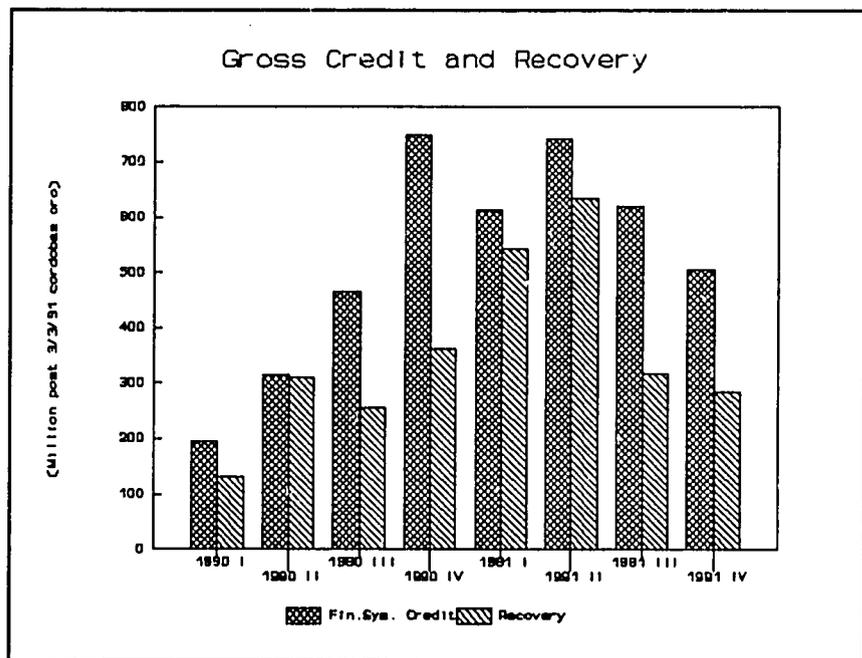


Figure 3

This outcome results, in part, from a policy implicit in the stabilization program that the amount of new loans made will be based on recuperations available for financing, and in part from improved administration of the state banking system, which has made it clear to employees at all levels that the continued existence of their institutions depends on their ability to recover loans. The current reorganization of the state banks should reinforce that trend. Nonetheless, the extent to which the losses of the state banks have been contained will largely determine whether inflation has been permanently brought down to world levels or whether an inflation tax will continue to afflict the Nicaraguan population.

B. Output and Growth

Despite the impact of the stabilization program, the eight year long decline in output has essentially been halted in 1991. Estimates of production for 1991 are shown on Table 1. Increases in output are estimated for all major areas of productive activity. Indeed, the only important source of the projected decline is in the area of general government, reflecting the sharp decline in civilian and military employment in 1991. Apart from this, agriculture is projected to remain essentially unchanged, largely reflecting the poor harvest in the first quarter of 1991. Most other areas show modest improvement.

These broad increases in production in the first year of a stabilization program are highly unusual and reflect a number of factors. One, clearly, is the very high level of balance of payments support available under ESR and from the Government of Taiwan. The capability which this assistance gave to Nicaragua to finance its balance of payments deficit made the needed monetary discipline much less stringent than it would otherwise have to have been.

Another important factor in explaining the ability of the real economy to recover from the effects of the stabilization measures was the decontrol of external trade enacted in January 1991, followed with the liberalization of the foreign exchange market in the stabilization program itself. As a result of these measures, marketing margins declined dramatically. Thus, a disproportionate share of the restriction in the growth of nominal GDP incorporated in the stabilization program fell on prices, with the result that real output was able to recover surprisingly quickly. Despite the quick stabilization of prices and the rapid recovery of domestic production, fixed investment has been slow to recover. As shown on Table 2, fixed investment has actually declined in 1991 from its level of 1990. This, however, seems to reflect primarily a winding up of donor-financed investments in public sector entities of, perhaps dubious value. There are a number of recent indicators of renewed interest in the part of private investors in fixed investments, and this suggests that the projected large increase in fixed investments in 1992 may not be unreasonable. This increase in investment would reflect the large increase in private consumption in 1991 over 1990, made possible by the even larger decrease in public sector consumption. Nonetheless, clear evidence of the hoped for private investment boom is still lacking.

Table I

TABLE 1
Real Gross Domestic Product by Sector
 (million 1991 cordobas oro)

	1990	1991
GROSS DOMESTIC PRODUCT	6,891.2	6,839.9
PRIMARY ACTIVITIES	2,117.5	2,103.4
Agriculture	1,585.4	1,575.2
Livestock	483.9	480.3
Fishing	40.7	40.4
Other	7.5	7.5
SECONDARY ACTIVITIES	1,370.8	1,437.0
Manufacturing	1,083.7	1,152.0
Construction	237.9	236.1
Mining	49.3	48.9
SERVICES	3,402.8	3,299.5
Commerce	1,541.1	1,625.5
General Government	791.9	595.2
Trans. & Commun.	286.8	284.7
Banking & Insurance	207.9	206.4
Energy & Pot. Water	80.9	87.3
Housing	203.1	203.2
Other Services	291.1	297.3

Source: BCN - Dirección General de Cuentas Nacionales 2/25/92

C. Foreign Exchange Regime and Exchange Rate

In Nicaragua the foreign exchange regime has received considerable attention for several reasons. First, the exchange rate itself has been an important policy variable not only because it is a price incentive for export competitiveness but because it has been the anchor for price stabilization. Because of this dual role, the exchange rate has been a source of controversy in recent months because of claims that it is "overvalued". Preliminary conclusions from a study that is in process¹ are that in the medium-term, the exchange rate probably is not sustainable at its current level. However, two important points must be made. First, it is sustainable now given current levels of foreign assistance and appropriate

¹ Real Exchange Rates, Competitiveness, and Macroeconomic Adjustment in Nicaragua, by Sebastian Edwards, 1992.

Table II

2/3/92	TABLE 2	
	Functional Distribution of GDP	
	(million 1991 cordobas oro)	
	1990	1991
GROSS DOMESTIC PRODUCT	6,891.2	6,839.9
Consumption	7,477.5	7,168.7
Public	2,044.5	1,457.9
Private	5,433.0	5,710.8
Investment	1,538.8	1,356.4
Fixed Investment	1,540.8	1,374.6
Machinery & Equip.	955.1	851.4
Construction	513.6	442.5
Other	72.1	80.8
Change in Stocks	(2.0)	(18.3)
Exports	1,597.2	1,379.4
Imports	3,722.4	3,064.6

Source: BCN - Dirección General de Cuentas Nacionales 2/25/92

macroeconomic policy. Secondly and more importantly, a nominal devaluation would not translate into a comparable real exchange rate at this time given market rigidities from structural features of the economy. Consequently, wage and price increases would likely reduce the effectiveness of the exchange rate adjustment with regard to price competitiveness, and risks stimulating speculation and lack of confidence in the price level.

The devaluation of March 1991 makes it clear how difficult or how costly it can be to achieve a real exchange rate adjustment. While the real exchange rate in January 1992 was about 30% higher than its price in February 1991 (the cordoba was devalued), the effectiveness index² was .07, indicating that it was costly to correct the exchange rate. Inflation in April of 1991 reflected a continuing pass through of tradeable price increases, eroding the real devaluation. Subsequent to April, the real exchange rate depreciated as domestic prices declined or rose less rapidly than world inflation. Overall, the cordoba settled to a stable level which the GON has been able to maintain without strong market pressure. To date a waiting period (*presa*) has not formed and foreign exchange has been available on a first come first serve basis without administrative delay.

² The effectiveness index is defined as the ratio of accumulated real exchange rate adjustment to the nominal devaluation. See Real Exchange Rates, Devaluation and Adjustment, (MIT Press, 1989).

It is important to emphasize that the exchange rate is a measure of real price competitiveness and is not necessarily the issue in itself. If a nominal devaluation would not lead to a real adjustment in price competitiveness, corrections have to be made through other efforts to adjust relative domestic prices, rather than through nominal exchange rate adjustments.

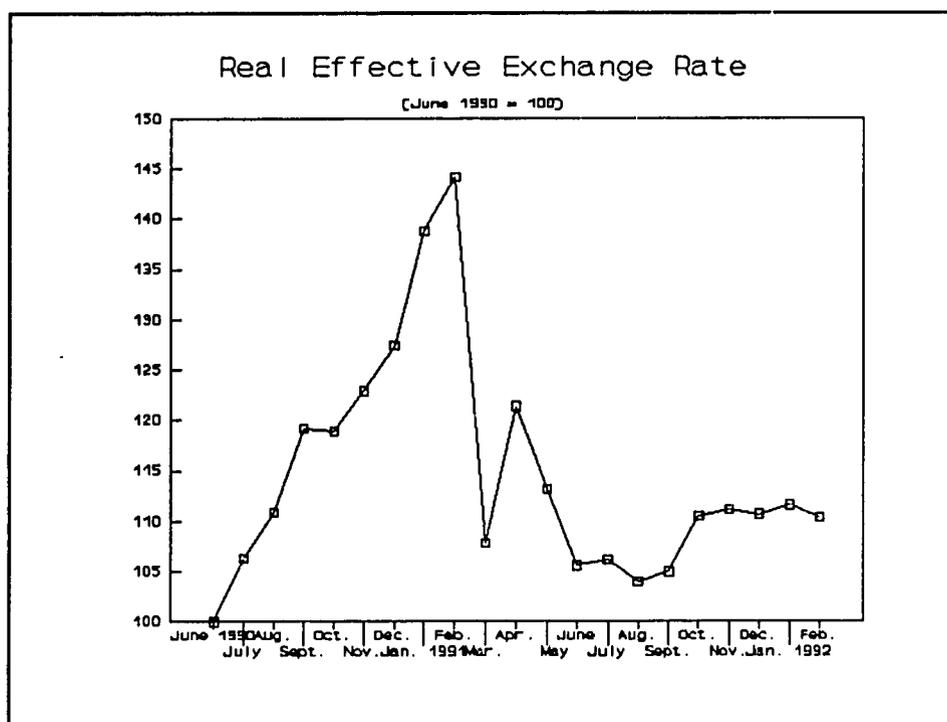


Figure 4

Areas that require adjustments include improvements in factor markets (labor and other input markets), and in production and distribution efficiency.

Our policy dialogue with the GON on the exchange rate has concentrated on the exchange rate mechanism to assure that the exchange rate is used as a guide to monetary policy rather than finding its outlet in administrative allocative mechanisms. The Central Bank allows private banks to handle foreign exchange sales, and has permitted private foreign exchange houses to operate. It continues to reduce the role of the Central Bank in commercial foreign exchange transactions. At the same time, it is improving its information flow in order to be able to monitor foreign exchange reserves and other economic information.

D. Balance of Payments

The Nicaraguan balance of payments actually demonstrated some improvement in 1991, despite a further deterioration of the current account. Exports declined by 20 percent due principally to cyclical factors in coffee production, continuing deterioration of beef production, and a lower U.S. quota for Nicaraguan sugar. It should be noted that the bulk of agricultural exports occur in the first quarter of the calendar year and reflect production of the previous year. Thus any improvements in production performance for 1991 will be reflected in exports for 1992. In fact some recovery of exports is forecast for 1992, reflecting a recovery of coffee production and modest recovery in other areas.

Total imports increased by 20 percent in 1991 reflecting the reinitiation of economic activity in Nicaragua. Through the first half of 1991, 20 percent of imports were from the U.S. and

Table III

17 percent were from Central America. The Socialist countries, which were an important supplier and major market, have fallen to a minor position. There has been a shift in the composition of imports in 1991. Petroleum imports declined 17.1 percent, while intermediate goods increased by 31 percent. Imports of consumer goods increased by 40 percent, while capital goods imports increased 7.6 percent. The increase in capital goods imports, which has been heavily concentrated in the third and fourth quarters, supports the casual observation that a recovery in investment activity has begun.

Other parts of the balance of payments are heavily influenced by the ongoing attempt to regularize Nicaragua's enormous external debt. The Paris Club negotiations were held in December 1991, and negotiations with individual bilateral creditors are just beginning. Negotiations on commercial bank debts have not yet begun

but are expected this year. The outcome of these discussions, and thus the form of the 1992 capital account, are still unclear. What is obvious is that the long-term sustainability of the capital account requires a major reduction in the outstanding amount of external debt. Short-

Table 3				
Balance of Payments				
(million U.S. dollars)				
	1989	1990	1991	1992
CURRENT ACCOUNT	-361	-360	-235	-575
w/out official transfers	-530	-560	-745	-978
Trade Balance	-257	-238	-415	-403
Exports	290	330	266	296
Traditional	208	239	195	206
Non-traditional	57	69	42	69
Other	25	22	21	21
Imports (f.o.b.)		547	568	689
Services Balance	-273	-322	-341	-589
Non-factor (Net)	-68	-97	-89	-150
Factor Services (Net)	-205	-225	-252	-440
Private Sector (Net)	7	10	0	13
Official Interest	-212	-235	-252	-452
Paid	-8	-11	-28	-452
Unpaid	-204	-224	-224	0
Refinanced	0	0	-245	0
Transfers	169	200	520	418
Private	0	0	10	15
Official	169	200	510	403
AID	0	80	274	202
Other	169	120	237	201
CAPITAL ACCOUNT	-269	-453	-446	-505
Private Capital & Error & Omissions	-168	-227.5	-13.1	-14
Official Capital	-101	-225	-433	-491
Disbursements	286	221	180	340
Amortization	-387	-446	-613	-832
Paid	-8	-5	-47	-34
Not Paid	-379	-441	-566	-798
Refin Current Payments		0	0	0
Exceptional Financing	0	0	0	3287
Balance	-630	-813	-681	2206
Balance (- is increase)	630	813	681	-2206
Increase in Arrears	562	593	714	-2190
Change in NIR	68	220	-33	-16

term sustainability, however, can equally well be achieved by a rescheduling of arrears, as well as all principal and the major part of interest due on maturing obligations. Even apart from the debt service problem, the current account remains extremely weak and will require major external support for 1992 and probably for many years beyond.

Table IV

E. Monetary and Credit

		Accounts of the Banking System, 1990-92		
		Dec 1990	Dec 1991	Dec 1992
By the end of 1991 the monetary sector reflected increasing confidence in the economy. M1 increased by 30% between July and December of 1991. Demand deposits increased by 40% and local currency savings by 36% during this period. Total liabilities to the public increased by 34%. Operation of the private banks in 1992 should increase the deposit base and savings.	Net International Reserves	-5582.0	611.5	686.5

	Net domestic Assets	20362.9	16300.4	16942.4

	Net Credit to	2863.4	3762.2	4457.4
	Govt	1036.5	826.4	181.6
	Public Sector Ent	143.5	175.5	55.6
	Private Sector	1683.4	2760.3	4220.2
	Capital & Reserves	-84.2	-17.1	-24.2
	Operational Losses	11.5	50.0	50.0
	SDR Allocation	-68.5	-68.5	-68.5
	Valuation Adj	14414.0	14414.0	14414.0
	Net Unclassified	3226.7	3256.8	3210.7
	Other foreign liabilities		-5097.0	-5097.0
	Med & Long Term Liabilities	14398.5	15554.7	15778.7

Liabilities to Private Sector	382.3	1357.2	1850.4	

Currency	47.6	430.0	518.1	
Demand Deposits	28.7	376.0	509.9	
Time/Saving Deposits	101.0	170.0	302.4	
Dollar Deposits	205.0	381.2	520.0	

Credit policy during

1991 was based on net

credit targets where a reduction in recuperations reduced gross credit available.

Recuperations financed about 73% of credit injected in the system in 1991. That is, for every Cordoba of credit extended, about 73 centavos came from recuperations. The rest was provided through discounts of the Central Bank. By bank, the BND financed 70% of gross lending with recuperations for the period April through December 1991. BANIC recuperated more than it loaned out during the period while the FNI financed about 60% of its lending with recuperations. In spite of improved recuperations during the year, the rate fell off during November and December, because of low grain prices and drought. Recuperations remain low during the first months of 1992 for several reasons. To date the GON is maintaining its policy that reductions in recuperations essentially substitute for new loans extended in order to remain within the monetary and credit targets of the economic stabilization program and to reinforce efforts to change the credit culture in Nicaragua.

III. ECONOMIC POLICY REFORMS IN 1991

The GON undertook a number of major reforms in 1991 which will contribute to the goal of creating the environment and incentives which will make economic growth possible. In the reforms undertaken so thus far, the GON has achieved major progress in creating a policy environment in which future economic growth can take place.

A. Market Liberalization Policies

The GON initiated important reforms to liberalize markets and prices during 1991. The effect has been to increase competition and improve price formation. Consumer prices are already lower, increasing consumer income, while producer costs for both capital goods and production inputs are lower, increasing competitiveness and output. The elimination of large areas of administrative discretion in trade activities and price formation has also increased investor confidence and begun to stimulate investment activity.

1. Foreign Exchange Market

Beginning in March 1991, the GON implemented a de facto liberalization of the exchange system by undertaking to provide foreign exchange for all trade and related service transactions. However, the requirement for surrender of foreign exchange receipts to the Central Bank remains and free repatriation of profits, although guaranteed for new investors under the new Foreign Investment Law, has not yet been implemented.

2. Trade

In the area of trade liberalization, the GON made substantial progress, abolishing state trade monopolies and establishing open general licensing for all products in which international commitments do not preclude such treatment (e.g. sugar, coffee). The quantitative restrictions which pervaded the trading system during the 1980s have been essentially abolished. The GON has made a commitment under the World Bank program to eliminate remaining quantitative restrictions, except for a restriction on the export of basic grains, by March 1992.

Another significant advance is the systematic reduction in taxes on imports. Nominal protection ranged, prior to August 1991, from 3 percent to 143 percent and averaged 18 percent. In August, as part of the agreement with the World Bank, the range was reduced to 10-50 percent and is to be further reduced, to 10-40 percent by March 1992 and, ultimately, to a range of 10-20 percent by December 1993.

3. Domestic Pricing Issues

Legislation authorizing broad intervention in pricing and marketing in domestic markets have been in abeyance for some time. The GON, in its agreement with the Bank, has committed itself to eliminating the framework itself, except for a few natural monopolies, by March 1992. A particular problem has been the state agricultural marketing agency ENABAS. The agreement calls for the elimination of all ENABAS activity except for rice, beans, corn, and

sorghum. Support prices for these four products are to be eliminated immediately and ENABAS will buy at market prices. The GON is to institute a system of variable import levies as a price stabilization mechanism as part of the overall Central American price stabilization scheme before March 1992.

B. Financial System Reform.

The financial sector is a critical area for reform as it provides vitally needed credit and other services to all major parts of the economy.

1. Establishment of the Superintendency and Licensing of Private Banks

One of the principal accomplishments of the GON during 1991 has been to enact legislation to license private banks and other financial institutions, and reestablish the Superintendency of Banks to supervise and regulate the banking system.

The Board of the Superintendency licensed seven privately-owned banks since July of 1991, of which four are operating. A number of privately-owned exchange houses are also operating. The banks are permitted to accept demand deposits, to make loans, to buy and sell foreign exchange, to open letters of credit for international trade and to provide all other banking services as they see fit.

2. Restructuring of State Banks.

The GON is currently implementing a major restructuring of the state banking system. The state banking system currently is composed of three banks: Banco Popular (BP), the Banco Nicaragüense de Industria y Comercio (BANIC), and Banco Nacional de Desarrollo (BND), plus the Fondo Nicaragüense de Inversion (FNI), a direct lending window of the Central Bank. The Banco Inmobiliario was eliminated in January 1992 and its assets were transferred to BANIC. The GON is in the process of deciding how to reorganize the BND and the Banco Popular. Originally the thinking was to establish on-budget institutions that would retail funds raised through foreign grants as well as on-budget resources. The idea was that they would cease to be financial intermediaries, and their inability to recover loans would no longer be the major source of monetary instability that it has been in the past. However, losses of government resources would still be possible through the on-budget subsidies which would be hard to limit to small farmers, particularly since the most influential clientele of the BND consists of large farmers. Several alternative proposals are now being considered for the reorganization of the banks. All involve substantial reduction of staffing and portfolio for the state institutions.

The plan to convert the FNI, the central bank's direct lending window, into a second-story supplier of funds to other institutions remains. Thus, the current state banks and the direct lending operations of the Central Bank are to be collapsed into at least one and perhaps two commercial banks which will compete on the basis of complete equality with the private banks.

Another part of the plan to reform the state banks is to reduce the number of employees to reduce costs and increase efficiency. To date 37% of employees of the financial system have left their positions through the occupational conversion program and at least another 40% are expected to leave.

A part of the restructuring of the state banking system meant to restore some positive equity to the state institutions. This will involve the absorption by the Central Bank of some of the non-performing loans of the state institutions together with a corresponding amount of liabilities. BND has the largest total portfolio while BANIC has the highest percentage of bad loans in its portfolio. The FNI also has a large non-performing portfolio. While recuperation of credit for 1991 has been good, in part because it is becoming increasingly clear to state bank employees that the survival of their institutions and thus their future employment depends on loan recovery, the banks still have a large stock of non-performing loans. Not all non-performing loans represent poor administration by the state banks. Some were forgiven by the previous government, while leaving the "asset" on the books of the bank. Some were restructured, again, often by the governmental authorities rather than the bank. Others, however, are simply not paid.

Non-performing loans held by the state banks are estimated to represent at least 40% of their portfolio. Part of the plan to restructure the state banks is to collect as much as possible of the non-performing loans, to reduce the number of personnel of the banks, to reduce costs, to sell real estate to cover accumulated losses and thus to capitalize the remaining institutions.

3. Elimination of the commercial operations of the Central Bank

Simultaneously, with the establishment of private banks and the reorganization of the state banks, the Central Bank itself has reduced its involvement in direct banking transactions. This has involved the transfer of responsibility for Letter of Credit and other commercial operations to the commercial banks.

4. Interest Rate Policy

Interest rate policy improved markedly during the year. The Central Bank has transformed its dictated interest rates and then minimum interest rates into a minimum reference rate for 30 day deposits, and no minimum lending rate for loans from the Central Bank rediscount line, which will be based on an auction rate. Interest rates from the banks own resources are free, allowing the commercial banks to compete for deposits and charge differential rates for both loans and deposits. Interest rate policy continues to evolve and will be an important issue in 1992.

5. Rediscount Policy

The rediscount policy of the Central Bank has been the principal tool for control of monetary aggregates. Rediscounts were used to channel funds to certain economic sectors or priorities. Given the lack of internal savings and the expected volume of external funds the GON will be receiving, the Central Bank agreed with the IMF that rediscounting would continue with

external funds but it would be based on market criteria by auctioning the rediscounts. Rediscount rates are to be uniform and above the average deposit rates. An auction proposal is being reviewed.

6. State Bank Lending Policies

A revised lending policy for state banks introduced in 1991 was an effort to introduce credit discipline to the system by establishing tighter lending criteria, and requiring collateral. State banks are not to give credits to borrowers that are not current on loan servicing. All loans from the state banks are subject to a dollar maintenance of value provision.

C. Privatization.

During 1991 the government developed a plan to privatize the CORNAP companies, 351 firms that were nationalized during the eighties. The GON has privatized 27 firms as of March 1992. The GON liquidated 42 more by that date. Including the 86 enterprises which have already been returned, liquidated, or privatized, this would represent the return of slightly less than half of CORNAP's total portfolio as of March 1992. The GON projects the privatization of 90 percent of the original CORNAP portfolio of 351 enterprises by the end of 1993.

Overall then, in addition to implementing successfully a major stabilization program, the GON has carried out major structural reforms in reestablishing a functioning financial system, restoring competition, and reducing government interference in market decisions. The beginning of a recovery in private investment in the past four months is directly attributable to these structural reforms, as well as to the success of the stabilization program.

IV. ECONOMIC ISSUES FOR 1992 AND THE GON'S ECONOMIC PROGRAM.

The Government of Nicaragua has made major progress in 1991 toward achieving macroeconomic stability and laying the structural basis for a recovery of investment and production. Despite this progress, serious problems remain. Domestic financing of the fiscal deficit has been eliminated but the GON is still a net disserver by a small amount (approximately 1.5 percent of GDP; the amount of interest payments on multilateral debt). Dependence on external financing for the entire public sector investment budget plus multilateral debt service is not a sustainable position in the long run.

Beyond maintaining macroeconomic stability, which is a challenge in itself, the GON needs to move forward to consolidate the liberalization achieved in 1991. Many of the 1991 reforms involved statements of policy (e.g. the liberalization of the exchange market) or the elimination of legal restrictions on private sector activity. Rights which were granted by decree could be removed by decree. If investors are to have confidence in the stability of the policy environment, the institutional and legal basis on which interventions were previously made must be removed.

In addition to strengthening the legal basis for liberalization, there is a need to guarantee a "level playing field" for the private sector. Although the monopoly position of the state banks, state marketing agencies, etc. have been largely removed, their continued participation in the market raises concern that they will have a privileged position with regard to access to credit, budget resources, taxation, donor commodities, etc. As long as the major public sector market participants continue to exist, the private sector will need specific guarantees that public sector entities will not be allowed to spoil the market.

Finally, the GON must move forward to resolve the morass of conflicting and unresolved property claims remaining from the previous government. It must also address the issue of security of property and reliability of legal process which represent particular obstacles to investment in agriculture and manufacturing.

A. Agreements with Multilateral Institutions and the Consolidation of Macroeconomic Stability

In September 1991, the GON entered into agreements with the World Bank, IMF, and IDB which provide for a comprehensive economic liberalization program along precisely the lines which we ourselves have been supporting during the past year. The implementation of this comprehensive structural adjustment program covering trade liberalization, privatization, financial sector reform, and the sustainability of the fiscal accounts, will put Nicaragua on path to sustainable growth. The program with the Fund provides for the meeting of short-term macroeconomic aggregates precisely along the lines which have been followed in ESR III. The agreement with the Bank for the IDA Structural Adjustment Credit provides for a substantial further reduction of non-interest current expenditure of the central government of 7 percent in 1992 and 9 percent in 1993, on top of the 36.8 percent reduction in the current year.

B. Security of Property

A major obstacle to new investment in Nicaragua is the continuing lack of security of property in the countryside and, in some instances, in urban areas as well. This insecurity results from the inability, or more commonly, the unwillingness, of GON authorities to use the coercive power of the state to secure rights to property which the GON itself recognizes.

In two recent, particularly egregious examples, a group of Sandinista union members invaded one of the largest privately owned coffee farms at gunpoint, harvested the coffee crop, and openly sold the stolen crop through a parastatal marketing enterprise. In another case, union members seized a Granada soap factory and operated it, on no legal basis whatsoever, for 18 months with the acquiescence of a number of state agencies.

These examples, and many others, are clearly enough to indicate that the concerns that potential Nicaraguan and foreign investors have about the Government's respect for property rights are justified.

C. Unresolved Claims

Although a large number of industrial, commercial, agricultural, and residential properties, seized by the previous government, were returned to their proper owners in the early months of the Chamorro government; a substantial number of unresolved property claims continue to poison the investment climate in Nicaragua.

Immediately after the change in government, the Chamorro government established an administrative procedure for the resolution of property claims based on illegal expropriations carried out under the previous government. This procedure explicitly excluded agricultural land which had been distributed to smallholders and cooperatives. Individuals whose farm land had been illegally seized and distributed to smallholders and cooperatives were assured that they would be adequately compensated by the GON. This review and adjudication procedure was later unanimously declared by the Supreme Court to be illegal.

In subsequent negotiations with the opposition, the government confirmed the sale of most residential property under the so-called Piñata, again promising that persons whose properties had been illegally seized would be financially compensated from unspecified sources.

Other property expropriation disputes are more complicated. These include cases where properties have been altered, combined and added to, where structures have been built on expropriated land (in one case by a foreign embassy), and the degree to which the claims should be reduced by the value of outstanding debts at the time of the expropriation, etc.

The total number and value of outstanding claims is not known. We know of more than one hundred claims by U.S. citizens which have been registered with the U.S. Embassy. In the agricultural sector alone, the ownership of some 350 to 400 thousand manzanas is in dispute with a total value conservatively estimated at \$100 million. The total value of all claims undoubtedly reaches several hundred million dollars. The only likely source of funds to pay compensation would be the revenues from the sale of CORNAP properties. To date, no

provision has been made to channel CORNAP sales proceeds to the payment of claims for properties which the government has said will not be returned. This unresolved issue, is a major issue in Nicaraguan-U.S. bilateral relations.

D. Exchange Market Liberalization.

The GON has taken major steps to liberalize the foreign exchange market de facto, including a guarantee of profit and capital repatriation for investors covered by the new Foreign Investment Law. It is in the final stages of crafting a solution to the problem consistent with the need to maintain some control over capital transactions for some time to come. One step in the process to assure profit and capital repatriation will be approval of regulations guiding the Foreign Investment Law. Another step will be to reach an agreement permitting existing investors to (principally U.S. petroleum companies) to repatriate current profits.

The BCN had, in practice restricted repatriation of profits and capital for certain large companies because of the lack of foreign exchange. The GON has indicated it will consider a programmed repatriation of past profits and capital so as not to reduce foreign exchange to untenable levels and to allow repatriation of current profits and capital. The investors involved have indicated to us that they would find such an arrangement acceptable.

In addition to the continuing existence of blocked foreign investment profits, there remains some skepticism among potential investors about the future ability and willingness of the GON to freely permit repatriation of profits and capital. The basic source of this skepticism is the continued existence of a foreign exchange allocation system which could allow for administrative discretion, even though this discretion is currently held in abeyance. Potential investors do not doubt the good will of the present government, they doubt its ability to continue to carry out the commitment that it has made to continue to supply unlimited quantities of dollars for current account requirements. We believe that automatic access to foreign exchange, at some price, must be established de jure as well as de facto, for both import financing, profit and, eventually, capital remittance.

To achieve this objective, the Central Bank must take itself "out of the loop" for the majority of transactions and allow an independent market among exporters and importers to develop independently in the banks and exchange houses. At the same time, it should abolish all restrictions on transacting at other than the officially established exchange rate. This does not imply a shift to a floating exchange rate. It involves a transformation of the target exchange rate from a device of administrative control to a target of monetary policy.

This represents a profound change in the management of the exchange market. It is a change, however, which is entirely consistent with the other changes which are currently being implemented in the Nicaraguan financial system. These changes all represent the shift in the role of the Central Bank from a direct participant in economic transactions to a regulator of the macroeconomic environment within which private institutions freely engage in financial transactions, guided by the profit motive, and subject to the prudential supervision of an independent Superintendency of Banks. Under this new structure, the ability of the Central Bank to influence the allocation of credit through direct discount operations will be severely restricted. However, these restrictions arise primarily from the

GON's decision to adopt a fixed exchange rate which implies a level of monetary growth consistent with world inflation. It is only incidentally a result of the need to subordinate monetary policy to the role of maintaining the nominal exchange rate at the target level.

E. Financial Market Reforms

With the private banks now active participants in the financial market, implementation of the plan to restructure the state banks to limit their ability to lose money (discussed in the previous section) looms as an important issue in 1992. In addition to this important issue, a number of specific issues remain.

1. Targeting of Central Bank Discounts

The practice of parceling out the discount resources of the Central Bank for very specific purposes is one which has existed well before the advent of the Sandinista regime. It is, however, a pernicious intrusion of government into an activity which should be governed by market processes. Moreover, a large portion of discount resources are provided short term, thus duplicating a function which should be performed by the banking system out of its deposit resources and failing to enable the financial system to extend its intermediation for longer-term activities.

2. Interest Rate Policy

The interest rate policy of the Central Bank is in transition. The policy recently changed from fixed minimum rates for deposits and loans to a reference deposit rate for 30 day certificates, and lending rates that are flexible. Lending rates for loans from a bank's own resources are liberalized while those from Central Bank rediscounts will be based on an auction rate.

3. Other Financial Sector Reforms

An interbank market for short-term lending is being proposed to improve the operations of the *Cámara de Compensación*. The Central Bank is considering the issue of stabilization bonds with a view to regulating liquidity in the economy through a more flexible instrument for rediscount operators. At the moment the only tool for open market operations is the foreign exchange market which has other implications. This is a necessary step if credit controls are to be eliminated.

F. Increased Competition

Although, for the most part, they are no longer monopolies, many state-owned institutions remain important participants in important markets. The most important of these is ENABAS, the state agricultural marketing agency. In addition, INISER, the state-owned insurance company still retains a monopoly position in the insurance market, providing what many private businesses regard as unsatisfactory service. Our principal concern for 1992 is that these state enterprises do not, in any way maintain a privileged position which gives them an unfair competitive position in relation to private sector competitors. If this is the

case, we expect the state-owned enterprises to wither away as a result of their inherent inefficiency.

G. Privatization of State Enterprises

The task of privatizing the 351 firms under the control of CORNAP is well underway. CORNAP is preparing to privatize 19 more companies (prospects or steps toward negotiations) but 11 are still pending. In addition, claims by former owners remain to be settled in many cases. The complex and contentious process must be continued and even accelerated in 1992 if the GON is to achieve its target of substantially dismantling CORNAP by the end of 1993.

V. ECONOMIC STABILIZATION AND RECOVERY IV PROGRAM

The GON has already implemented or committed itself to an economic reform program of remarkable breadth and comprehensiveness. The recent evaluation of the ESR I, II, and III program revealed no areas of needed policy reform which were not being addressed under one program or another. Yet behind these broad general commitments are two problems, a host of implementation problems and a continuing uncertainty on the part of potential investors that such reforms could readily be reversed. Our approach for our FY 1992 project and non-project assistance program will concentrate on (1) assisting the GON to **implement** the measures to which it is already committed, while (2) urging the GON to enact measures to eliminate administrative discretion in order to improve the confidence of investors in the willingness and ability of the GON to carry out the reforms to which it has agreed. Overall, during FY 1992, we will assist the Government of Nicaragua to implement its reform program and will assist the private sector to overcome obstacles to a vigorous response to that improved policy environment.

To consolidate the reform program, make it sustainable, and promote a vigorous private sector response to the newly improved policy environment, USAID/Nicaragua proposes to implement a \$100 million cash transfer to be authorized in several tranches in support of a series of policy reform described below. In addition, all assistance to the GON under this program will be conditioned on continued compliance with the reform measures implemented under previous ESR programs.

A. Policy Reform Measures

1. Demand Management Policy

Monetary and fiscal achievements should not be taken for granted. For this reason we will continue to monitor macroeconomic performance, in close consultation with the IMF. The grant agreement will contain a condition precedent that:

the GON present evidence satisfactory to AID that it is in compliance with the Standby Agreement signed with the IMF (Phases 1 & 2).

The GON will provide appropriate economic information to assess macroeconomic performance under the IMF sponsored program. If during the course of the program we determine that the GON is not in compliance with its undertakings in these programs, we will consider whether it remains appropriate to proceed with disbursements under our program.

2. Structural Policy Reform.

The key to renewed growth is the renewal and expansion of productive, efficient and competitive private investment. Progress in other areas will be futile if the investment climate is not improved in the very near term. The following areas of policy are critical if

the investment climate is to be improved to a level sufficient to attract the necessary investment.

a. Exchange Market Liberalization.

The short-term problem faced by the GON is that of reassuring potential investors of automatic access to foreign exchange for imports, profits, fees, and legally authorized capital repatriation, without completely freeing the exchange market for all capital transactions. We have been strongly advised by our foreign exchange consultant that such a capital account liberalization would be premature and destabilizing in the current conditions in Nicaragua. The problem of reconciling these two requirements is fairly complex and the consultant recommended the following measures to assure automatic access on the one hand, while maintaining a degree of effective control over capital exports, on the other:

eliminate legal requirement for compulsory surrender by private sector exporters of foreign exchange earnings to the Central Bank; in order to maintain control of capital transactions, the Central Bank may require that export proceeds be sold to the commercial banking system, but the banks will be allowed to sell this foreign exchange to eligible importers and for legal current profit, fee, and capital remittance subject to ex post Central Bank review. End -of-day balances will be sold to the Central Bank (first tranche);

eliminate all requirement for Central Bank prior approval of purchase of foreign exchange for imports except for that involving the Central Bank's own or donor resources (first tranche); and

guarantee the right of all investors to purchase foreign exchange and repatriate current earnings, and capital subject to the terms of the foreign investment law, through purchase from the financial system (first tranche).

The achievement of these reforms presents the GON with a short-term adjustment problem. The BCN must acquire the foreign exchange required for the government's own operations, including the foreign exchange needed to finance newly-resumed debt service payments to multilateral institutions. Ultimately, the BCN will have to manage monetary policy so as to assure that purchases exceed sales by the margin necessary to acquire the needed sums. In the short run, as discussed below, USAID/Nicaragua proposes to authorize the GON to utilize up to \$40 million of cash transfer funds for the payment of current debt service, either for debt coming due or in arrears or for debt due and paid on or after January 1, 1992, to the World Bank (including IDA), the IDB, the IMF and the USG for non-military debt. We propose that the effective date for the use of funds to cover multilateral debt repayment be January 1, 1992.

Finally, the establishment of mechanisms to monitor and control profit and capital repatriation through ex post review will require technical assistance. We will be providing that assistance through a contract with Price Waterhouse.

b. Increased Competition

The principal problem with market liberalization in general is to assure that remaining parastatals do not spoil the market for private market participants through privileged access to credit, etc. To further these objectives the GON will:

will assure that the total financing available to ENABAS from Central Bank sources for 1992 does not exceed the amount available in 1991 (subsequent tranche);

eliminate the monopoly position of INISER and permit foreign and domestic insurance companies to operate on the same basis as the state firm without unrealistic capital requirements (subsequent tranche); and

issue the implementing regulations for the Free Trade Zone law and the Export Promotion Law (subsequent tranche).

c. Trade Liberalization

We propose to support continuation of the progress that has been achieved in the opening up of the trading system. However, prohibitions continue to exist on the exports of beans and basic grains. The restriction on beans, in particular, limits the expansion or the production of a product in which Nicaragua seems to have a comparative advantage. The GON will

eliminate restrictions on the private import and export of corn, sorghum, and rice (first tranche);

eliminate restrictions on the private import and export of beans, and announce them before the *postrera* so incentives will be in place to plant (subsequent tranche); and

issue the implementing regulations for the Foreign Investment Law (first tranche).

d. Financial Market Reform

We propose that the GON take the following measures:

eliminate controls on deposit interest rates and permit a sufficiently broad range of loan interest rates to enable private financial institutions to service profitably a full range of potential clients (first tranche);

provide private banks equal access to Central Bank discount facilities and other resources on the basis of full equality with the state bank, unless donor conditions preclude such treatment. No new discounts will be made available to any bank which is in arrears of existing financial obligations to the Central Bank. (first tranche);

provide AID with a plan for the systematic reduction of targeting of discount resources as to end use (first tranche);

submit to AID a plan for providing no less than the equivalent of \$50 million to privately-owned banks in 1992 through instruments with an original maturity of not less than 5 years, and with no restriction on their further use. (first tranche);

provide evidence that the GON has implemented the program mentioned above (subsequent tranche);

reorganize the state-owned banks to operate as profit-seeking institutions with an initial positive net equity position, operating on a basis of complete equality with the private banks. The GON will make no capital contributions to the state banks subsequent to their reorganization and any subsidies will be transparent and on-budget (first tranche);

provide evidence that the Superintendency is supervising the state banks under the same regulatory norms and procedures as the private banks (subsequent tranche);

The plan for the provision of GON funds to the private banks is intended to increase the liquidity of the private banks at an aggregate level, and is in no way intended to create a counterpart credit program.

B. Proposed Dollar Use

As stated in the Introduction & Summary, we are proposing a program of \$100 million, to be disbursed in several tranches, the first tranche to be \$40 million, based on performance of the policy reforms discussed above. The first tranche will be disbursed in December 1992, immediately upon signing, based on prior action by the GON.

We propose that funds will be used to finance debt service payments due on or after January 1, 1992 to the World Bank (including IDA), the IDB, and the IMF. Such debt service payments are estimated at \$52 million for 1992. An estimated \$13 million of this amount will be used for debt service payment coming due or in arrears at the time of disbursement. The remainder would be made available to reimburse the GON for debt service payments already made during CY 92. With respect to the U.S. dollars made available to the GON for reimbursements, these funds will be used for the importation by the private sector of raw materials, intermediate goods, non-luxury good commodities and food from the U.S. and Central America, as well as the procurement of petroleum products from Mexico and Venezuela. USAID/Nicaragua will review and approve the proposed imports up to the total amount of the reimbursement. The Mission will review and approve the proposed imports and audit actual import transactions, as required. The program funds monitoring procedures will be those approved in 91 State 418214 and outlined in Annex B.

C. Separate Account Criteria and Operating Procedures

1. Accountability

The Central Bank of Nicaragua will be required as a condition precedent to the first disbursement to present a detailed set of operational procedures for the ESR IV Program Agreement which will govern the use of the \$100 million destined for eligible import transactions and debt service. These procedures will include, but not be limited to, approved disbursement mechanisms, separate dollar account(s) requirements, import eligibility criteria, and reporting requirements.

The unit responsible for managing the cash transfer dollars is the International Operations Division of the Central Bank of Nicaragua. The management capabilities of the BCN have been evaluated by Mission Personnel, professional management firms (Robert Nathan and Ernst and Young) and Price Waterhouse under the Regional Inspector General (RIG) Non-Federal Audit Program. Based on the results of these reviews, the Mission can reasonably conclude that the BCN has the capability and sufficient span of control to adequately manage the cash transfer activities under the proposed ESR IV program. In addition to a RIG audit of the ESF Program in Nicaragua dated 2/28/91 and a RIG supervised award survey of the BCN dated 5/22/91 two other audits of our ESF Programs were completed on 5/24/91 and 1/21/92 respectively. These Federal and Non-Federal audits identified several areas requiring action by the Central Bank related to the administration, reporting and approval of import transactions under our ESR assistance. The Mission brought these weaknesses to the attention of the appropriate Central Bank officials who have worked to correct them. Actions taken by the Central Bank to correct the deficiencies noted by the audit have been monitored by Mission personnel and will be evaluated in the course of the continuous audit of the program.

The Supervisory Program Officer will be the officer responsible for the overall management of the program, assisted by the USAID/Nicaragua Controller in the financial management oversight of cash transfers to the Government of Nicaragua.

2. Audit

Under the Supplemental Appropriations Act of 1990, and the report of the Senate Committee on Appropriations for the fiscal year 1991 Foreign Appropriations bill, the Regional Inspector General of the AID (RIG) and the General Accounting Office (GAO) were required to conduct reviews of the ESR program in Nicaragua. In performing these functions, the RIG, in coordination with the Mission, oversees the overall financial management aspects of the program and schedules audits to determine compliance with the terms of the agreement and proper use of funds. The RIG obtains the services of a qualified external CPA firm to assist in performing this financial management oversight responsibility. Funding for the non-federal portion of the oversight role may be obtained from on-going project activities or from Project Development and Support (PD&S) funds.

In addition, the Office of the USAID/Nicaragua Controller will perform periodic financial reviews in order to assure that the Program's funds are properly managed and accounted for.

D. Why \$125 million?

The size of the proposed program clearly represents a major claim on AID resources and those resources have other uses both here and in other countries. This raises the obvious question of how essential it is to provide this level of ESF resources, as well as approximately \$25 million from PL 480 Title 1.

In terms of a traditional "gap filling" analysis, the answer is that to achieve the projected growth rate of 4.7 percent, with the required composition consumer goods, imported inputs, and capital goods, requires merchandise imports of \$725.3 million measured on a c.i.f. basis. In addition, other non-interest service imports are projected at \$12.4 million and the BCN must repay \$15.1 million in reserve liabilities. To meet this total foreign exchange requirement (leaving aside the debt service morass) of \$752.8 million, Nicaragua has projected export receipts of \$322.1 million, projected private capital inflows of \$48.3 million, and projected financing from the World Bank, IDB, IMF, and other bilateral donors of \$232.4 million. This leaves a financing gap to meet the import requirement equal to \$150 million.

The more interesting question is what happens if the "gap" is not completely filled. The essential role of balance of payments support assistance in a period of stabilization is one of maintaining import capacity during the period of adjustment. Balance of payments stabilization measures are intended to reorganize domestic production in order to, (a) shift domestic resources from the production of domestic goods ("non-tradables") into the production of goods which can either be sold in international markets or which can replace goods which are currently being imported, while (b) either reducing domestic demand absolutely or, if possible, shifting domestic demand from the consumption of tradables to the consumption of domestic goods (by making tradables relatively more expensive). The goal of this process is to reduce the gap between total domestic demand for goods and services and total domestic supply (the current account deficit of the balance of payments) to a level which can be financed from normal sources.

The essential problem faced in a stabilization program is that the capacity to supply tradables in increased volume requires some considerable time. The availability of external resources to bridge the time gap is critical to preventing, or more commonly, limiting, the decline in domestic production, employment, and income that results.

It is clear that an extraordinarily high volume of donor resources in 1991, particularly from AID, played a critical part in limiting the decline in production during the current year to less than one percent. This minor decline still implies a decline in per capita income of about 2.5 percent. Indeed, it was clear that in the last weeks of 1990 and January 1991, the prospect of large amounts of donor financing in support of the stabilization were a major factor in the decision of the GON to resist the siren song of "gradualism" and embark on the present, successful, stabilization effort.

The relationship between growth and import demand is somewhat complicated. Certain categories of imports can be expected to rise and fall in approximately a one-to-one percentage relationship with the overall level of economic activity. These include production

inputs and petroleum. Imports of consumer goods, on the other hand, are likely to be related specifically to the change in total consumption. Food imports are determined not only by domestic demand, but also by population growth and the level of domestic production of basic foods. Finally, capital goods imports is directly related to fixed investment which can be highly volatile.

Overall, for 1992, we are projecting an increase in imports, on an fob basis, from \$583.8 million in 1991 to \$645.3 million, a 10.5 percent increase. This increase reflects the relatively large increase in investment which is projected for 1992. Investment has a much higher import content than other kinds of economic activity. Overall, over the next five year period given the kinds of structural changes which are projected, it is estimated that each one percent increase in real GDP growth will require approximately a 1.5 percent increase in imports.

The estimated effect of changes in import capacity on changes in economic activity can be estimated from the above estimate and a few aggregate numbers. GDP for 1992 is estimated at \$1.628 billion 1991 dollars. Total imports on a c.i.f. basis are estimated at \$725.3 million for 1992. Each \$10 million of ESF or PL 480 balance of payments assistance thus represents 1.38 percent of import capacity. If a 1.5 percent increase in imports is required, on average, to sustain each one percent of growth, then every \$10 million in U.S. balance of payments support will reduce Nicaragua's production and income in 1992 by approximately 0.92 percent, or \$13.8 million. Since overall growth is projected at 3.7 percent for 1992, a reduction in U.S. balance of payments assistance of \$10 million would reduce projected growth by one-fourth. Put another way, a reduction of U.S. balance of payments assistance by \$40 million would imply no growth in Nicaragua in 1992.

To summarize, the seriousness of the underlying Nicaraguan balance of payments problem, the importance of AID balance of payments assistance in sustaining import capacity during the adjustment process, and the continuing fragility of the political consensus behind the program, all make it absolutely essential that U.S. balance of payments support for 1992 be provided at the planned levels: \$125 million in cash transfer support and \$25 million in food aid. The negative consequences of even small shortfalls below these levels could be catastrophic.

E. Local Currency and its Use

1. Programming

The Host Country Owned Local Currency (HCOLC) will be generated only from a portion of the ESR IV Program funds, up to an estimated \$27 million. The GON will make available to banking sector an amount equal to the total of U.S. dollar funds from this program which are disbursed for reimbursement of previously paid international debt. These funds will be available to the banking system to finance imports of eligible U.S. or Central American commodities. The local currency thus generated will be deposited into an interest bearing Separate Account in the Central Bank and will be blocked until such time as AID and the GON agree on a mutually acceptable program for its use. In the meantime, any interest

earned on these funds will be deposited into the same account and considered as part of the programmable local currency.

Local Currency generated under ESR IV may be used, subject to future negotiation, for the same purposes as those under ESR III. These are:

- (1) to finance the budget deficit of the Central Government, consistent with limits established under the Standby Agreement with the IMF;
- (2) to repay Central Government borrowing from the Central Bank; and
- (3) to offset the accumulated foreign exchange losses of the Central Bank.

If any future HCOLC is mutually programmed to finance the budget deficit of the central government, it will be transferred from the special account to the account of the Director General of the Treasury of the Ministry of Finance to cover the unfinanced portion of the deficit. By law, all accounts of the Central Government must be held in the Central Bank.

Any portion of the HCOLC not required to fund the central government may be used, subject to future negotiation, to strengthen the financial position of the Central Bank of Nicaragua. The Bank is technically insolvent, despite being relatively well-managed, due to the need, imposed by the previous government to finance government deficits and, more important, due to the uncovered foreign exchange position forced on it by the policies of the previous government. This uncovered position, which arose from the Bank's being required to assume foreign currency liabilities matched by local currency assets, has meant that the Bank has suffered losses from each subsequent devaluation of the cordoba. These accumulated losses are now several times the domestic liabilities of the Bank.

If it is mutually agreed to program the HCOLC in this manner, it provides a number of advantages. First, it does not give rise to incremental public sector spending which would have the effect of undermining the purposes of the cash transfer. The HCOLC expands the total financing capacity of the financial system, which can be used either to finance the GON deficit or to strengthen the financial system generally. Second, this method of programming takes advantage of the pivotal position of the Central Bank to accomplish the purposes of the agreement in a way which does not produce additional distortions which would result from projectizing the local currency. Finally, it achieves these purposes in a way which maximizes the accountability and control over the resources. Since the local currency transactions are carried out entirely within the accounts of the Central Bank, the control and accountability are almost absolute and the possibility of diversion and misuse are essentially zero.

Some portion of the \$100 million in local currency will be associated with the transfer of dollars to the GON for reimbursement of official IFI or USG debt. The GON will make an equivalent cordoba payment to the Central Bank, in an amount equal to the total amount of each tranche used for debt service payment reimbursement, through the normal budgetary process. In this way, payment of IFI debt will become a line item in the GON's budget, as it should be. The local currency will generate interest because Policy Determination 18

requires that HCOLC accounts earn interest if permitted by host country law. However any such interest will not leave the Central Bank and will be used for the same purposes as the principal. In this way it will be completely consistent with the macro-economic stabilization program.

2. Accountability.

Prior to being transferred for uses approved by mutual agreement of AID and the GON, the HCOLC will be deposited in the special account in the Central Bank of Nicaragua. This account will earn interest at a rate equal to one month LIBOR as determined by the Central Bank of Nicaragua. The account will be subject to audit by both the GON and AID.

Once the uses of the HCOLC are agreed upon, disbursements from the separate account will be carried out through appropriate accounting entries within the books and records of the bank, and will be notified to AID through a letter from the President of the Central Bank to AID. If the uses are satisfactory to AID, the allocations will be approved by PIL.

The unit responsible for managing the local currency account will be the International Operations Division of the Central Bank of Nicaragua. Since all transactions under these three headings are internal to the Central Bank's own accounts, we have found the programming of local currency under these three categories both administratively simple and susceptible to extremely tight financial control.

3. Audit

HCOLC will be generated immediately as a counterpart to each ESR dollar transfer and will be held in a special, blocked, interest-bearing account in the Central Bank of Nicaragua. This account will be administered by the Financial Vice President of the Bank. The statements of this account, as well as records of supporting transactions will be available for review and audit by AID. As a condition precedent to the use of HCOLC, once the account is unblocked and uses are mutually agreed upon, the BCN will establish operating procedures for the special account and, in an Annex to the Memorandum of Understanding on local currency, will detail those procedures, as well as accountability and monitoring responsibilities of AID and the GON over deposits into and disbursements from the HCOLC separate account. This will be a condition precedent for the first disbursement of local currency for either budget support or strengthening of the Central Bank. The Vice President for International Operations will provide AID with a statement on the status of the special account at least monthly.

Activities under this program, including the use of dollars and use of local currency, will be included under the continuing concurrent audit of the USAID/Nicaragua program.

Annex A

Statistical Annex

Table 1. - Macroeconomic Indicators

	1985	1986	1987	1988	1989	1990	1991	1992
Nominal GDP (Mil C) (Note)	115,404	435,742	2,695,849	320,158	18,647,748	1,266,107,458	7,755	9,275
Nominal GDP (Mil US\$)	2,802	2,827	2,912	1,136	1,099	989	1,551	1,855
Real GDP (1980 Mil C)	21,468	21,248	21,101	18,277	17,334	17,523	17,393	18,206
Real GDP Growth Rate (%)	-4.1	-1.0	-0.7	-13.4	-5.2	1.1	-0.7	4.7
CPI Inflation Rate (%)	220	682	912	14316	4770	12338	775	15
BOP Current Account Deficit (%GDP)	-28.5	-24.3	-23.3	-51.2	-32.8	-36.4	-15.2	6.7
Total External Debt (USD Mil)	5.26	5.95	6.98	7.45	8.26	10.6	10.5	10.5

Note: - New Cordobas From Monetary Reform in 1988.
Cordobas Oro From Monetary Reform in 1991.

Table 2. - National Accounts, Sectoral Composition

1980 Million cordobas	1985	1986	1987	1988	1989	1990	1991 (Prel)	1992 (Proj)	Percentage change	
									91/90	92/91
GDP (Note)	21,468	21,248	21,101	18,277	17,334	17,523	17,393	18,206	-0.7	4.7
Primary Sector	5,180	4,726	4,573	4,108	4,205	4,438	4,183	4,638	-5.7	10.9
Agriculture	3,292	2,965	2,992	2,657	2,750	2,745	2,748	3,131	0.1	13.9
Livestock	1,742	1,629	1,424	1,322	1,299	1,576	1,327	1,384	-15.8	4.3
Silvicultura and Hunting & Fishing	146	132	157	81	106	66	57	71	-13.0	25.1
				48	50	51	51	52	1.0	1.2
Secondary Sector	6,340	6,481	6,431	4,763	4,341	4,169	4,343	4,555	4.2	4.9
Manufacturing	5,555	5,669	5,579	3,972	3,641	3,527	3,779	3,853	7.1	2.0
Constructuon	697	697	746	694	590	535	461	599	-13.9	30.0
Manufacturing	88	115	106	97	110	107	103	102	-3.4	-0.7
Tertiary Sector	9,948	10,041	10,097	9,406	8,789	8,917	8,867	9,013	-0.6	1.6
Commerce	3,669	3,683	3,668	3,205	3,050	3,068	3,063	3,191	-0.2	4.2
General Govt	2,461	2,509	2,497	2,676	2,260	2,336	2,230	2,128	-4.5	-4.6
Transp & Communication	1,052	1,056	1,071	905	861	867	865	901	-0.2	4.2
Finance	621	623	621	614	607	600	589	627	-1.9	6.5
Public Util	420	468	502	477	500	545	593	618	8.7	4.2
Housing	790	791	830	781	775	752	757	762	0.7	0.6
Other Services	935	911	908	748	736	749	771	786	2.9	2.1

Note: - New Cordobas From Monetary Reform in 1988.
Cordobas Oro From Monetary Reform in 1991.

Table 3 - National Accounts, by Final Expenditure

1980 Million Cordobas	1985	1986	1987	1988	1989	1990	1991 (prel)	Percentage change		
								1992 (Proj)	91/90	92/91
GDP at Market Prices (Note)	21,469	21,251	21,099	18,277	17,334	17,523	17,393	18,206	-0.7	4.7
Exports of Goods & Nonfactor Services	3,985	3,283	3,250	3,134	4,242	4,439	3,834	4,202	-13.6	9.6
Imports of Goods & Nonfactor Services	7,253	6,212	6,430	6,312	4,646	4,407	3,979	4,011	-9.7	0.8
Gross Domestic Expenditure	24,737	24,180	24,279	21,455	17,738	17,491	17,538	18,014	0.3	2.7
Consumption	19,942	19,444	19,617	18,161	15,197	14,930	15,333	14,853	2.7	-3.1
Private	9,361	9,735	10,222	11,912	10,500	9,677	11,587	11,154	19.7	-3.7
General Govt	10,581	9,709	9,395	6,249	4,697	5,253	3,746	3,699	-28.7	-1.2
Gross Domestic Invest	4,795	4,736	4,662	3,295	2,541	2,561	2,205	3,161	-13.9	43.3

Note: - New Cordobas From Monetary Reform in 1988.
Cordobas Oro From Monetary Reform in 1991.

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Table 4 - Balance of Payments

Million U.S. \$	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ACCOUNT	-799	-688	-679	-581	-361	-360	-235	-576
w/out official transfers	-913	-803	-814	-770	-530	-560	-745	-978
Trade Balance	-587	-420	-439	-482	-257	-238	-415	-404
Exports	305	257	295	236	290	330	266	296
Traditional	256	201	240	186	208	239	195	206
Non-traditional	43	43	43	37	57	69	42	69
Other	6	14	12	13	25	22	21	21
Imports	892	677	734	718	547	568	681	700.0
Services Balance	-339	-383	-375	-288	-273	-322	-341	-589
Non-factor (Net)	-66	-129	-132	-51	-68	-97	-89	-149.8
Factor Services (Net)	-274	-254	-244	-237	-205	-225	-252	-440
Private Sector (Net)	-4	1	1	2	7	10	0	12.5
Official Interest	-270	-254	-245	-239	-212	-235	-252	-452.0
Paid	-44	-28	-17	-10	-8	-11	-28	-452.0
Unpaid	-226	-226	-228	-229	-204	-224	-224	0.0
Refinanced	0	0	0	0	0	0	-245	0.0
Transfers	127	115	135	189	169	200	520	418
Private	13.8	0	0	0	0	0	10	15.0
Official	113.1	135.4	135.4	189	169	200	510	402.5
AID	0	0	0	0	0	80	274	202.0
Other	113.1	135.4	135.4	189	169	120	237	200.5
CAPITAL ACCOUNT	116	225	-51.2	130.6	-269	-453	-446	-505
Private Capital & Error & Omissions	-290.3	-162.7	-141.8	121.6	-168	-227.5	-13.1	-14.0
Official Capital	406.3	387.7	90.6	9	-101	-225	-433	-491
Disbursements	598.2	613.9	490	286	286	221	180	340.3
Amortization	-191.9	-226.2	-399.4	-277	-387	-446	-613	-831.5
Paid	-23	-17	-27.8	-6	-8	-5	-47	-33.9
Not Paid	-168.9	-228	-372.4	-278	-379	-441	-566	-797.7
Refin Current Paymen	128.7	18.8	0.8	7	0	0	0	0.0
Exceptional Financing	0	0	0	0	0	0	0	3286.7
Balance	-683	-463	-730	-451	-630	-813	-681	2206
Balance (- means increas	683	463	730	451	630	813	681	-2206
Increase in Arrears	465	473	571	468	562	593	714	-2190
Change in NIR	218	-10	159	-17	68	220	-33	-16

Table 5 - Exports

	1985	1986	1987	1988	1989	1990	1991	1992
Million U.S. \$							266.2	
Total Export Value, fob (US\$ unit price)	305.10	257.19	295.20	235.73	290.08	329.61	258.38	296.13
Traditional Exports	256.13	200.75	239.99	185.60	208.31	238.88	194.70	206.13
Cotton								
Value	91.02	44.18	46.02	53.10	27.89	37.25	48.03	35.22
Volume(000 Quintals)	1457	1069	1107	757	532.92	535.2	637.9	506
Unit Value	62.47	41.33	41.57	70.14	52.34	69.6	75.3	69.6
Coffee								
Value	117.94	109.62	133.12	84.58	89.65	71.04	36.91	70.24
Volume(000 Quintals)	868	673	814	674	732.54	848.7	435.8	761.8
Unit Value	135.87	162.89	163.54	125.49	122.38	83.7	84.7	92.2
Sugar								
Value	6.93	17.51	19.66	5.41	17.18	38.47	31.32	29.03
Volume(000 Quintals)	1250	1540	1092	751	1693.1	2531	2086	2322
Unit Value	5.54	11.37	18	7.21	10.15	15.2	12.6	12.5
Beef								
Value	10.92	5.25	14.62	19.29	40.59	55.11	33.54	29.20
Volume(000 Lbs)	10204	5769	15068	14729	44609.53	55667.7	33542.1	29200
Unit Value	1.07	0.91	0.97	1.31	0.91	0.99	1	1
Seafood								
Value	12.85	8.67	12.43	8.55	12.01	9.83	16.02	12.86
Volume(000 Lbs)	2581	1868	2204	2101	3071.4	2233.8	2845.6	1837.2
Unit Value	4.98	4.64	5.64	4.07	3.91	4.4	5.63	7
Bananas								
Value	16.48	15.51	14.15	14.66	20.98	27.18	28.87	29.59
Volume(Cases)	4465	4321	3986	3859	3878.01	5227.3	6143	6296.3
Unit Value	3.69	3.59	3.55	3.8	5.41	5.2	4.7	4.7
Non-traditional Exports	42.55	42.86	43.14	36.86	56.78	68.61	42.35	68.90
Agricultural	na	na	na	na	10.78	18.85	12.30	17.8
Non-agricultural	na	na	na	na	46.00	49.76	30.05	51.1
Other (note)	6.42	13.58	12.07	13.27	24.99	22.12	21.32	21.099

Other includes Ajonjoli, Molasses, Gold, and Silver

Table 6 - Consolidated Non-Financial Public Sector

	1985	1986	1987	1988	1989	1990	1991	1992
Millions of Cordobas								
Total Revenue	42,674	159,019	803,342	71,212	4,373,766	222,111,482	1,855	2,599

Tax Revenue	38,631	142,737	767,121	66,399	3,872,095	190,061,397	1,628	2,207
Nontax Revenue	2,411	10,730	50,763	4,232	367,212	13,603,809	119	112
Operational surplus of Public entities	977	2,027	(23,016)	244	44,157	15,364,855	77	269
Current Transfers	410	2,160	5,821	113	56,127	2,266,026	15	7
Capital Transfers	245	1,365	2,653	224	34,175	815,395	15	5
Total Expenditures	68,987	225,001	1,292,601	152,223	5,320,336	398,008,667	2,336	3,408

Current Expenditures	55,057	193,366	1,118,114	130,180	4,632,434	379,809,385	1,997	2,213
Capital Expenditures	13,930	31,635	174,487	22,043	687,902	18,199,282	338	1,195
Fixed Capital Expend	11,931	21,950	147,146	14,256	482,194	16,485,022	329	1,125
Capital Transfers	1,393	9,431	25,131	7,787	205,708	1,714,260	0	70
Net Lending	606	254	2,210	0	0	0	10	0
Current Account Surplus/Deficit(-)	(12,628)	(35,712)	(317,425)	(59,192)	(292,843)	(158,513,298)	(157)	382

Overall Deficit Before Grants	(26,313)	(65,982)	(489,259)	(81,011)	(946,570)	(175,897,185)	(481)	(809)

Foreign Grants	739	7,424	14,260	1,764	523,466	16,521,665	980	760
Surplus/Deficit(-) After Grants	(25,574)	(58,558)	(474,999)	(79,247)	(423,104)	(159,375,520)	498	(49)

FINANCING	25,575	58,559	474,999	79,248	423,103	159,375,520	(464)	141

External	129	(252)	3,344	2,198	23,229	15,390,805	34	955
Internal	25,446	58,811	471,655	77,050	399,874	143,984,715	(498)	(815)
Of Which: Central Bank	28,233	62,279	371,657	69,261	137,671	147,133,671	0	

Note: - New Cordobas From Monetary Reform in 1988.
Cordobas Oro From Monetary Reform in 1991.

Table 7 - Central Government

Millions of Cordobas	1985	1986	1987	1988	1989	1990	1991	1992
CG Revenues	37,305	141,081	747,200	65,817	3,684,809	180,470,323	1,443	1,887

Current Revenue	37,097	140,242	745,817	65,720	3,676,534	180,465,998	1,429	1,883
Tax Revenue	33,580	127,374	706,283	62,926	3,473,447	164,613,669	1,315	1,808
Nontax Revenue	3,517	12,868	39,534	2,794	203,087	15,852,329	114	76
Capital Revenue	208	839	1,383	97	8,275	4,325	14	4
CG Expenditures	63,239	215,958	1,198,702	148,453	4,704,572	367,906,018	1,944	2,618

Current Expenditures	52,034	187,574	1,071,206	128,671	4,228,224	352,410,414	1,758	1,971
Of Which:								
Wages & Salaries	11,069	37,495	175,194	11,924	596,216	104,350,188	627	542
Goods & Services	32,301	122,782	770,860	86,405	3,153,579	190,437,584	759	849
Current Transfers	5,559	21,757	116,419	30,095	477,726	57,582,876	268	280
Other	3,105	5,540	8,733	247	703	39,766	103	301
Capital Expenditures	11,205	28,384	127,496	19,782	476,348	15,495,604	187	647
Current Account Deficit (-)	(14,937)	(47,332)	(325,389)	(62,951)	(551,690)	(171,944,416)	(329)	(87)

Overall Deficit(-) Before Grants	(25,934)	(74,877)	(451,502)	(82,636)	(1,019,763)	(187,435,695)	(502)	(731)

Foreign Grants	679	6,451	13,300	1,489	498,963	15,914,270	948	599
Overall Deficit(-) After Grants	(25,255)	(68,426)	(438,202)	(81,147)	(520,800)	(171,521,425)	446	(132)

Financing of Deficit	25,255	68,426	438,202	81,148	520,799	171,521,426	(436)	132

External	193	(66)	(1,574)	1,301	(6,991)	15,555,955	21	777
Disbursement	775	1,206	867	1,315	0	15,914,270	167	982
Amortization	(582)	(1,272)	(2,441)	(14)	(6,991)	(358,315)	(146)	(204)
Internal	25,062	68,492	439,776	79,847	527,790	155,965,471	(457)	(645)
Central Bank (net)	28,233	64,728	374,999	69,261	137,671	147,133,671	0	
Other	(3,171)	3,764	64,777	10,586	390,119	8,831,800		

Note: - New Cordobas From Monetary Reform in 1988.
Cordobas Oro From Monetary Reform in 1991.

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Table 8 - Impor

	1990	1991	1992	Percentage Change	

				90/91	91/92
Total (fob)	569.7	680.7	699.1	19.5	2.7
Total (cif)	640.1	752.8	786.2	17.6	4.4
Consumer Goods	158.7	228.8	188.0	44.1	-17.8
Non-durables	128.8	179.1	149.9	39.0	-16.3
Durables	29.9	49.7	38.0	66.3	-23.5
Petroleum Produ	125.7	103.3	118.9	-17.8	15.1
Crude	105.4	90.3	102.6	-14.3	13.6
Products	20.3	13.0	16.4	-36.0	26.0
Intermediate Go	158.5	208.4	227.1	31.5	8.9
Agriculture	35.0	30.5	51.8	-12.8	69.7
Industry	103.5	151.3	149.2	46.1	-1.4
Construction	19.9	26.6	26.0	33.3	-2.2
Capital Goods	197.2	212.3	252.3	7.6	18.8
Agriculture	12.3	12.6	15.4	2.8	22.1
Industry	79.0	105.2	114.8	33.2	9.2
Transport Equ	105.9	94.5	122.0	-10.8	29.2
Other	11.9	75.0	17.0	530.3	-77.4

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11

Annex B

Separate Account Operating Procedures

NICARAGUA

ECONOMIC STABILIZATION AND RECOVERY PROGRAM IV

PROJECT NO. ESR 524-0325

SEPARATE ACCOUNT OPERATING PROCEDURES

1992

5

PROCEDIMIENTOS OPERATIVOS DE CUENTA SEPARADA (US\$).

Los Procedimientos Operativos de Cuenta Separada descritos a continuación están en la medida de lo posible, de acuerdo con los procedimientos bancarios normales. Es entendido que ciertas modificaciones posteriores podrían ser requeridas a fin de mantener condiciones operacionales de acuerdo a los cambios que se vayan suscitando. El Banco Central de Nicaragua (BCN) notificará a la USAID/Nicaragua (USAID) de cualquiera de los cambios propuestos para que estos sean incorporados a los procedimientos en una forma oportuna. La aceptación de la USAID sobre los cambios propuestos será formalmente dada a conocer a través de una Carta de Implementación (CdeI) junto con una copia de los Procedimientos Operativos actualizados.

I. DEPOSITOS

El BCN abrirá Cuenta(s) Separada(s) en el U.S. Federal Reserve Bank y/o en banco(s) comerciales de los Estados Unidos para recibir los desembolsos en dólares bajo el Programa de Estabilización y Recuperación Económica IV, Proyecto No. 524-0325. En forma independiente, los bancos corresponsales seleccionados por el BCN para tal propósito, confirmarán directamente a la USAID sobre

U.S. DOLLAR OPERATING PROCEDURES FOR THE SEPARATE ACCOUNT.

The Separate Account Operating Procedures are, in as much as possible, in compliance with normal banking procedures. It is understood that modifications might be required from time to time to keep pace with local operating conditions. The Central Bank of Nicaragua (BCN) will advise USAID/Nicaragua (USAID) of any such proposed changes so they may be incorporated into these procedures in a timely manner. Acceptance by USAID of the proposed changes will be formally acknowledged through a Program Implementation Letter (PIL) together with a revised copy of the Operating Procedures.

I. DEPOSITS

The BCN will open Separate Account(s) in the U.S. Federal Reserve Bank or U.S Commercial Banks for the purpose of receiving U.S. dollar disbursements from the Economic Stabilization and Recovery Program IV, Project No.524-0325. The correspondent bank(s) chosen by BCN for such purposes, will provide independent confirmation directly to USAID regarding the opening of the

la apertura de la(s) Cuenta(s) Separada(s), indicando el nombre y número de la(s) Cuenta(s) Separada(s) y que esta(s) es(son) nueva(s) y tiene(n) saldo cero y que será(n) utilizadas exclusivamente para depósito de fondos del Programa No.524-0325 de la A.I.D. El banco también deberá proveer estados de cuenta mensuales reflejando las actividades que tuvieron lugar en la(s) Cuenta(s) Separada(s) durante el mes anterior. El BCN solicitará el desembolso de los fondos del Programa a la USAID a través de la presentación del formato de Solicitud de Financiamiento A.I.D.-1130-2, requiriendo que los fondos sean depositados en la cuenta separada del Federal Reserve Bank de los Estados Unidos o en banco(s) comercial(es) de los Estados Unidos, indicando el número(s) de cuenta(s) y monto(s) a ser depositado(s). La solicitud será dirigida a la Oficina de Finanzas de la USAID.

La Oficina de Finanzas de la USAID al recibo de la Solicitud de Financiamiento y una vez determinado que han sido cumplidas todas las Condiciones Precedentes bajo el Programa ESR No.524-0325, solicitará a la A.I.D/Washington via cable, efectuar la transferencia de los fondos a la(s) Cuenta(s) Separada(s) designada(s).

La A.I.D/Washington tendrá los fondos del Programa de Apoyo Económico depositados en la(s) Cuenta(s) Separada(s) del BCN en el(los) banco(s) de los Estados Unidos seleccionado(s) como banco(s)

Separate Account(s), indicating the Account name and number and that such Separate Account(s) are new and at zero balance, and that they will be utilized exclusively for deposit of funds of A.I.D. program No.524-0325. The bank shall provide also monthly bank statements reflecting the activities that took place in the Separate Account(s) during the previous month. The BCN will request program disbursements from USAID by submitting Financing Request form A.I.D.-1130-2, requesting that funds be deposited in the Separate Account in the United States Federal Reserve Bank or U.S. commercial bank(s), with account number(s) and amount(s) to be deposited. The request will be forwarded to USAID, Office of Finance.

The USAID's Office of Finance, upon receipt of BCN's Financing Request form and determination of compliance with all Conditions Precedent under Program ESR No.524-0325 Agreement, will request A.I.D/Washington via cable, to effect the transfer of funds to the designated Separate Account(s).

A.I.D/Washington will have dollars from the Economic Support Program deposited into the BCN Separate Account(s) at the U.S. bank(s) chosen as Correspondent bank(s). Funds deposited in the Separate

corresponsal(es). Los fondos depositados en la(s) Cuenta(s) Separada(s) y los intereses devengados sobre estos fondos, no pueden ser mezclados con otros fondos del BCN. Los intereses generados sobre estos fondos, estarán sujetos al mismo procedimiento de desembolsos aplicado a los depósitos hechos por la A.I.D.

II. AUTORIZACION PARA EL USO DE FONDOS ESR 524-0325.

El BCN podrá autorizar el financiamiento con fondos del ESR 524-0325 de importaciones de productos elegibles bajo el Programa por medio de cartas de credito, cobranzas u otros instrumentos de pago, siempre y cuando se obtenga la siguiente documentación y se conserve en los archivos del BCN:

- A. Declaración de Importación firmada por el importador y debidamente autorizada por el BCN;
- B. Factura proforma u otro documento demostrando la naturaleza de los bienes a importarse, el valor CIF, el país de procedencia y;
- C. Documentos que muestren que los bienes han sido o serán embarcados a Nicaragua.

III. METODOS DE DESEMBOLSO

El BCN queda autorizado, sujeto al cumplimiento de las siguientes condiciones y procedimientos, a desembolsar fondos de la(s) Cuenta(s) Separada(s) utilizando los métodos de "Reembolso" o "Pago Directo".

Account(s) and the interest earned on these funds will not be commingled with other funds of the BCN. Interest earned on these funds will be used for the same purposes and subject to the same disbursement procedures as the principal deposits made by A.I.D.

II. AUTHORIZATION FOR THE USE OF ESR 524-0325 FUNDS.

The BCN may authorize the financing with ESR 524-0325 funds of imports of eligible goods under the Program through letters of credit, collections or other payment mechanisms, so long as the following documents are obtained and maintained in the BCN:

- A. Import declaration signed by the importer and duly authorized by the BCN;
- B. Proforma invoice or other document demonstrating the nature of the goods to be imported, the CIF price, and their source, and;
- C. Documents showing that the goods have been or will be shipped to Nicaragua.

III. DISBURSEMENT METHODS

The BCN is authorized, subject to compliance with the following conditions and procedures, to disburse funds from the Separate Account(s) using either: "Reimbursement" or "Direct Payment" methods.

A. Condiciones para uso del Metodo de Reembolso.

Para cada transacción que cumpla con los criterios de elegibilidad para su financiamiento a través del ESR 524-0325, pero que haya sido pagada con fondos que no sean de A.I.D., ya sean del BCN, banco comercial o casa de cambio, el BCN podrá solicitar autorización a USAID para efectuar reembolsos de importaciones de la Cuenta(s) Separada(s), de acuerdo con los siguientes procedimientos:

1. El BCN verificará que toda la documentación (según se especifica en la Sección IV de estos procedimientos) esté completa y en los archivos del BCN, y que la transacción cumpla con los criterios de elegibilidad y fechas elegibles establecidas en el Convenio de Donación y ratificadas en estos procedimientos.
2. En base al costo para el importador de aquellas transacciones elegibles (como se especifica en la Sección V.A de estos procedimientos), el BCN solicitará aprobación a la USAID para transferir la cantidad equivalente en dólares de los Estados Unidos de la Cuenta Separada a la cuenta de la institución que inicialmente hizo disponible las divisas al importador utilizando cualquier instrumento bancario generalmente aceptado.
3. Al recibo de una solicitud de reembolso en duplicado

A. Conditions for use of Reimbursement Method.

For each transaction meeting the eligibility criteria for funding under ESR 524-0325 but which has already been paid to the exporter with non-AID funds of the BCN, commercial bank, or casa de cambio, the BCN may request USAID approval for reimbursement of the transaction(s) from the Separate Account(s) under the following procedures:

1. The BCN will verify that all documentation (as specified in Section IV of these Procedures) is complete and in the BCN transaction file, that the transaction meets the eligibility criteria and eligibility dates set forth in the Grant Agreement and confirmed in these procedures.
2. Based on the cost to the importer of the eligible transactions (as specified in Section V.A of these procedures), the BCN will request USAID approval to transfer the equivalent amount of U.S. dollars directly from the Separate Account to the account of the institution that initially provided the importer with the foreign exchange, using any generally accepted banking mechanism.
3. Upon receipt of the reimbursement approval

del BCN, A.I.D. revisará y rechazará cualquier transacción que sea inelegible o que esté inadecuadamente documentada. La A.I.D. posteriormente contrafirmará el listado por las restantes transacciones elegibles y devolverá una copia al BCN como un indicativo de que estas transacciones restantes para ser reembolsadas están tentativamente aprobadas, y podrán ser reembolsadas, sujetas a posterior verificación y/o auditoría.

4. El BCN incluirá y describirá en forma clara en los estados de rendición de cuentas mensuales a USAID, la(s) transacción(es) reembolsada(s) de la(s) Cuenta(s) Separada(s), el banco o casa de cambio que recibió el reembolso y colocará una copia del documento que evidencia el retiro de fondos en los archivos de cada importación reembolsada.

B. Procedimientos para el Método de Pago Directo.

Para cada transacción que cumpla con los criterios de elegibilidad para su financiamiento bajo el Programa, el BCN podrá pagar al exportador directamente de la Cuenta Separada de acuerdo a los siguientes procedimientos:

1. El BCN verificará que toda la documentación (según se especifica en la Sección II

request, in duplicate, from the BCN, USAID will review and strike out any transaction which is either ineligible or inadequately documented. The USAID will then countersign the listing of remaining eligible transactions and return one copy to the BCN as an indication that the remaining reimbursement transactions are tentatively approved, and may be reimbursed, subject to later verification and/or audit.

4. The BCN will include and clearly describe in its monthly report to USAID, the transaction(s) reimbursed from the Separate Account(s), and the bank or casa de cambio that received the reimbursement, and will place a copy of the withdrawal document in each transaction file.

B. Procedures for Direct Payment Method.

For each transaction meeting the eligibility criteria for funding under the Program, the BCN may pay the exporter directly from the Separate Account(s) under the following procedures:

1. The BCN will verify that all documentation (as specified in Section II of

de estos procedimientos) esté completa, y que la transacción cumpla con los criterios de elegibilidad y fechas elegibles establecidas en el Convenio de Donación y confirmadas en estos procedimientos.

2. En los casos de cobranzas (credito del proveedor), el BCN autorizará el pago al exportador por medio de cheque o transferencia cablegráfica directamente de la(s) Cuenta(s) Separada(s).
3. En los casos de cartas de credito, el BCN autorizará al banco comercial emitir una carta de credito con fondos de la cuenta separada del banco corresponsal correspondiente y pagarle al suplidor contra presentación de toda la documentación requerida (la cual se especifica en la Sección IV).

IV. CONTROL Y DOCUMENTACION REQUERIDA

EL BCN mantendrá un registro actualizado ("Registro de Transacciones") de todas las transacciones aprobadas para financiarse con fondos de la(s) Cuenta(s) Separada(s). El BCN se asegurará que el "Registro de Transacciones" sea actualizado diariamente e incluya toda la información relevante contenida en los documentos-fuente mencionados abajo. También se asegurará que los archivos de cada transacción aprobada contenga toda la documentación relativa a su aprobación y el pago de

these procedures) is complete and in the BCN transaction file, and that the transaction meets the eligibility criteria and eligibility dates set forth in the Grant Agreement and confirmed in these procedures.

2. In the case of a Supplier's credit, the BCN will authorize payment in the form of a check or direct wire transfer to the supplier from the Separate Account(s).
3. In the case of a letter of credit, the BCN will authorize the commercial bank to issue a letter of credit on the appropriate correspondent bank separate account and pay to the supplier upon presentation of all required documentation (as specified in Section IV).

IV. CONTROL AND DOCUMENTATION REQUIREMENTS.

The BCN will maintain an up-to-date register ("Transactions Register") of all transactions approved for financing with Separate Account(s) resources. The BCN will assure that the "Transaction Register" is posted on a daily basis and includes all relevant information contained in the source documents listed below. The BCN will also assure that each approved transaction file contains all documentation relating to the approval and payment of the import with

la importación con fondos de la(s) Cuenta(s) Separada(s). Como mínimo, la documentación requerida será la especificada en la Sección II y:

A. Importaciones del Sector Privado

1. Copia de la factura comercial o documento equivalente demostrando que la transacción ha sido completada;
2. Copia de los documentos de embarque cancelados indicando Nicaragua como el destino (e.g. Guía Aérea, conocimiento de embarque, etc) o póliza de importación;
3. Para reembolsos directos, evidencia del reembolso a los bancos comerciales o facilidades de divisas con fondos en la(s) Cuenta(s) Separada(s);
4. Para pagos directos, evidencia de pago al exportador a través de la(s) Cuenta(s) Separada(s).

V. CRITERIOS DE ELEGIBILIDAD

Los siguientes criterios serán aplicables a todas las transacciones financiadas a través de la(s) cuenta(s) separada(s):

A. Valor

El valor máximo elegible de ser financiado para cada importación será la suma del costo de los bienes, embarque, manejo, seguro y gastos bancarios.

funds from the Separate Account(s). At a minimum, these will include the documents specified in Section II and:

A. For Private Sector Imports

1. A copy of the commercial invoice or equivalent document demonstrating that the transaction has been completed;
2. Copy of the paid shipping documents showing Nicaragua as the destination (i.e. Airway Bill, Bill of Lading, etc.) or poliza de importacion;
3. For direct reimbursements, evidence of reimbursement to commercial banks or foreign exchange facility from funds in the Separate Account(s);
4. For direct payment, evidence of payment to the exporter from the Separate Account(s).

V. ELIGIBILITY CRITERIA

The following criteria will be applicable to all transactions funded through the Separate Account(s):

A. Value

The maximum amount eligible for financing for each import transaction will be the sum of the cost of goods, shipping handling, insurance and bank charges.

Los montos aplicados a la(s) Cuenta(s) Separada(s) por pagos relativos al servicio de la deuda externa con Instituciones Financieras Internacionales con Programas elegibles del Gobierno de los Estados Unidos, estaran limitados al valor del principal, intereses y multas si fuesen aplicables.

B. Usos elegibles

A.I.D. prefiere que los fondos de la(s) Cuenta(s) Separada(s) sean utilizados en la medida de lo posible para financiar importaciones de insumos productivos de los Estados Unidos para el Sector Privado. Los fondos de la(s) Cuenta(s) Separada(s) podrán ser utilizados para financiar importaciones hacia Nicaragua de: materias primas, repuestos, bienes de capital e intermedios, y bienes de consumo no lujosos cuya procedencia sea de los Estados Unidos o de los estados miembros del Mercado Común Centroamericano.

También son elegibles de ser financiados con fondos de este Convenio ESR-IV el pago por el servicio de deuda externa y atrasos con instituciones financieras internacionales tales como el Banco Mundial, el Fondo Monetario Internacional y con programas elegibles del Gobierno de los Estados Unidos.

C. USOS NO ELEGIBLES

Los fondos de la(s) Cuenta(s) Separada(s) no deberán ser utilizados para financiar:

1. Importaciones del Sector Público;

The amount applicable to the Separate Account(s) for payments relative to the external debt service with International Financial Institutions and eligible U.S. Government Programs, will be limited to the value of the principal, interest and penalties if applicable.

B. Eligible uses

A.I D. prefers that the funds from Separate Account(s), be used to the extent possible, to fund productive inputs by the private sector from the United States. Funds from the Separate Account(s) may be used to finance: imports into Nicaragua of raw materials, spare parts, intermediate and capital goods, and non-luxury consumer goods whose source is the United States or the member states of the Central America Common Market.

Also are eligible to be financed with funds of this ESR-IV Agreement the payment of external debt service and arrearages with international financial institutions, such as, the World Bank, International Monetary Fund and with eligible United States Government Programs.

C. INELIGIBLE USES

Separate Account(s) funds shall not be used to finance:

1. Public Sector imports;

- | | |
|---|---|
| 2. Bienes que no hayan sido físicamente importados a Nicaragua; | 2. Goods which are not physically imported into Nicaragua; |
| 3. Equipo y suministros para o de uso militar, incluyendo equipo de vigilancia y artículos de defensa (tal y como son definidos en la Sección V.D.1 de estos procedimientos); | 3. Equipment and supplies for military and police use, including surveillance equipment and defense articles (as defined in Section V.D.1 of these procedures); |
| 4. Componentes químicos de caucho y plastificantes; | 4. Rubber compounding chemicals and plasticizers; |
| 5. Equipo para utilización en el aborto; | 5. Abortion equipment; |
| 6. Productos de tabaco y derivados de este y equipo utilizado para su producción y uso; | 6. Tobacco products and their derivatives and equipment for their production and use; |
| 7. Bebidas alcohólicas y equipo utilizado para su producción y uso; | 7. Alcoholic beverages and equipment for their production and use; |
| 8. Equipo, suministro y facilidades para uso en juegos de azar; | 8. Equipment and supplies for gambling facilities; |
| 9. Artículos de lujo (tal y como son definidos en la Sección V.D.2 de estos procedimientos); | 9. Luxury items (as defined in Section V.D.2 of these procedures); |
| 10. Joyería; | 10. Jewelry; |
| 11. Sellos de correo; | 11. Stamps; |
| 12. Monedas; | 12. Coins; |
| 13. Abrigos de piel o pieles; | 13. Furs; |
| 14. Pesticidas; | 14. Pesticides; |
| 15. Equipos de meteorología; | 15. Weather modification equipment; |
| 16. Automóviles y; | 16. Passenger vehicles and; |

17. Productos farmaceuticos y fertilizantes que no sean importados de los Estados Unidos.

D. Definiciones

1. Se consideran como artículos de defensa: i) cualquier tipo de arma o sistema de armas, municiones, aparatos aéreos, embarcaciones, botes y otros implementos de guerra; ii) cualesquiera bienes, instalaciones, mercancías, materiales, equipos, suministros o artículos utilizados con el propósito de brindar asistencia militar; iii) cualquier maquinaria, facilidades, herramientas, materiales, suministros u otros artículos necesarios para la manufactura, producción, procesamiento, mantenimiento, servicios de almacenaje, construcción, transporte, operación, o uso de cualquier artículo de defensa; iv) cualquier componente o parte de cualquier artículo de defensa. No se consideran como artículos de defensa los integrantes de la marina mercante.

2. Los artículos de lujo son los utilizados por el consumidor tales como pinturas o esculturas y aeroplanos, botes o equipos estéreos valiosos y destinados al uso privado.

3. PROCEDENCIA

Para ser elegibles bajo este Convenio, la procedencia de

17. Pharmaceuticals and fertilizer which are not imported from the United States.

D. Definitions

1. Defense article includes: i) any weapon, weapons system, ammunition, aircraft, vessel, boat, or other implement of war; ii) any property, installation, commodity, material, equipment, supply, or goods used for the purposes of furnishing military assistance; iii) any machinery, facility, tool, material, supply, or other item necessary for the manufacture, production, processing, repair, servicing, storage, construction, transportation, operation, or use of any defense article; iv) any component or part of any defense article. Defense article does not include merchant vessels.

2. Luxury items are consumer luxury items such as paintings or sculptures, and airplanes, boats or expensive stereo equipment for personal use.

3. SOURCE

To be eligible under the Agreement, the source of all

todos los productos deberá ser los Estados Unidos incluyendo sus posesiones, el Estado Libre Asociado de Puerto Rico y los países miembros del Mercado Común Centroamericano. Los puertos libres no constituyen un lugar de procedencia. Cuando un producto sea embarcado de un puerto libre o recinto fiscal, el termino "procedencia" significa el país del cual el producto fue producido y embarcado hacia el puerto libre o recinto fiscal.

VI. FECHAS DE ELEGIBILIDAD

A menos que USAID lo acuerde de otra forma por escrito, los fondos depositados en la(s) Cuenta(s) Separada(s) y los intereses generados en ella(s) podrán ser utilizados para importaciones elegibles que fuesen físicamente importadas a Nicaragua y pagadas después de la fecha efectiva del Convenio de Donación siendo esta el -----.

VII. REPORTES BCN

Esta sección deberá aplicarse a todas las transacciones financiadas a través de la(s) Cuenta(s) Separada(s):

A. Mientras los fondos de la(s) Cuenta(s) Separada(s) incluyendo los intereses devengados no hayan sido utilizados totalmente, el BCN proveerá mensualmente a la USAID lo siguiente:

1. Estados de cuenta bancarios de cada una de las cuentas separadas abiertas bajo este Convenio.

imports must be the United States, including its possessions and the Commonwealth of Puerto Rico, and Countries members of the Central American Common Market. Duty free ports do not constitute a source point. When a product is shipped from a free port or bonded warehouse in the form in which it was received therein, the "source" means the country where the product was produced and shipped to the free port or bonded warehouse.

VI. ELIGIBILITY DATES

Unless otherwise agreed to by USAID in writing, funds deposited in the Separate Account(s) and any interest earned thereon may be used for eligible import transactions that were physically imported into Nicaragua and paid for after the effective date of the Grant Agreement which is -----.

VII. BCN REPORTING

This section shall apply to all transactions funded through the Separate Account(s):

A. Until all funds, including interest earned are disbursed from the Separate Account(s), the BCN will provide to USAID on a monthly basis the following:

1. Bank statements for each and every Separate Account opened under this Agreement.

2. Reconciliaciones bancarias de cada una de las cuentas mencionadas en la Sección A.1, arriba.
 3. Un listado completo de las transacciones financiadas con fondos de este Convenio. Este listado deberá incluir pero no estará limitado a la información siguiente:
 - a. Número de la Declaración de Importación y fecha de aprobación.
 - b. Fecha, nombre del banco y cantidad de dólares debitados a la(s) Cuenta(s) Separada(s).
 - c. Nombre del Importador.
 - d. Nombre del Exportador.
 - e. País de Procedencia.
 - f. Nombre del producto importado y su clasificación (e.g., bienes de capital, bienes de consumo, materias primas, petróleo y sus derivados, insumos agrícolas, fletes, etc..).
 - g. Tipo de transacción, (e.g. carta de credito o credito de proveedores).
 - B. Es entendido que la información arriba requerida podría estar sujeta a cambios a través de una notificación escrita de USAID.
 - C. Todos los reportes debidamente certificados por el BCN, deberán ser remitidos a la Oficina de Finanzas de USAID.
2. Bank reconciliation for each of the accounts mentioned in Section A.1, above.
 3. Complete listing of transactions financed with funds from the Separate Account(s). This listing should include but not be limited to the following information:
 - a. Number and date of the approved import declaration.
 - b. Date, name of the bank and amount of dollars debited to the Separate Account(s).
 - c. Name of the importer.
 - d. Name of the exporter.
 - e. Country of source.
 - f. Name of the good imported and its category (i.e., capital goods, consumer goods, raw materials, petroleum and its derivatives, agricultural inputs, freight, etc..).
 - g. Type of transaction (i.e., letter of credit or supplier's credit).
 - B. It is understood that the information required above may be subject to modification in writing by USAID.
 - C. All reports, duly certified by the BCN shall be sent to the USAID Office of Finance.

VIII.- AUDITORIAS,
COMUNICACIONES Y
ARCHIVOS

- A. Personal de la Oficina de la USAID o sus representantes autorizados tendrán el derecho de auditar y/o revisar la elegibilidad de las transacciones financiadas bajo el programa y de revisar cualquier otra documentación relativa al manejo o implementación de la asistencia proporcionada bajo el convenio ESR 524-0325.
- B. Cualquier hallazgo no satisfactorio determinado por USAID., será remitido al BCN para su acción, lo que puede incluir pero no estar limitado a la aplicación de sanciones y/o redepósito a la(s) Cuenta(s) Separada(s).
- C. En el caso que la USAID determine que algún desembolso de la(s) Cuenta(s) Separada(s) en dólares ha sido efectuado para un uso no autorizado bajo el Convenio ESR 524-0325 o para una transacción que no llena los requisitos de elegibilidad, o la cual no está respaldada por documentación válida como lo requiere la USAID., o que viole la ley de los Estados Unidos, el BCN redepósito en la(s) Cuenta(s) Separada(s) una suma en dólares igual al monto de dicho desembolso dentro de sesenta (60) días después del recibo de una solicitud de pago de parte

VIII.- AUDIT, COMMUNICATIONS
AND FILING

- A. USAID personnel and/or its authorized representatives will have the right to audit and/or review the eligibility of transactions financed under the program and of any other documentation relating to the management and implementation of the assistance provided under the ESR 524-0311 Agreement.
- B. Any unsatisfactory finding on the part of USAID will be referred to the BCN for action, to include, but not be limited to, the application of appropriate sanctions or redepósito to the Separate Account(s).
- C. In the event A.I.D. determines that any disbursement from the Dollar Separate Account(s) has been made for a use other than those authorized under the terms of the Agreement 524-0311, or for a transaction which does not meet the eligibility requirements, or which is unsupported by valid documentation as required by USAID, or which is in violation of United States law, the BCN will redepósito into the dollar Separate Account(s) a sum in U.S. Dollars equal to the amount of such disbursement within sixty (60) days after receipt of request therefore from

de USAID. Este derecho de redepósito continuará, no obstante cualquier otra cláusula del Convenio ESR 524-0325, por tres años a partir de la fecha del último desembolso de la donación en dólares y de cualquier interes generado de ellos en la(s) Cuenta(s) Separada(s).

D. USAID notificará al BCN, por medio de una Carta de Implementación del Proyecto, su aceptación final de todas las transacciones elegibles y retiros de la(s) Cuenta(s) Separada(s) después de concluida la verificación independiente final. Esta notificación escrita servirá como evidencia de la liquidación final de los fondos desembolsados por USAID y los intereses devengados en la(s) Cuenta(s) Separada(s) bajo este Proyecto.

E. El BCN mantendrá archivos conteniendo la documentación de cada transacción aceptada por USAID por un período no menor de tres (3) años, iniciado a partir de la fecha de la notificación formal de la USAID sobre la aceptación de las transacciones mencionadas en el inciso "D" anterior.

USAID. This right of refund shall continue, notwithstanding any other provision of the Agreement ESR 524-0311, for three years from the date of the last disbursement of U.S. Dollar Grant funds and any interest earned thereon in the Separate Account(s).

D. USAID shall notify the BCN by means of a Project Implementation Letter of its final acceptance of all eligible transactions and Separate Account(s) withdrawals after the completion of the final independent verification. Such written notification shall serve as evidence of the final liquidation of USAID's disbursements to and interest earned on the Separate Account(s) under this Project.

E. The BCN will maintain files containing documentation for each transaction accepted by USAID for a period of not less than three (3) years, beginning from the date of formal notification by USAID of acceptance of such transactions in "D" above.

PAGOS DIRECTOS

3. PAGOS PARA EL SERVICIO DE DEUDA EXTERNA

Para el pago de servicio de deuda externa con Instituciones Financieras Internacionales tales como el Banco Mundial, el Fondo Monetario Internacional y con otros Programas elegibles del Gobierno de los Estados Unidos, el BCN emitirá un cheque o hará una transferencia cablegrafica de fondos. Para esta clase de transacciones la documentación de soporte incluirá pero no estará limitada a lo siguiente, y estará sujeta al plan financiero para amortización de la deuda que el BCN remitirá a la A.I.D para revisión y aprobación, según las Condiciones Precedentes, Artículo II, Sección 2.4.A del Convenio de Donación:

- a. Copia de la Orden de Pago emitida por el BCN autorizando el pago de amortización de la deuda externa a la Institución Financiera Internacional.

B. DIRECT PAYMENTS

3. EXTERNAL DEBT SERVICES PAYMENT

For payments of external debt services to International Financial Institutions such as World Bank, the International Monetary Fund and with other eligible United States Government Programs, the CBN will issue a check or make a wire transfer of funds. For these transactions the supporting documentation may include the following but is not limited, and will be in accordance with the financial plan for debt retirement to be submitted to A.I.D. for review and approval under the Conditions Precedent, Article II, Section 2.4.A of the Grant Agreement:

- a. Copy of the Order of Payment issued by the CBN authorizing the amortization payment of the external debt to the International Financial Institution.

b. Copia del télex o cualquier otro instrumento de pago, autorizado para uso de la(s) Cuenta(s) Separada(s).

c. Evidencia de pago de la(s) Cuenta(s) Separada(s) (Nota de debito del banco).

En cualquiera de los casos descritos anteriormente, la Vice Presidencia Internacional del BCN verificará que toda la documentación esté completa y cumpla con los criterios de elegibilidad.

Además, la Vice Presidencia Internacional mantendrá archivada la documentación de todas las transacciones reportadas.

b. Copy of the telex or any other document of payment which authorizes the payment from the Separate Account(s).

c. Evidence of payment from the Separate Account(s) (bank debit note).

In any of the above mentioned cases, the International Vice Presidency of the CBN will verify that all documentation is complete and meets the eligibility criteria.

Also, the International Vice Presidency will maintain documentation files of all reported transactions.

IV. CRITERIOS DE ELEGIBILIDAD

1. Valor

El valor maximo de cada transaccion elegible para financiarse con fondos de la(s) Cuenta(s) Separada(s) debera ser el costo total de la importacion el cual podra incluir, pero no estara limitado a los costos de los bienes, embarque, manejo, seguro y cargos bancarios, cuyo pago de la(s) Cuenta(s) Separada(s) sea claramente evidenciado por una nota de debito o su equivalente.

Los montos aplicados a la(s) Cuenta(s) Separada(s) por pagos relativos al servicio de la deuda externa con Instituciones Financieras Internacionales con Programas elegibles del Gobierno de los Estados Unidos, estaran limitados al valor del principal, intereses y multas si fuesen aplicables.

IV. ELIGIBILITY CRITERIA

1. Amount

The maximum amount for each transaction eligible for funding from the Separate Account(s) shall be the total cost of the import transaction, which may include, but not be limited to, the cost of goods, shipping handling insurance and bank charges that clearly evidenced the payment from the Separate Account(s) by a debit note or its equivalent.

The amount applicable to the Separate Account(s) for payments relative to the external debt service with International Financial Institutions and eligible U.S. Government Programs, will be limited to the value of the principal, interest and penalties if applicable.

2. Usos Elegibles

- (3) Servicio de deuda externa y atrasos con instituciones financieras internacionales tales como: el Banco Mundial, el Fondo Monetario Internacional y con programas elegibles del Gobierno de los Estados Unidos.

2. Eligible uses

- (3) External Debt Service and arrearages with international financial institutions, such as, the World Bank, International Monetary Fund and with eligible United States Government Programs.

Annex C

ESR I, II, and III Evaluation Summary

Summary of USAID/Nicaragua ESR I, II, III Evaluation Findings, Conclusions and Recommendations

Submitted by Nathan Associates, Inc.

Purpose of the Evaluation: The purpose of the evaluation was to analyze the impact of balance of payments assistance under Economic Support and Recovery I, II and III and evaluate mechanisms and procedures used under the project. The evaluation attempted to assess the impact of cash transfer assistance on the macro-economic situation in Nicaragua and determine the degree to which such balance of payments assistance contributed to economic stabilization and recovery; review the implementation arrangements and procedures of the program to identify problems and recommend solutions and improvements which would make such assistance more effective and less management intensive; and assess the use of dollars and other effects of cash transfer assistance in such areas as import financing, U.S.-Nicaragua trade, budget support, etc. The evaluation results were expected to help inform future decision-making regarding balance of payments support and design of future cash transfer programs.

Purpose of Activities Evaluated: The ESR I, II, and III programs encouraged and supported Nicaraguan government efforts to 1) establish monetary and fiscal controls, 2) restructure the financial system, 3) eliminate barriers to international trade, 4) re-privatize segments of the economy, 5) clear arrears with the International Bank for Reconstruction and Development (IBRD) and Inter-American Development Bank (IDB) so these institutions could resume assistance, and 6) help assure that critical imports were available to the Nicaraguan government and private sector. These policies were expected to have substantial impact in reducing inflation and re-vitalizing productivity in the economy.

Findings and Conclusions:

- **Effect on Economic Stabilization and Recovery:** Major program objectives of price and exchange rate stability have been attained though excessive wage demands and an increase in foreign exchange needs could represent a danger to current stability. The initial import financing and later budgetary support allowed the economy to survive without major recession. The clearance of arrears under ESR II allowed for the resumption of other programs of international financial institutions and donors.
- **Effectiveness of Policy Conditionality:** ESR conditionality contributed to an effective stabilization program and progress in trade and foreign exchange liberalization represents important early policy gains that need further follow-up. Implementation of financial sector reform represents an excellent beginning and ESR programs have supported reasonable progress in privatization. Policy conditionality under ESR II and III has set the stage for resumption of private sector led growth by privatization, liberalization and demonopolization efforts.
- **Accelerated import financing supporting occupational conversion:** The impact of the occupational conversion on net savings is expected to be considerable as noted below:

	<u>Central Gov't</u>	<u>Non-Fin. Public Sector</u>	<u>Public Sector</u>
1991:	-0.4% of est. 1991 GDP	-0.7% of est. 1991 GDP	-0.9% of est. 1991 GDP
1992:	0.4% of proj. 1992 GDP	0.7% of proj. 1992 GDP	0.8% of proj. 1992 GDP
1993:	0.6% of proj. 1992 GDP	1.1% of proj. 1992 GDP	2.1% of proj. 1992 GDP

Significant savings should be realized from 1992 onward.

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- **Effect of Foreign Exchange on Import Activity:** The trade related objectives of the ESR programs - promoting private sector imports, promoting U.S. imports, and delivering fast disbursing aid in support of Nicaraguan stabilization goals - are being met. The ESR program funds 21% of all Nicaraguan imports and has been largely used for petroleum, an indispensable import for economic recovery. The United States has gone from no trade to being a leading market and supplier (nearly 20% of total trade). Total imports from the U.S. are now growing more quickly than those from other areas and are now much larger than the ESR-funded component - perhaps a sign of a multiplier effect of ESR BOP support. Unevenness in use of ESR funds has occurred because of geographic and product restrictions on ESR funds and the normal annual product cycle.
- **Management of U.S. dollars:** Policy reforms instituted by the BCN September 2, 1991, which move to decentralize some aspects of the BCN are consistent with the objective of moving the ESR funds as efficiently as possible. Aspects of these decentralization reforms, such as the delegation of authority to determine eligibility and authorize transactions, and the assignment of transactions to a project and to a separate account, are conducive to efficient movement of funds. This decentralization, however, has the negative effect of causing 1) the BCN to lose control of the eligibility decision; 2) the final responsibility for the program with BCN to remain undefined; and 3) the delegation of authority by BCN to commercial banks to be carried out without USAID acquiescence even though the grant agreement is between BCN and AID.

A completely free foreign exchange market (total freedom to convert any amount of local currency to foreign exchange for any purpose without restrictions) does not exist in Nicaragua for two reasons: 1) BCN intervention and 2) restrictions on the use of foreign exchange from certain sources, including AID's requirements of pro-forma quotes, eligibility of goods, and source and origin certificates. However, current restrictions and controls do not overly impede the free flow of foreign exchange.

Many importers have trouble accessing information on U.S. product availability since access to U.S. Embassy and its commercial information is difficult and the U.S. Chamber of Commerce in Nicaragua is not yet active. Few persons interviewed mentioned the three pro-forma price quotation requirement or the certificate of origin or any other ESR requirements as real obstacles to the use of ESR funds. As trade accelerates, requirements such as three price quotes could unnecessarily encumber the ESR system.

Recommendations:

ESR Conditionality: Reinforce Current Policy Conditionality - The ESR evaluation team recommended the following actions to reinforce policy actions taken under the program:

- 1. Public Sector Employment Reduction:** Continue Occupational Conversion Program with special emphasis on specific employment targets.
- 2. Privatization:** Develop a realistic projection of revenue expected from the sale and lease of the firms earmarked for privatization; design a budget portfolio and intermediate-term management for the remaining portfolio, indicating gross sales, operating expenses, and capital requirements,

separating profitable firms from loss-producing firms. Develop separate divestiture and financing strategies for the above classes of firms, setting concrete schedules and targets for sales.

3. Financial Sector Reform: Reform the state banks' accounting systems, assessing their true financial position; identify nonperforming loans, prevent interest accruals on them, and build up loan loss reserves. Develop systems and procedures for the entire loan cycle-appraisal, scheduling, and follow-up; develop acceptable cash management procedures. Assess the feasibility of simply allowing the state banks to fail, addressing both the economic costs involved and the prospective legal ramifications. Provide parallel assistance to private commercial banks and, in general, show no favoritism at any level to state banks.

4. Improving Tax and Customs Revenues: Require a survey of obstacles to export promotion, including public policies such as trade protection, state trading, taxes, investment permits, and exchange rate management. Re-evaluate the intent and strategy of GON investment and export promotion laws in order to assess level of competition with other regional programs (i.e. Mexico and Costa Rica).

Future ESR Support for Provision of Medium-term Credit - USAID should consider providing medium-term credit to private sector financial institutions through the BCN, after feasibility studies and technical assistance to the banking subsector have taken place.

Management of U.S. Dollar Funding: The ESR evaluation team recommends the following actions to improve management of ESR resources:

1. Streamline Funding Authorization Process: The BCN should allocate ESR funds to commercial banks on a first-come, first-served basis but continue to be involved in the pre-screening of import eligibility. The BCN should also encourage the use of ESR funds to pay supplier's credit for eligible import transactions completed after the effective date of the covenants; and, establish a centralized unit for monitoring foreign exchange authorization procedures under the AID program. USAID should approve the procedures proposed by BCN for foreign exchange authorization for ESR imports with the exception that BCN should withdraw the authorization given to the U.S. correspondent banks to accept debit instructions directly from the local commercial banks, continue to review the eligibility of the transaction before authorizing the debiting of the separate accounts for the purpose of providing collateral for the letter of credit, and assign responsibility for the eligibility review to the Vice Presidency of Foreign Trade and make it nondelegable.

2. Expedite Specific Transactions: USAID should decrease the number of required invoices to one; make the presentation of the certificate of source and origin by the exporter to the U.S. correspondent bank a requirement for the negotiation of the letter of credit; supply to BCN and commercial banks a Spanish translation of the eligibility list in AID Handbook 1, Supplement B, Chapter 4D; and improve access to information on U.S. products.

3. Expansion of the Base of Program Users: USAID and the BCN should sponsor the training of small importers in management and accounting, perhaps as part of a small business development project. USAID should, make used and reconditioned U.S. and Central American products eligible for importation using ESR funds.

Annex D

Statutory Checklist

NICARAGUA
5C(1) - COUNTRY CHECKLIST - 1992

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics

a. Negative certification (FY NO 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

b. Positive certification (FAA N/A; Nicaragua is not a major illicit drug producing country or a major drug transit country. Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly

affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance?

c. Government Policy (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b))
(This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.)
If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production

.....N/A

or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

2. Indebtedness to U.S. citizens
(FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

We are not aware of any debts the GON owes to any U.S. citizen for goods or services that meet the criteria set forth in this section.

3. Seizure of U.S. Property (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

The Sandinista government of Nicaragua did expropriate property without compensation, including that of U.S. citizens. The current democratic government has set up a Commission to review illegal expropriations carried out under the Sandinista regime. The Commission has numerous claims under review. While the Commission has administered the return of some properties, it is beset with numerous technical, bureaucratic and legal obstacles that have limited its effectiveness.

4. Communist countries (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that
the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable

NO

restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

5. Mob Action (FAA Sec. 620(j)): NO
Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

6. OPIC Investment Guaranty (FAA Sec. 620(l)): NO
Has the country failed to enter into an investment guaranty agreement with OPIC?

7. Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): NO
(a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

8. Loan Default (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)): YES. However, Section 518 of FY 91 Appropriations Act allows funds appropriated by that Act to be made available for Nicaragua notwithstanding those defaults.
(a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?

9. Military Equipment (FAA Sec. 620(s)): YES. Taken into account by the Administrator at time of approval of Agency 1992 OYB.
If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment?

(Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

10. Diplomatic Relations with U.S. NO
(FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

11. U.N. Obligations (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

Nicaragua is in arrears on the payment of UN obligations, both generally and for purposes of Article 19 of the UN Charter; this was taken into account by the Administrator at the time of approval of the Agency FY 1992 OYB.

12. International Terrorism

a. Sanctuary and support (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? NO

b. Airport Security (ISDCA of 1985 Sec. 552(b)). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? NO -

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13. Discrimination (FAA Sec. NO
666(b)): Does the country object, on the
basis of race, religion, national origin
or sex, to the presence of any officer or
employee of the U.S. who is present in
such country to carry out economic
development programs under the FAA?

14. Nuclear Technology (FAA Secs. NO
669, 670): Has the country, after August
3, 1977, delivered to any other country or
received nuclear enrichment or
reprocessing equipment, materials, or
technology, without specified arrangements
or safeguards, and without special
certification by the President? Has it
transferred a nuclear explosive device to
a non-nuclear weapon state, or if such a
state, either received or detonated a
nuclear explosive device? If the country
is a non-nuclear weapon state, has it, on
or after August 8, 1985, exported (or
attempted to export) illegally from the
United States any material, equipment, or
technology which would contribute
significantly to the ability of a country
to manufacture a nuclear explosive device?
(FAA Sec. 620E permits a special waiver of
Sec. 669 for Pakistan.)

15. Algiers Meeting (ISDCA of 1981, YES. Taken into account by
Sec. 720): Was the country represented at the Administrator at time of
the Meeting of Ministers of Foreign approval of Agency 1992 OYB.
Affairs and Heads of Delegations of the
Non-Aligned Countries to the 36th General
Assembly of the U.N. on Sept. 25 and 28,
1981, and did it fail to disassociate
itself from the communique issued? If so,
has the President taken it into account?
(Reference may be made to the "Taking into
Consideration" memo.)

16. Military Coup (FY 1991 NO
Appropriations Act Sec. 513): Has the
duly elected Head of Government of the
country been deposed by military coup or
decree? If assistance has been
terminated, has the President notified
Congress that a democratically elected
government has taken office prior to the
resumption of assistance?

17. Refugee Cooperation (FY 1991 YES
Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

18. Exploitation of Children (FY NO
1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. Human Rights Violations (FAA Sec. NO
116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Abortions (FY 1991 Appropriations..... NO
Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

COUNTRY ELIGIBILITY CRITERIA APPLICABLE
ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. NO
502B): Has it been determined that the
country has engaged in a consistent
pattern of gross violations of
internationally recognized human rights?
If so, has the President found that the
country made such significant improvement
in its human rights record that furnishing
such assistance is in the U.S. national
interest?

Clearances:

LAC/CEN:DSponasik (draft)
LAC/CEN:TC-Wagner (draft)
LAC/SAM:AMcDonald (draft)
LAC/TI:JVermillion (draft)
ARA/CEN:TSmith (draft)
State/IOSB:THobgood (draft)
State/INM:JGreene (draft)
GC/LAC:MFittipaldi (draft)

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Assistance directly addresses (a), (b), (d), and (e). Objectives (c) and (f) are addresses through other assistance instruments.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Imports financed under ESR IV will be eligible only if they are from the U.S. or Central America. The reform program which ESR IV supports will remove barriers to trade and foreign investment.

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Yes

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

Yes

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

Yes

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

N.A.

5. Legislative Action (FAA Sec. 511(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action

No such action required.

TS

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N.A.

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Yes

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N.A.

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

Policy reforms supported will directly (a) increase international trade, (b) foster private initiative and competition, (d) discourage monopolistic practices, and (e) improve technical efficiency of industry, agriculture, and commerce. Objectives (c) and (f) will be addressed through other programs.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Dollars for imports will be used only for imports from the U.S. Policy reforms will remove important obstacles to trade and foreign investment.

11. **Local Currencies**

a. **Recipient Contributions**

(FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

N.A.

b. **U.S.-Owned Currency** (FAA

Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

c. **Separate Account** (FY 1991

Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(a) Yes

(b) Yes

(c) Yes

(1) **Has A.I.D.** (a)

required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? Yes

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N.A.

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of No

textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No

14. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N.A.

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N.A.

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Yes

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy):

N.A.

Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

17. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

N.A.

18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No

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19. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No

b. Will any funds be used to lobby for abortion? No

20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? No

21. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. No such currencies

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No

22. **Procurement**

a. **Small business** (FAA Sec. 502(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? N.A.

b. **U.S. procurement** (FAA Sec. 504(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? N.A.



c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N.A.

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N.A.

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N.A.

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

N.A.

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the

N.A.

facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. U.S. air carriers
(International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

N.A.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

N.A.

j. Consulting services
(FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

N.A.

k. Metric conversion
(Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest

N.A.

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documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. Competitive Selection

Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

N.A.

23. Construction

a. Capital project (FAA Sec.

601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N.A.

b. Construction contract (FAA

Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N.A.

c. Large projects,

Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

N.A.

24. U.S. Audit Rights (FAA Sec.

601(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N.A.

25. Communist Assistance (FAA Sec.

620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

N.A.

26. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? **Yes**

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? **Yes**

27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? **Yes**

28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? **Yes**

29. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? **Yes**

30. Motor Vehicles (FAA Sec. 536(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? **Yes**

31. **Military Personnel (FY 1991 Appropriations Act Sec. 503):** Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? **Yes**

32. **Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? **Yes**

33. **Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506):** Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? **Yes**

34. **Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510):** Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? **Yes**

35. **Repression of Population (FY 1991 Appropriations Act Sec. 511):** Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? **Yes**

36. **Publicity or Propoganda (FY 1991 Appropriations Act Sec. 516):** Will assistance be used for publicity or propoganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propoganda purposes not authorized by Congress? **No**

37. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

N.A.

38. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

- 1. Economic and Political Stability (FAA Sec. 531(a)):** Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes

- 2. Military Purposes (FAA Sec. 531(e)):** Will this assistance be used for military or paramilitary purposes? No

- 3. Commodity Grants/Separate Accounts (FAA Sec. 609):** If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N.A.

- 4. Generation and Use of Local Currencies (FAA Sec. 531(d)):** Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) Yes
No

- 5. Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)).** If assistance is in the form of a cash transfer:

 - a. Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? Yes

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b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

Yes

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

Yes

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Yes

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Annex E

Initial Environmental Examination

INITIAL ENVIRONMENTAL EXAMINATION

PROJECT LOCATION : Nicaragua

PROJECT TITLE : Economic Stabilization and
Recovery IV (FY91 ESF Balance
of Payments Program)

PROJECT NUMBER : 524-0325

FUNDING : \$100 million (ESF)

LIFE OF PROJECT : One Year (FY92)

IEE PREPARED BY : Ralph L. Conley
USAID/Nicaragua

RECOMMENDED THRESHOLD DECISION:

A. Program Description:

- A. The program consists of a \$100 million grant in support of the Government of Nicaragua (GON) Economic Stabilization and Recovery Program. AID Resources will be made available to the GON in two equal tranches in support a series of policy reforms to which it is already committed and that have been supported by USAID under EST I, II, and III.

The dollars provided under this program will be used to finance up to \$50 million for debt service payments due to the World Bank, the IDB and the IMF. Another \$50 million will be made available for financing imports of productive inputs and non luxury consumer goods from the U.S. and Central America.

The local currency generated under the program will be used to finance the budget deficit of the Central government, to repay Central Government borrowing from the Central Bank, and to offset the accumulated foreign exchange losses of the Central Bank.

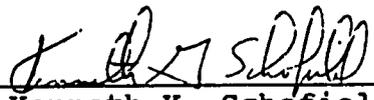
B. Recommendation:

This program qualifies for a Categorical exclusion under 22 CFR 216.2 (c) (2) (vi), "Contributions to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects". Section 216.2 (d) (e) of A.I.D.'s environmental regulations however, states that categorical exclusions are not applicable to assistance for the procurement or use of pesticides. Further, the Congressional Act providing for this ESF program instructs

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that the appropriated funds shall not be used in a way that would result in any significant loss of tropical forests. Therefore, a condition will be placed in the program agreement between the GON and A.ID. to ensure that under the Program there will be neither (1) the procurement or use of pesticides, nor (2) support of activities or the procurement or use of materials and equipment that could lead to significant tropical deforestation without first receiving the LAC Bureau Environmental Officer's approval of appropriate environmental assessments. Finally, given the fact that the Host Country Owned Local Currency (HCOLC) generated under this program will be programmed bilaterally, this condition will apply equally to both the dollars provided and the local currencies generated under this program.

Based on the inclusion of the condition described above in the ESF Program Agreement to be signed between the GON and A.I.D., it is recommended that no further environmental study be undertaken for this program, and that a "Categorical Exclusion" be approved.

Concurrence: 
Kenneth K. Schofield
Acting Mission Director
USAID/Nicaragua

Date: March 20, 1992

ACUERDO DE DONACION
PROGRAMA DE ESTABILIZACION Y
RECUPERACION ECONOMICA IV

PROGRAMA A.I.D. NO. 524-0325

ENTRE

EL GOBIERNO DE LA
REPUBLICA DE NICARAGUA
("Donatario")

y

EL GOBIERNO DE LOS
ESTADOS UNIDOS DE AMERICA
ACTUANDO A TRAVES DE LA
AGENCIA PARA EL DESARROLLO
INTERNACIONAL ("A.I.D.")

Convenio de fecha 5 de
diciembre de 1992, entre el
Gobierno de Nicaragua
(Donatario) y el Gobierno de
los Estados Unidos de América
(GEUA), por medio de la
Agencia para el Desarrollo
Internacional (A.I.D.),
denominados en conjunto "las
partes."

Por cuanto, el Gobierno de los
Estados Unidos, por medio de
la A.I.D., desea proveer
asistencia al Donatario en
apoyo a sus esfuerzos para
estabilizar la economía y
llevar a cabo reformas
estructurales en las áreas del
mercado cambiario y
liberalización del comercio;
reformas del mercado
financiero e incremento de la
competencia;

GRANT AGREEMENT
ECONOMIC STABILIZATION AND
RECOVERY PROGRAM IV

A.I.D. PROGRAM NO. 524-0325

BETWEEN

THE GOVERNMENT OF THE
REPUBLIC OF NICARAGUA
("Grantee")

and

THE GOVERNMENT OF THE
UNITED STATES OF AMERICA
ACTING THROUGH THE AGENCY FOR
INTERNATIONAL DEVELOPMENT
("A.I.D.")

Agreement, dated December 5,
1992, between the Government
of Nicaragua ("Grantee") and
the Government of the United
States of America (USG),
acting through the Agency for
International Development
("A.I.D."), referred to
jointly as the "Parties."

Whereas, the Government of the
United States, acting through
A.I.D., desires to provide
support to the Grantee to
assist its efforts to
stabilize the economy and
enact structural reforms in
the areas of exchange market
and trade liberalization;
financial market reform, and
increased competition;

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Por cuanto, esta asistencia tiene como propósito liberar al Donatario de ciertos pagos de servicios de la deuda y proveer a la economía nicaragüense acceso a materias primas, repuestos y otros productos;

Ahora, por tanto, las Partes a la misma convienen lo siguiente:

ARTICULO I
LA ASISTENCIA

La A.I.D., de conformidad con la Sección 531 del Acta de Asistencia al Exterior de 1961, y sus enmiendas, conviene en proporcionar al Donatario, bajo los términos de este Convenio, una cantidad que no exceda los CUARENTA MILLONES DE DOLARES DE LOS ESTADOS UNIDOS (EEUU\$40,000,000) para asistencia en apoyo al Programa de Estabilización y Recuperación Económica del Gobierno de Nicaragua (la "Donación").

La Donación se hará disponible al Donatario en un desembolso de cuarenta millones de dólares (EEUU\$40,000,000) a partir del cumplimiento de las disposiciones del Artículo II de este Convenio.

Whereas, this support is designed to provide the Grantee with relief from certain debt service payments and to provide the Nicaraguan economy with access to raw materials, spare parts and other goods;

Now, therefore, the Parties hereby agree as follows:

ARTICLE I
THE ASSISTANCE

Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, A.I.D. will provide the Grantee under the terms of this Agreement an amount not to exceed FORTY MILLION UNITED STATES DOLLARS (U.S. \$40,000,000) for assistance in support of the Grantee's Economic Stabilization and Recovery Program (the "Grant").

The Grant will be made available to the Grantee in a disbursement in the amount of forty million U.S. dollars (U.S. \$40,000,000) upon fulfillment of the provisions in Article II of this Agreement.

ARTICULO II
APOYO PARA LA ESTABILIZACION
Y RECUPERACION ECONOMICA

Sección 2.1. Condiciones
Previas al Desembolso

Previo al desembolso de cualquier entrega de la Donación, o a la emisión por parte de A.I.D. de la documentación requerida para que tal desembolso sea realizado, el Donatario proporcionará a la A.I.D., en forma y substancia satisfactoria a A.I.D., excepto que la A.I.D. de otra forma acordara por escrito:

A. Un dictamen de un asesor legal aceptable a la A.I.D. de que este Convenio ha sido debidamente autorizado y/o ratificado por, y ejecutado en representación del Donatario, y que constituye una obligación válida y legal del Donatario de conformidad con todos sus términos.

B. Una declaración de los nombres de las personas que ocupan o que están encargadas de los despachos del Donatario especificados en la Sección 4.6 y de cualesquiera representantes adicionales de dichas instituciones, junto a una muestra de la firma de cada persona especificada en dicha declaración.

C. Evidencia de que el Donatario ha establecido una o más Cuenta (s) Separada (s) (incluyendo una cuenta bajo la custodia del Banco de la Reserva Federal), en los Estados Unidos, en la cual los fondos de la donación bajo este Convenio van a ser

ARTICLE II
SUPPORT FOR ECONOMIC
STABILIZATION AND RECOVERY

Section 2.1 Conditions
Precedent to Disbursement

Prior to disbursement of the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall provide to A.I.D., in form and substance satisfactory to A.I.D., except as A.I.D. may otherwise agree in writing:

A. An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms.

B. A statement of the names of the persons holding or acting in the office of the Grantee specified in Section 4.6 and of any additional representatives of these institutions, together with a specimen signature of each person specified in such statement.

C. Evidence that the Grantee has established one or more Separate Accounts (including an escrow account at the Federal Reserve Bank), in the United States, into which the Grant funds under this Agreement are to be disbursed by A.I.D., as specified in

desembolsados por A.I.D., tal como se especifica en la Sección 3.1 de este Convenio.

D. Una carta describiendo el mecanismo bajo el cual los fondos para importaciones elegibles y para pago o reembolso de deudas del Gobierno de Nicaragua serán desembolsados de la(s) Cuenta(s) Separada(s).

E. Un Memorándum de Entendimiento sobre Moneda Local que haya sido convenido por las Partes.

F. Una carta del Donatario describiendo su programa de recuperación y estabilización macro-económica aprobado por el Fondo Monetario Internacional, el cual contenga, entre otras disposiciones, las siguientes: metas para el límite de los activos domésticos netos del Banco Central; metas sobre los niveles mínimos para los activos extranjeros netos del Banco Central; y metas con respecto al crédito neto al Gobierno Central.

Sección 2.2 Otras Condiciones Previas al Desembolso

Sujeto a todos los términos y disposiciones de este Convenio, previo al desembolso de fondos de la Donación, o a la emisión por parte de la A.I.D. de la documentación requerida para que tal desembolso sea realizado, el Donatario proporcionará a la A.I.D., en forma y sustancia satisfactoria a la A.I.D., excepto que la A.I.D. de otra forma acordara por escrito,

Section 3.1. of this Agreement.

D. A letter describing the mechanism by which funds for eligible imports and for payment or reimbursement of Government of Nicaragua debts will be disbursed from the Separate Account(s).

E. An executed Memorandum of Understanding on Local Currency between the Parties.

F. A letter from the Grantee describing its macroeconomic stabilization and recovery program approved by the International Monetary Fund, which contains, among other things: targets on the ceiling for the net domestic assets of the Central Bank; targets on the minimum levels of the net foreign assets of the Central Bank; and targets on net credit to the Central Government.

Section 2.2 Other Conditions Precedent to Disbursement

Subject to all terms and conditions contained in this Agreement, prior to disbursement of the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursements will be made, the Grantee shall provide to A.I.D., in form and substance satisfactory to A.I.D., except as A.I.D. may otherwise agree in writing, evidence of compliance with

evidencia de cumplimiento de las condiciones previas descritas en los párrafos A al D de esta Sección.

Las condiciones previas al desembolso serán las siguientes:

A. Política Macro-económica

1. Cumplimiento con el programa de estabilización y recuperación macro-económica referido en el Artículo II, Sección 2.1.F.

B. Liberalización del Mercado Cambiario

1. Eliminación del requisito legal que obliga a los exportadores del sector privado a depositar sus ingresos en moneda extranjera en el Banco Central de Nicaragua (BCN). Con el fin de ejercer control sobre las transacciones de capital, el Banco Central podrá requerir que las divisas provenientes de exportaciones sean vendidas a bancos del sistema bancario comercial quienes a su vez podrán vender estas divisas a importadores elegibles y personas que deseen ganar utilidades legales corrientes, honorarios y capital corriente sujeto a revisión posterior por parte del Banco Central. Los saldos en moneda extranjera al final de cada día serán vendidos al BCN.

2. Eliminación de todo requisito de aprobación previa por parte del BCN para la compra de divisas para importaciones, excepto para aquellas transacciones que involucren divisas oficiales

the conditions precedent described in paragraphs A through D of this Section.

The conditions precedent to disbursement shall be the following:

A. Macroeconomic Policy

1. Compliance with the macro-economic stabilization and recovery program referred to in Article II, Section 2.1 F.

B. Exchange Market Liberalization

1. Elimination of the legal requirement for compulsory surrender by private sector exporters of foreign exchange earnings to the Central Bank of Nicaragua (CBN). In order to maintain control of capital transactions, the Central Bank may require that export proceeds be sold to the commercial banking system, but the banks will be allowed to sell this foreign exchange to eligible importers and to persons wishing to make legal current profit, fee and capital remittances subject to ex post Central Bank review. End-of-day balances of foreign exchange will be sold to the CBN.

2. Elimination of all requirements for CBN prior approval of the purchase of foreign exchange for imports, except for foreign exchange involving the CBN's own or donor resources.

del BCN o que provengan de donaciones.

3. Sujeto a los términos de la Ley de Inversión Extranjera, garantizar el derecho de todos los inversionistas a comprar divisas del sistema financiero y repatriar sus ingresos corrientes y capital.

C. Liberalización del Comercio

1. Eliminación de restricciones al sector privado para la importación y exportación de maíz, sorgo y arroz.

2. Emisión de reglamentos de ejecución para la Ley de Inversión Extranjera.

D. Reforma del Mercado Financiero

1. Eliminación de los controles sobre las tasas de interés pasivas y autorización de márgenes suficientemente amplios para las tasas de interés activas que permitan a las instituciones financieras brindar servicios a clientes potenciales con un margen de utilidad razonable.

2. Conceder a los bancos privados el mismo acceso a las facilidades de descuento y otros recursos del BCN sobre una base de total igualdad con respecto a los bancos del estado. No otorgar nuevos descuentos a bancos que se encuentren atrasados en sus

3. Guaranteeing the right of all investors to purchase foreign exchange and repatriate current earnings and capital, subject to the terms of the Foreign Investment law, through purchase from the financial system.

C. Trade Liberalization

1. Elimination of restrictions on the private import and export of corn, sorghum and rice.

2. Issuance of the implementing regulations for the Foreign Investment Law.

D. Financial Market Reform

1. Elimination of controls on deposit interest rates and permission of a sufficiently broad range of loan interest rates to enable financial institutions to service profitably a full range of potential clients.

2. Provide private banks equal access to BCN discount facilities and other resources on the basis of full equality with the state banks. No new discounts will be made available to any bank which is in arrears of existing financial obligations to the

obligaciones financieras con el BCN.

3. Proveer a A.I.D. un plan para la reducción sistemática del otorgamiento de líneas de descuento con fines específicos.

4. Proveer a A.I.D. de un plan para implementar un programa que proporcione fuentes sustanciales a término medio a los bancos privados en 1993 a través de instrumentos (tales como bonos) cuyo vencimiento original no sea menor de cinco años.

5. Reorganización de los bancos estatales para que operen como instituciones orientadas a obtener ganancias con una posición inicial de capital neto positiva, y que funcionen sobre una base de completa igualdad con los bancos privados. Cualquier compensación por pérdidas en la operación de los bancos estatales deberá ser transparente e incluida dentro del presupuesto. En ningún caso el GON propondrá incrementar la capitalización de los bancos estatales más allá de los niveles existentes.

Sección 2.3 Notificación

Cuando la A.I.D. haya determinado que las condiciones previas y otras disposiciones especificadas en las Secciones 2.1 a la 2.2 han sido satisfechas o cumplidas, la A.I.D. lo notificará inmediatamente al Donatario.

Sección 2.4 Fecha para

CBN.

3. Provide A.I.D. with a plan for the systematic reduction of targeting discount resources as to end use.

4. Submission to A.I.D. of a plan to implement a program to provide substantial medium term resources to privately owned banks in 1993 through instruments (e.g. bonds) with an original maturity of not less than five years.

5. Reorganization of the state-owned banks to operate as profit-seeking institutions with an initial positive net equity position, operating on a basis of complete equality with the private banks. Any offset for operating losses of state owned banks will have to be transparent and on-budget, In no case will the GON propose increasing capitalization of state owned banks beyond existing levels.

Section 2.3 Notification

When A.I.D. has determined that the conditions precedent and other requirements specified in Sections 2.1, through 2.2 have been satisfied or completed, A.I.D. will promptly notify the Grantee.

Section 2.4 Terminal Date for

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Satisfacer Las condiciones
Previas para Cualquier
Desembolso

La A.I.D., a su opción, podrá dar por terminado este Convenio mediante notificación escrita al Donatario si las condiciones previas especificadas en el Artículo II, Sección 2.1 no han sido cumplidas dentro de sesenta (60) días a partir de la fecha de este Convenio, o cualquier otra fecha posterior que la A.I.D. haya acordado por escrito.

Sección 2.5 Fecha Para
Satisfacer las Condiciones
Previas Para el Desembolso

A. La A.I.D., a su opción, podrá dar por terminado este Convenio mediante notificación escrita al Donatario si:

1. Las condiciones previas especificadas en el Artículo II, Sección 2.2 de este Convenio no han sido cumplidas dentro de 90 días a partir de la fecha de este Convenio, o cualquier otra fecha posterior que la A.I.D. haya acordado por escrito.

ARTICULO III
DESEMBOLSO AL DONATARIO

Sección 3.1 Depósito en la(s)
Cuenta(s) Separada(s)

El Donatario, a través de su agente financiero, el Banco Central de Nicaragua, establecerá Cuenta(s) Separada(s) en una institución (es) financiera(s) de los Estados Unidos (incluyendo una

Fulfilling Conditions
Precedent for Any Disbursement

At its option, A.I.D. may terminate this Agreement by written notice to the Grantee if the conditions precedent specified in Article II Section 2.1 have not been met within sixty (60) days of the date of this Agreement, or such later date as A.I.D. may otherwise agree in writing.

Section 2.5 Terminal Dates
for Fulfilling Conditions
Precedent For Disbursement

A. At its option, A.I.D. may terminate this Agreement by written notice to the Grantee if:

1. The conditions precedent specified in Article II, Section 2.2 of this Agreement have not been satisfied or completed within 90 days of the date of this Agreement or such later date or dates as A.I.D. may otherwise agree in writing.

ARTICLE III
DISBURSEMENT TO THE GRANTEE

Section 3.1 Deposit in the
Separate Account(s)

The Grantee, through its financial agent, the CBN, will establish a Separate Account(s) in a financial institution(s) in the United States (including an escrow account in the Federal Reserve

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cuenta bajo la custodia del Banco de la Reserva Federal). A partir del cumplimiento de las disposiciones del Artículo II y que la A.I.D. haya recibido una solicitud por escrito del Donatario, A.I.D. depositará los fondos de la donación en la(s) Cuenta(s) Separadas(s). Los fondos depositados en la(s) Cuenta(s) Separada(s) y los intereses devengados sobre estos fondos, no pueden ser mezclados con otros fondos del Donatario.

Sección 3.2 Uso de los Fondos

A. En el caso de que los fondos depositados en la Cuenta(s) Separada(s) ganen intereses antes de su desembolso por parte del Donatario para transacciones elegibles, dichos intereses ganados deberán retenerse en la Cuenta(s) Separada(s) y ser usados de la misma manera y para los mismos propósitos que los dólares donados bajo este Convenio.

B. Los desembolsos de fondos de la Cuenta(s) Separada(s) incluyendo los intereses generados por dichos fondos, deberán ser efectuados por el Donatario, de conformidad con los procedimientos establecidos en la Sección 2.1. D. anterior para los siguientes propósitos:

1. Pago de los servicios de deuda del aún por pagar o atrasados del último trimestre calendario del año calendario 1992 a los acreedores multilaterales, al Fondo Monetario Internacional, al gobierno estadounidense para deuda no militar, y a México y

Bank). Upon fulfillment of the provisions set forth in Article II herein and receipt by A.I.D. of a written request for disbursement by the Grantee, A.I.D. will deposit the Grant funds in the Separate Account(s). The funds deposited in the Separate Account(s), and interest earned on these funds, may not be commingled with other funds of the Grantee.

Section 3.2 Use of Funds

A. In the event the U.S. Dollar funds deposited into the Separate Account(s) earn interest prior to their disbursement by the Grantee for eligible transactions, such earned interest shall be retained in the Separate Account(s) and be used in the same manner and for the same purposes as the U.S. dollars granted under this Agreement.

B. Disbursement of funds from the Separate Account(s), including interest generated by such funds, shall be made by the Grantee in accordance with the procedures established pursuant to Section 2.1.D. above for the following purpose:

1. Payment of the Grantee's debt service payments due or in arrears for the last quarter of calendar year 1992 to multilateral creditors, the International Monetary Fund (IMF), the U.S.G. for non-military obligations, and Mexico and

Venezuela por importaciones de petróleo.

2. Reembolso de servicio de deuda debido y pagado por el Donatario en o después del 2 de enero de 1992 a acreedores multilaterales, al FMI, al gobierno estadounidense por obligaciones no-militares, y a México y Venezuela por importaciones de petróleo, sujeto a las siguientes condiciones:

(a) el uso de los dólares provistos para el reembolso de obligaciones de deuda ya pagadas para el financiamiento de importaciones del sector privado de materias primas, bienes intermedios, artículos de consumo no suntuarios, y comida, de los Estados Unidos y de Centroamerica, así como para la compra de productos petroleros de México y Venezuela. El uso de fondos para tales importaciones requerirá la revisión y aprobación de la A.I.D. y las transacciones de importación mismas serán sujetas a auditoría.

C. Los fondos depositados en la Cuenta(s) Separada(s) no podrán ser usados para financiar requerimientos militares, paramilitares o de policía de ninguna clase, u otros bienes o servicios que a la A.I.D. le sea prohibido financiar con fondos de la A.I.D. Los fondos depositados en dicha Cuenta(s) tampoco podrán ser utilizados para financiar la compra de productos o servicios para tales propósitos o los

Venezuela for petroleum imports.

2. Reimbursement of debt service due and paid by the Grantee on or after January 1, 1992 to multilateral creditors, the IMF, the U.S.G. for non-military obligations, and Mexico and Venezuela for petroleum imports, subject to the following condition:

(a) use of the U.S. dollars provided for reimbursement of previously paid debt obligations to finance private sector imports of raw materials, intermediate goods, non-luxury consumer goods and food from the U.S. and Central America, as well as for the purchase of petroleum products from Mexico and Venezuela. The use of the funds for such imports will require A.I.D. review and approval and be subject to audit of actual import transactions.

C. Funds deposited into the Separate Account(s) may not be used for financing military, paramilitary, or police requirements of any kind or other goods or services that A.I.D. would be prohibited from financing with A.I.D. funds. Funds deposited into the account(s) may also not be used to finance the procurement of commodities or services for such prohibited purposes, or the servicing of debt that originally financed

servicios de deudas que originalmente financiaron los requerimientos prohibidos.

Sección 3.3 Fecha de Desembolso

Los desembolsos de la A.I.D. se considerarán como efectuados en la fecha en que los fondos de la Donación sean desembolsados por la A.I.D. de conformidad con la Sección 3.1 anterior.

Sección 3.4 Fecha de Terminación para las Solicitudes de Desembolso

A excepción de lo que la A.I.D. de otra manera acordara por escrito, la fecha de terminación para las solicitudes de desembolso bajo este Convenio será doce (12) meses a partir de la fecha de la celebración de este Convenio. En el caso de que el desembolso de la Donación no haya sido solicitado para esa fecha, o en una fecha posterior que la A.I.D. conviniera por escrito, la A.I.D., a su elección, podrá terminar este Convenio notificando al Donatario por escrito.

ARTICULO IV
MISCELANEOS

Sección 4.1 Impuestos y Gravámenes

Este Convenio y la cantidad de la Donación bajo el mismo estará libre de cualquier impuesto o gravamen impuestos bajo cualesquiera leyes en efecto, o que se hagan efectivas dentro de Nicaragua durante la vigencia de este

such prohibited requirements.

Section 3.3 Date of Disbursement

Disbursements by A.I.D. will be deemed to occur on the dates on which the proceeds of the Grant are disbursed by A.I.D. pursuant to Section 3.1. above.

Section 3.4 Terminal Date for Requesting Disbursements

Except as A.I.D. may otherwise agree in writing, the terminal date for requesting disbursements under this Agreement will be twelve (12) months from the date of the signing of this Agreement. In the event that full disbursement of the Grant has not been requested by that date, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

ARTICLE IV
MISCELLANEOUS

Section 4.1 Taxation and Fees

This Agreement and the amount of the Grant hereunder shall be free from any taxation or fees imposed under any laws in effect, or which may become effective during the term of this Agreement within Nicaragua.

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Convenio.

Sección 4.2 Cartas de Ejecución

Para asistir al Donatario en la ejecución de este Convenio, la A.I.D., oportunamente, emitirá Cartas de Ejecución que proporcionarán información adicional sobre asuntos establecidos en este Convenio.

Sección 4.3 Reportes, Registros, Inspecciones, Auditorías

El Donatario:

A. Proporcionará a la A.I.D., en forma y substancia satisfactoria a la A.I.D., tales informaciones y reportes relacionados con este Convenio como la A.I.D. razonablemente pueda solicitar. El Donatario proporcionará a la A.I.D., entre otros, informes económicos mensuales y otros informes económicos periódicos, siguiendo el formato requerido por el FMI, necesarios para la evaluación y seguimiento de la realización del programa económico.

B. Mantendrá o velará porque se mantenga, de conformidad con los principios y prácticas contables consistentemente aplicadas y generalmente aceptadas, libros, registros, y documentación de apoyo necesarios y adecuados para asegurar, sin límite, el cumplimiento de este Convenio, incluyendo depósitos y desembolsos de la Cuenta(s)

Section 4.2 Implementation Letters

To assist the Grantee in the implementation of this Agreement, A.I.D., from time to time, will issue Implementation Letters that will furnish additional information about matters stated in this Agreement.

Section 4.3 Reports, Records, Inspections, Audit

The Grantee will:

A. Furnish to A.I.D., in form and substance satisfactory to A.I.D., such information and reports relating to this Agreement as A.I.D. may reasonably request. Among other information, the Grantee shall provide A.I.D., in the standard IMF format, monthly economic information and other periodic economic reports necessary to evaluate and monitor performance of the economic program.

B. Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books, records, and underlying documentation as necessary and adequate to assure, without limitation, compliance with this Agreement, including deposits into and disbursements from the U.S.

Separada(s) en dólares. Tales libros y registros serán auditados regularmente, de conformidad con normas de auditoría generalmente aceptados, y serán mantenidos por tres (3) años después de la fecha del último desembolso de la A.I.D.

C. Brindará a los representantes autorizados de la A.I.D. la oportunidad, cuando sea requerido, de inspeccionar los libros, registros, y otra documentación relacionados con este Convenio y el uso de dólares en la Cuenta(s) Separada(s).

Sección 4.4 Redepósito de Fondos

En el caso de que A.I.D. determine que algún desembolso de la Cuenta(s) Separada(s) de dólares ha sido efectuado para un uso no autorizado bajo este Convenio, o para una transacción que no llene los requisitos de esta sección, o que no llene los requisitos de este Convenio, o que viole la ley de los Estados Unidos, el Donatario redepositará en la Cuenta(s) Separada(s) en dólares una suma en dólares igual al monto de dicho desembolso dentro de sesenta (60) días después del recibo de una solicitud de redepósito de parte de A.I.D. Este derecho de reembolso continuará, no obstante cualquier otra cláusula de este Convenio, por tres años a partir de la fecha del último desembolso de la donación en dólares bajo este Convenio.

Dollar Separate Account(s). Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and will be maintained for three (3) years after the date of the last disbursement by A.I.D.

C. Afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect books, records, and other documentation relating to this Agreement, and the use of dollars in the Separate Account(s).

Section 4.4 Redeposit of Funds

In the event A.I.D. determines that any disbursement from the Dollar Separate Account(s) has been made for a use other than as authorized under the terms of this Agreement, or for a transaction which does not meet the requirements of this section, or which does not meet the requirements of this Agreement, or which is in violation of United States law, the Grantee will redeposit into the dollar Separate Account(s) a sum in U.S. Dollars equal to the amount of such disbursement within sixty (60) days after receipt of the request from A.I.D. This right of refund shall continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement of U.S. Dollar Grant funds under this Agreement.

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Sección 4.5 Comunicaciones

Cualquier notificación, solicitud, documento, u otra comunicación suministrada por cualquiera de las Partes a la otra bajo este Convenio se hará por escrito o por telegrama, cable, o fax y se considerará como debidamente despachada o enviada cuando sea entregada a dicha Parte en la siguiente dirección:

Para el Donatario:

Banco Central de Nicaragua
Managua, Nicaragua, C.A.

Dirección alterna para cables:

BANCEDENIC
Managua, Nicaragua

Para la A.I.D.:

Agencia para el Desarrollo
Internacional (A.I.D.)
c/o Embajada de los Estados
Unidos
Managua, Nicaragua, C. A.

Dirección alterna para Cables:

USAID/Nicaragua
AMEMBASSY
Managua
Nicaragua, C. A.

Todas estas comunicaciones serán en inglés, a menos que las Partes convinieran de otra manera por escrito. Las direcciones anteriores podrán ser sustituidas por otras mediante notificación escrita.

Sección 4.6 RepresentantesSection 4.5 Communications

Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram, cable, or fax, and will be deemed duly given or sent when delivered to such Party at the following addresses:

To the Grantee:

Central Bank of Nicaragua
Managua, Nicaragua, C. A.

Alternate Address for cables:

BANCEDENIC
Managua, Nicaragua

To A.I.D.:

Agency for International
Development (A.I.D.)
c/o United States Embassy
Managua, Nicaragua, C. A.

Alternative Address for
cables:

USAID/Nicaragua
AMEMBASSY
Managua
Nicaragua, C. A.

All such communications will be in English, unless the parties otherwise agree in writing. Other addresses may be substituted for the above upon giving written notice.

Section 4.6 Representatives

Para todos los propósitos relacionados con el presente Convenio, el Donatario será representado por la persona que ocupe o esté encargada interinamente del Despacho del Banco Central de Nicaragua, y la A.I.D. será representada por el Director de la Misión de la A.I.D. en Nicaragua, cada uno de los cuales podrá designar representantes adicionales. Los nombres de los representantes del Donatario, con muestras de firmas, serán suministrados a la A.I.D., la cual podrá aceptar como debidamente autorizado cualquier instrumento firmado por tales representantes en la ejecución del presente Convenio, hasta que reciba notificación escrita de la revocación de autoridad de los mismos.

Sección 4.7 Idioma del Convenio

Este Convenio está redactado tanto en inglés como en español. En caso de ambigüedad o conflicto entre las dos versiones, prevalecerá la versión en el idioma inglés.

Sección 4.8 Cancelación

Si, en cualquier momento:

- A. El Donatario falla en el cumplimiento de cualquier disposición de este Convenio;
- o
- B. ocurre un evento que A.I.D. determina es una situación excepcional que hace imposible lograr el propósito para el cual esta Donación es otorgada, o no permite al

For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the position of President of the Central Bank, and A.I.D. will be represented by the Director of the USAID Mission in Nicaragua, each of whom may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in the implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 4.7 Language of the Agreement

This agreement is prepared in both Spanish and English. In the event of ambiguity or conflict between the two versions, the English language version will control.

Section 4.8 Suspension

If, at any time:

- A. The Grantee fails to comply with any provision of this Agreement; or
- B. an event occurs that A.I.D. determines to be an exceptional situation that makes it impossible for the purpose of the Grant to be attained, or for the Grantee

Donatario cumplir sus obligaciones bajo el presente Convenio; o

C. cualquier desembolso hecho por A.I.D. estaría en violación de la legislación que regula A.I.D., entonces A.I.D. puede suspender los desembolsos de los fondos de esta donación bajo este Convenio mediante notificación al Donatario. En caso de suspensión, las partes acuerdan consultar mutuamente para discutir las razones inherentes y para resolver cualquier diferencia entre las partes. Si, dentro de los sesenta (60) días a partir de la fecha de cualquier suspensión de desembolsos, la causa o causas inherentes no han sido corregidas, A.I.D. puede cancelar cualquier parte de la donación que todavía no haya sido desembolsada.

Sección 4.9 Terminación

Cualquier parte puede dar por cancelado este acuerdo notificando a la otra parte con treinta (30) días de antelación por escrito. Este Convenio puede también ser cancelado por mutuo acuerdo de las partes en cualquier momento.

Sección 4.10 Reportes

El Donatario proporcionará reportes mensuales de los desembolsos dentro y fuera de la Cuenta(s) Separada(s) en dólares, estados de cuenta mensuales, y cualquier información adicional que A.I.D. pueda solicitar de vez en cuando relacionada con las actividades financiadas de la

to be able to perform its obligations under this Agreement; or

C. any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.;

then A.I.D. may suspend disbursement of Grant funds under this Agreement by giving notice to the Grantee. In the event of suspension, the parties agree to consult with each other in order to discuss the reasons and resolve any differences there may be between the parties. If, within sixty (60) days from the date of any suspension of disbursement, the causes thereof have not been corrected, A.I.D. may cancel any part of this Grant which has not been disbursed.

Section 4.9 Termination

Either party may terminate this Agreement by giving the other party thirty (30) days written notice. This Agreement may also be terminated by mutual agreement of the parties at any time.

Section 4.10 Reports

The Grantee will provide monthly reports of disbursements into and out of the Separate Dollar Account(s), monthly bank account(s) statements, and such additional information as A.I.D. may request from time to time relating to the activities financed from the

cuenta. Estos reportes contendrán dicha información e incluirán la documentación que sea requerida por A.I.D.

account(s). These reports will contain such information and include such supporting documentation as may be required by A.I.D.

EN FE DE LO CUAL, el Gobierno de la República de Nicaragua y el Gobierno de los Estados Unidos de América, cada cual actuando a través de sus representantes debidamente autorizados, celebra y entregan el presente Convenio el día y año indicados al principio del mismo.

IN WITNESS WHEREOF, the Government of the Republic of Nicaragua and the Government of the United States of America, each acting through their duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the date and year first above written.

FOR THE GOVERNMENT OF THE UNITED STATES

Ronald Goddard
James Ballantyne

POR EL GOBIERNO DE NICARAGUA

[Signature]
Jose Bruno Tabares