

ACTION MEMORANDUM FOR THE DIRECTOR

Through : DDIR, Stephen Wingert ^{SW}
From : C/PDSO, Elizabeth Warfield
Subject : Amendment of PAAD Number 520-0385/520-K-605A
(ESF FY 1991)

Action: Your approval is requested to amend the above referenced PAAD to permit the usage of the local currencies associated with the ESF Cash Transfer Agreement to finance: (a) the servicing of external debt of the Government of Guatemala (GOG) to International Financial Institutions (World Bank, Interamerican Development Bank, International Monetary Fund, and Central American Bank for Economic Integration), as well as non-military U.S. bilateral debt; (b) support for USAID/Guatemala projects; and (c) the Mission's OE Trust Fund.

Background: Policy Determination No. 18 (PD-18) dated July 30, 1991, on "Local Currency" states that local currency need not be generated or deposited into a separate account when the dollar disbursement is used to service external public sector debt. This is based on the fact that no local currency is generated by such a transaction. However, notwithstanding that the dollar disbursement under PAAD No. 520-K-605A was to be used to finance GOG external debt repayment to the IBRD, the PAAD facesheet dated September 26, 1991 and subsequent Agreement Amendment No. 1 dated September 27, 1991 specify that the local currency equivalent of \$50 million would be deposited in a separate account as GOG counterpart to A.I.D. funds. Local currency was to be used to finance priority investment projects in the GOG's Core Development Budget (CDB) and for the Mission OE Trust Fund. The objective of the CDB was to establish an effective tool which would facilitate GOG social investment. To meet that objective, the CDB contained the top-priority investment projects of the GOG which received special treatment by the Ministry of Finance.

The reduction in ESF cash transfer resources and the termination of balance-of-payments programs after 1991 has, however, limited the ability of the Mission to significantly influence the budgetary process and its execution through the CDB. Investment in the social sectors is now primarily being driven by conditionality leveraged by World Bank and Interamerican Development Bank projects. Through the Fiscal Administration Project, USAID/Guatemala is providing assistance to the Ministry of Finance to improve the budgetary process, particularly for capital budgeting. Consequently, the GOG, in

consultation with USAID/Guatemala, has suspended the CDB mechanism for the programming of local currency balances.

Discussion: In letter No. 00532 dated June 12, 1992, later reiterated in letter No. 1076 dated December 11, 1992 from DFEF, the Minister of Finance requested that they be allowed to use local currency associated with the FY 1990/FY 1991 ESF Program for the payment of GOG external debt. Furthermore, in discussions with the Ministry of Finance, two other possible uses have been identified for the programming of the local currency. These include (1) contracting a local U.S. affiliate CPA firm to provide technical assistance in the installation of a personal computer-based accounting/budgeting system in GOG agencies implementing A.I.D. projects and (2) the capitalization of a revolving fund for A.I.D. projects that would substitute the provision of advances to HB 3 institutions. Because such usage of local currency falls outside the CDB use specified in the PAAD facesheet, an amendment to the Program Authorization is required.

The proposed uses of local currency are consistent with the original program purpose of assisting the GOG in restoring sustained economic growth through the maintenance of sound monetary policy, the adoption of critical fiscal reforms, and the restoration of credit-worthiness with international financial intermediaries. In addition, the proposed uses are not prohibited by A.I.D. policy or applicable law. The dollar disbursement under the PAAD was used to finance external debt repayment. The external debt to be serviced with local currency was originally obtained to finance priority investment projects.

Authority: A.I.D. Handbook 4 Chapter 3, Section 3D. "Amendments to Authorizations" states that any material deviation from the terms of the PAAD during negotiation or implementation of the Agreement requires prior amendment of the PAAD. A.I.D. officials empowered to approve PAAD's may approve amendments with appropriate clearances.

Per Delegation Authority Number 752, dated September 14, 1992, you have the authority to amend project (and non-project assistance) authorizations executed by any A.I.D. official, if the amendment (1) does not result in a total life-of-project funding of more than \$100 million; (2) does not present significant policy issues; and (3) does not require issuance of waivers that may only be approved by the Administrator or an Assistant Administrator.

Recommendation: That you sign this memorandum and the attached amended authorization, thereby permitting the usage of the local currency associated with PAAD Number 520-0385/520-K-605A to finance (a) the servicing of external debt of the Government of Guatemala to International Financial Institutions (World Bank, Interamerican Development Bank, International Monetary Fund, and Central American Bank for Economic

