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

ROCAP

PROJECT PAPER

LOCAL GOVERNMENT REGIONAL OUTREACH STRATEGY
(LOGROS)
AMENDMENT NUMBER 1

BEST AVAILABLE DOCUMENT

AID/LAC/P-853
CR-770

PROJECT NUMBER: 596-0167

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AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete
 Amendment Number: 1
 DOCUMENT CODE: 3

2. COUNTRY/ENTITY: ROCAP/GUATEMALA

3. PROJECT NUMBER: 596-0167

4. BUREAU/OFFICE: LAC 05
Local Government Regional Outreach Strategy

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 09 30 99

7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4)
 A. Initial FY 92 B. Quarter 4 C. Final FY 97

8. COSTS (\$000 OR EQUIVALENT \$1 =)

| A. FUNDING SOURCE | FIRST FY | | | LIFE OF PROJECT | | |
|------------------------|------------|--------|------------|-----------------|--------------|---------------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | | | | | | |
| (Grant) | (164) | () | (164) | (6,429) | (1,571) | (8,000) |
| (Loan) | () | () | () | () | () | () |
| Other U.S. | | | | | | |
| 1. Housing Guaranty | | | | 20,000 | | 20,000 |
| 2. | | | | | | |
| CABEI | | | | | 6,000 | 6,000 |
| Other Donor(s) | | | | | | |
| TOTALS | 164 | | 164 | 26,429 | 7,571 | 34,000 |

9. SCHEDULE OF AID FUNDING (\$000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE | | D. OBLIGATIONS TO DATE 07/31/93 | | E. AMOUNT APPROVED THIS ACTION | | F. LIFE OF PROJECT | |
|------------------|-------------------------|-----------------------|---------|---------------------------------|---------|--------------------------------|---------|--------------------|---------|
| | | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan |
| (1) | | | | 522 | | 2,000 | | 8,000 | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | 522 | | 2,000 | | 8,000 | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): N/A (October 30, 1990)

11. SECONDARY PURPOSE CODE: N/A (October 30 1990)

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
 A. Code N/A (October 30, 1990)
 B. Amount

15. PROJECT PURPOSE (maximum 480 characters)

To contribute to the transfer of authority and control over financial and human resources from central to local governments while helping to improve local governments' response to citizen demands for improved services and political enfranchisement.

14. SCHEDULED EVALUATIONS: Interim 06 95 Final 06 99

15. SOURCE/ORIGIN OF GOODS AND SERVICES: 000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)
 This amendment incorporates a HG guaranty up to \$20 million for municipal infrastructure investments in C.A. and authorizes under the LOGROS Project \$2 million of D.A. funds for technical assistance for LOGROS/HG implementation

I certify that the methods of financing and audit are in compliance with the Payment Verification Policy.

Gary Billesby
 Gary Billesby, Controller

17. APPROVED BY: Signature [Signature] Title Terrence Brown Acting Regional Director Date Signed 08 22 93

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

PROJECT AUTHORIZATION AMENDMENT

AMENDMENT No. 1

NAME OF COUNTRY: Central America Regional (Guatemala, Panama, Honduras, Costa Rica, Belize, El Salvador, Nicaragua).

NAME OF PROJECT: Local Government Regional Outreach Strategy (LOGROS).

PROJECT NUMBER: 596-0167

Delete paragraph 1. in its entirety and substitute in lieu thereof the following:

1.- Pursuant to Sections 103, 104, 105, and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Supplement to the Local Government Regional Outreach Strategy involving planned obligations not to exceed Eight Million United States Dollars (U.S. \$8,000,000) in Grant funds ("Grant") over a seven year period from date of original authorization, subject to the availability of funds in accordance with the A.I.D. OYB/Allotment process, to assist in financing foreign exchange and local currency costs for the Project.

Delete paragraph 2. in its entirety and substitute in lieu thereof the following:

2.- LOGROS will contribute to the transfer of authority and control over financial and human resources from central to local governments while helping to improve local governments' response to citizen demands for improved services and political enfranchisement. In order to accomplish this purpose, the LOGROS project will fund two components. The Consensus-Building Component will establish a regional network and use that network to establish regional consensus on priority decentralization issues. Networking and consensus-building activities will be issue-oriented, and will foster broad consensus on decentralization processes, policies,

priorities and problems. The Technical Component will address high-priority constraints to decentralization that have broad potential for replication. Both components will be supported by a regional training framework, which will identify existing regional institutions capable of providing training for municipal officials. Other LOGROS activities include preparation of a Regional Municipal Sector Reassessment; indicator development and monitoring; a regional communications activity; support for other regional organizations promoting decentralization in the Central America; and support for bilateral Mission requests for assistance.

The Project Paper Supplement integrates a Twenty Million United States Dollars (\$20,000,000) Housing Guaranty component with the Central American Bank for Economic Integration (CABEI) into the Project. The Housing Guaranty component is designed to advance a municipal finance policy agenda that will alleviate constraints to the flow of funds for capital investment in the municipal sector. Project Grant funds will work with the Housing Guaranty element by financing long-term technical assistance, short term technical assistance, training activities/seminars, evaluations, and environmental impact assessments.

2.A. Conditions and Covenants for HG Funds

The following conditions precedent (Cps) to borrowing, and the following covenants will become part of the Implementation Agreement between RHUDO/CA and CABEI.

Conditions Precedent to First Borrowing. In addition to any Cps required by the Loan and Guaranty Agreements:

a. CABEI will have hired a Municipal Management Specialist to head the Municipal Finance Division.

b. CABEI will have disbursed its own funds (amount or percent to be negotiated) for eligible projects under the program.

Conditions Precedent to Subsequent Borrowing. CABEI will have liquidated any advances outstanding from prior borrowing.

Covenants. a. CABEI will use its best efforts to assure that municipal development activities financed under this program are carried out within the context of the LOGROS agenda, especially with regard to community participation in project selection and development.

b. CABEI will provide sufficient personnel in the field and in Tegucigalpa to manage the implementation of this program.

c. CABEI will ensure that environmental impact assessment is conducted on each subproject in accordance with CABEI environmental policies and procedures. As necessary to complement and supplement CABEI staff capabilities, CABEI will use DA funds earmarked under the grant in the amount of US\$200,000 for the purpose of contracting specialized short-term environmental impact assessment expertise to help CABEI evaluate the environmental impacts of those projects for which CABEI determines that such analyses are needed.

d. CABEI will ensure that subprojects use positive interest rates and are cost recoverable.

e. CABEI will honor statutory limitations included in the U.S. Foreign Assistance Act of 1961, as amended; as well as such restrictions contained in authorization and appropriation bills for A.I.D.; as well as restrictions in other pertinent U.S. legislation and policy regarding use of project funds.

f. CABEI will finance the cost of an annual independent audit which meets A.I.D., requirements and provides for additional certification statements as required.

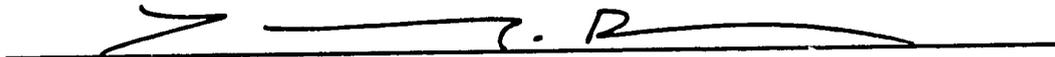
Delete paragraph 3. in its entirety and substitute in lieu thereof the following:

3.- The contracts which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions,

together with such other terms and conditions as A.I.D. may deem appropriate:

Source and Origin of Commodities, Nationality of Services

All commodities, services and their supplier's financed by A.I.D. under the Project shall have their source and origin in the United States except as A.I.D. may otherwise agree in writing. Under A.I.D.'s Buy America guidance, no local procurement are authorized except as A.I.D. may otherwise agree in writing with the following exceptions: (1) Commodities of U.S. origin, which are otherwise eligible for financing, if the value of the transactions is estimated not to exceed \$100,000 exclusive of transportation costs; (2) Commodities of Geographic Code 935 origin, if the value of the transaction does not exceed \$5,000; (3) Commodities and services which are available only locally, including utilities; communications; rental costs; petroleum, oils and lubricants; newspapers, periodicals and books published locally; and other commodities, services and related expenses that, by their nature or as practical matter, can only be acquired, performed, or incurred locally; and (4) Technical services when the value of the transactions is estimated not to exceed \$250,000. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.



Terrence J. Brown
Mission Director
USAID/Guatemala and ROCAP

Aug. 22, 1993
Date

Agency for International Development
Washington, D.C. 20523

Office of the
General Counsel

September 17, 1992

MEMORANDUM

TO: All LAC Bureau Field Mission Directors and
A.I.D. Representatives

FROM: GC/LAC, Gary M. Winter (Acting) *AW*

SUBJECT: Revised Delegation of Authority No. 752 to LAC Field
Posts

This memorandum is to advise you that on September 14, 1992, AA/LAC, James Michel signed a revised Delegation of Authority No. 752 to LAC Field posts (copy and accompanying memorandum attached; revised Delegation of Authority No. 751 has not been attached).

Substantive changes made to the delegation were:

(A) Project approval authority has been increased from \$20 million to \$50 million, except that such authority for posts in Argentina, Belize, Brazil, Chile, Columbia, Mexico, Paraguay and Uruguay is limited to \$5 million (all such posts other than Brazil and Mexico may now approve projects with foreign governments, agencies of such governments and international organizations in addition to non-governmental organizations);

(B) Project amendment approval authority has been increased from \$30 million to \$100 million, except that such authority for posts referred to in clause (A) above is limited to \$5 million; and

(C) Authority to determine whether a PID or PID equivalent document for a project should be prepared has been delegated to the field; authority to approve PIDs and PID equivalent documents which are prepared also has been delegated to the field.

Please circulate copies of the revised Delegation of Authority among your staff.

Attachments: a/s

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Office of the
General Counsel

SEP 1 1992

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR
LATIN AMERICA AND THE CARIBBEAN

FROM: GC/LAC, Gary M. Winter (Acting) *AW*
SUBJECT: Revisions of LAC Delegations of Authority

Problem: Your approval is required to revise the LAC delegations of authority to the field and to AID/W offices.

Discussion: This office and LAC/DR have discussed a number of revisions to existing LAC Bureau delegations of authority. Although A.I.D. still is operating under interim reorganization delegations of authority, it was agreed that we should go forward with these revisions now, rather than wait for more permanent agency-wide delegations. The proposed revisions are discussed below.

I. Delegation to Field Posts (DOA No. 752)

A. Project Authorizations

Currently, principal officers of LAC field posts (other than Argentina, Belize, Brazil, Chile, Colombia, Mexico, Paraguay and Uruguay) may authorize a project if the approved life of the project does not exceed \$20 million. A.I.D. Delegation of Authority No. 400, dated August 16, 1991, authorizes Regional Assistant Administrators to redelegate project approval authority to Mission Directors or other principal officers of field posts for projects where the life of project funding does not exceed \$50 million. The proposed revision is consistent with Delegation of Authority No. 400. In addition, the proposed revision would authorize the principal officers of LAC field posts in Argentina, Belize, Chile, Colombia, Paraguay and Uruguay to approve projects, without limitation as to the nature of the recipient, so long as such projects do not exceed \$5 million and so long as the life of project does not exceed five years. Currently, the principal officers of these posts may only approve projects with non-governmental organizations. Project approval authority of principal officers of LAC field posts in Brazil and Mexico would continue to be limited to \$5 million and five years for projects

only with non-governmental organizations.

B. Project Amendments

Currently, principal officers of LAC field posts (other than Argentina, Belize, Brazil, Chile, Colombia, Mexico, Paraguay and Uruguay) may amend project authorizations if the amendment does not result in a total life of project funding of more than \$30 million. A.I.D. Delegation of Authority No. 400 authorizes Regional Assistant Administrators to redelegate to Mission Directors or other principal officers of field posts the authority to amend a project authorization when the amendment will result in a total life of project funding which does not exceed \$100 million. The proposed revision is consistent with Delegation of Authority No. 400. However, as is currently the case, project authorization amendment authority may not result in a total life of project funding in excess of \$5 million or a life of project in excess of five years for principal officers of LAC field posts in Argentina, Belize, Brazil, Chile, Colombia, Mexico, Paraguay and Uruguay.

C. PIDs or PID Equivalents

The proposed revision would delegate to principal officers of LAC field posts the authority to determine whether PIDs or PID equivalent documents need be prepared. This is consistent with the Action Memorandum for the Administrator from AA/OPS (Acting), dated December 17, 1991, entitled "Reforming the Programming System, Phase II," and 91 STATE 167474, from you to all LAC field posts. It is also proposed that authority to approve PIDs and PID equivalent documents which are prepared pursuant to the above guidance be delegated to principal officers of LAC field posts.

D. Miscellaneous

The proposed revision includes technical corrections of AIDAR citations, titles of A.I.D. officers and the language for source/origin and nationality waiver certifications.

II. Delegation to AID/W (DOA No. 751)

A. PACD Extensions

The proposed revision delegates to the Director, LAC/DR, the authority to approve PACD extensions up to a total life of not more than ten years.

B. Source/Origin and Nationality Waivers

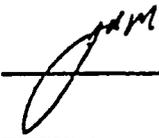
The proposed revision eliminates dollar limits on source/origin and nationality waivers for commodities (including motor vehicles) and services. This is consistent with A.I.D.

Delegation of Authority No. 405, dated May 24, 1991.

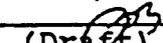
C. Miscellaneous

The proposed revision includes technical corrections of the names of various offices within the LAC Bureau and within A.I.D.

Recommendation: That you approve and sign the attached revised delegations to field posts and AID/W offices.

Approved: 
 Disapproved: _____
 Date: 9/14/92

Attachments: a/s

Clearances:
 DAA/LAC, A. Williams  Date: 9/10/92
 LAC/DR, P. Bloom  Date: 9/2/92
 LAC/DR, J. Evans (Draft) Date: 8/28/92

GC/LAC:GMWinte^{H/W}vc:9/1/92:X7-8532:
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DELEGATION OF AUTHORITY
No. 752

Delegation of Authorities to the Field;
Latin America and the Caribbean Region

Section I. Definitions

A. A.I.D. Missions and posts subject to this delegation of authorities shall be the A.I.D. Missions to Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama and Peru; the A.I.D. Representative offices for programs in Argentina, Belize, Brazil, Chile, Colombia, Mexico, Paraguay, and Uruguay; the Regional Office of Central American Programs (ROCAP); and the Regional Development Office for the Caribbean (RDO/C).

B. "Project" for purposes of this delegation includes project and non-project assistance, but excludes P.L. 480 activities. "Project" also encompasses discrete activities funded under umbrella projects for which no project paper has been prepared or approved.

C. "Project Assistance Completion Date" (PACD) is the estimated date by which all A.I.D.-financed goods are to have been delivered or all services performed under the Project Agreement. In non-project assistance, the equivalent date is the terminal date for requests for disbursement authorizations.

D. "Life of Project" is the planned length of the project as determined in project preparation. The life of project runs from the estimated date of signature of the Project Agreement or other obligating document to the PACD.

E. "PID" means project identification document for project assistance and program assistance initial proposal for nonproject assistance.

F. "Act" means the Foreign Assistance Act of 1961, as amended.

Section II. Authorization Authorities

Except as otherwise specifically provided herein, the following authorities are hereby delegated to the principal officers of LAC Bureau field posts:

A. The authority to authorize a project, if the project:

1. Does not exceed \$50 million over the approved life of project (\$5 million in the case of LAC Bureau field posts in Argentina, Belize, Chile, Colombia, Paraguay and Uruguay);

2. Does not present significant policy issues;

3. Does not require issuance of waivers that may only be approved by the Administrator or an Assistant Administrator, or if such waivers are required they are obtained prior to such authorization; and

4. Does not have a life of project in excess of ten years (five years in the case of LAC Bureau field posts in Argentina, Belize, Chile, Colombia, Paraguay and Uruguay).

B. The Authority to amend project 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 (\$5 million in the case of LAC Bureau field posts in Argentina, Belize, Chile, Colombia, Paraguay and Uruguay);

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, or if such waivers are required they are obtained prior to such authorization.

C. The authority to determine whether a PID or PID equivalent is to be prepared for a project. Such determination shall be made in accordance with the guidance contained in STATE 167474, dated May 27, 1992. PIDs and PID equivalent documents that are prepared may be approved by the principal officers of LAC Bureau field posts, unless AID/W directs otherwise.

D. The authority to approve extensions of the life of a project (PACD extensions), up to a total life of not more than ten years (five years in the case of LAC Bureau field posts in Argentina, Belize, Chile, Colombia, Paraguay and Uruguay).

E. The principal A.I.D. officers responsible for programs in Brazil and Mexico may authorize projects (subject to paragraph II.C above) only for recipients other than foreign governments, agencies of such governments and international organizations as defined in Delegation of Authority No. 402, and which do not exceed \$5,000,000 over the life of project and which do not have a life of project of more than five years. Amendments to such instruments may be authorized to increase initial funding levels or to extend the life of project within these same limits.

Section III. Implementation Authorities

The following authorities are hereby delegated to the principal officers of all LAC Bureau field posts, to the extent that the activities are either bilateral (i.e., obligated by agreements directly with foreign governments or agencies thereof) or with an international organization as defined in Delegation of Authority No.

402, provided that the authorities in paragraphs B, D and E below shall not be exercised by the A.I.D. principal officers responsible for programs in Argentina, Belize, Brazil, Chile, Colombia, Mexico, Paraguay and Uruguay without prior consultation and approval by LAC/DR and either the cognizant RLA or GC/LAC and, for paragraphs D and E, the cognizant contracting officer.

[For activities which are not either bilateral or with public international organizations, please note that the Associate Assistant to the Administrator for Management has re delegated to the principal A.I.D. officers at overseas posts, but not to the Regional Assistant Administrators, the authority to execute some U.S. Government grants, other than grants to foreign governments or agencies thereof, and some Cooperative Agreements, pursuant to Delegation of Authority No. 452 which is published in Handbook 5, and Appendix 1J to Handbook 13. Some authority to sign direct contracts has also been re delegated by AIDAR 701.601(b)(5). We construe this Delegation, the standard grant provisions, and related handbook provisions to include authorities to implement such assistance which correspond to those set forth in this Section III.]

A. General Implementation Authorities

1. Host Country Assurances. Authority to receive and determine the adequacy of assurances with respect to projects as required under Section 110 of the Act*, but not to waive the requirements of Section 110;

2. Agreements. Authority to negotiate, execute, and implement, in accordance with the terms of the authorization thereof and in accordance with applicable statutes and regulations, loan, grant and guaranty (other than Housing Guaranty) agreements, and amendments and other agreements ancillary thereto, for assistance to their respective countries or regions;

3. Host Country Contracts. Authority to approve all borrower/grantee contractors and contracts financed in whole or in part by an A.I.D. loan or grant and review and approve requests for proposals and invitations for bids with respect to such contracts; provided, however, that any invitations for bids for construction activities which will be advertised in the United States and which are estimated to be \$500,000 or more first shall be reviewed and approved by a Regional Legal Advisor or GC and by a U.S. direct-hire

*Section 110 of the FAA generally requires a 25% host country contribution to the total cost of any bilateral D.A.-funded project.

engineer; and provided further, however, that any invitations for bids for fabricated or made-to-order equipment (e.g. turbines,

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transformers but not motor vehicles) which are estimated to be \$200,000 or more first shall be reviewed and approved by a Regional Legal Advisor or GC and by a U.S. direct-hire engineer;

4. PJOs. Authority to sign or approve Project Implementation Orders;

5. PILs. Authority to prepare, negotiate, sign and deliver Project Implementation Letters;

6. Conditions Precedent. Authority to review and approve documents and other evidence submitted by borrowers or grantees in satisfaction of conditions precedent under such loan, grant, guaranty agreements, or agreements ancillary thereto; and

7. PASA/RSSAs. Authority to sign statements that proposed PASA or RSSA agreements are exempt from OMB Circular A-76.*

B. Waiver Authorities for Source/Origin and Nationality Authority to waive, in accordance with the applicable statutes and regulations, including the terms of Delegation of Authority No. 405 and the criteria contained in Supplement B of Handbook 1, source, origin or nationality requirements to permit the procurement of commodities and services (other than transportation services) in countries included in A.I.D. Geographic Code 941, 899, or 935, subject to the following:

(1) Each waiver of the requirement that motor vehicles be manufactured in the United States shall contain a certification signed by the principal officer of the post that "special circumstances exist to waive the requirements of Section 636(i) of the Act";

(2) That all waivers of source, origin, and nationality from U.S. or Code 941 to Code 899 or 935, for procurement of goods, shall contain a certification by the approving official that "Exclusion of procurement from free world countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the U.S. foreign assistance program";

(3) That all waivers of the nationality requirements for services, other than ocean transportation services, from the U.S. or

*OMB Circular A-76 generally allows other government agencies to provide goods or services to A.I.D. only if the goods or services cannot be provided by the private sector.

Code 941 to Code 899 or 935 shall contain a certification by the approving official that "The interests of the United States are best

served by permitting the procurement of services from free world countries other than the cooperating country and countries included in Code 941"; and

(4) A summary of each waiver shall be cabled to AA/LAC and FA/OP when the waiver is signed.

C. Extension of Terminal Dates

In accordance with A.I.D. Handbook 3 and Delegation of Authority No. 400 and any amendments thereto, authority to extend the terminal date for meeting conditions precedent for a cumulative period of not to exceed one year.

D. Waiver Authority for Competition Under Host Country Contracts

Authority to waive, in accordance with the terms and provisions of Chapter 12C4a of Supplement B of Handbook 1, competition in the procurement of goods and services and to authorize a single-source negotiated borrower/grantee contract; provided that the estimated procurement does not exceed \$1,000,000 per transaction (exclusive of transportation costs for commodities); that the USAID Noncompetitive Review Board specified in Handbook 11 finds the waiver justified; and that a summary of each waiver shall be cabled to AA/LAC when the waiver is signed.

[Please note that the provisions for noncompetitive negotiation of A.I.D. direct contracts are set forth in FAR 5.202 and 6.302 and the A.I.D. specific waivers in AIDAR 706.302.70.]

E. Waiver of Advertisement Requirements for Host Country Contracts

Authority to waive the requirement that a notice of availability of an IFB, RFTP, RFQ, or prequalification questionnaire be publicized in the Commerce Business Daily or an A.I.D. Publication for contracts which are \$500,000 or less in estimated value; provided, however, that this authority shall be exercised only to avoid serious delay in project implementation; and provided further however, that efforts shall be made in any event to secure proposals, bids, or offers from a reasonable number of potential contractors or suppliers.

[For A.I.D. direct contracts, the corresponding authority is FAR 5.202 and AIDAR 706.302.70.]

Section IV. Redelelegation of Authorities

Pursuant to the authorities delegated to me as Assistant Administrator for Latin America and the Caribbean, I hereby delegate all of the authorities set forth in Sections II and III hereof, retaining for myself concurrent authority to exercise any of the

functions herein redelegated, to the principal A.I.D. officers of the Missions and Posts included in Section I.

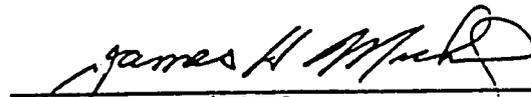
A. The authorities delegated herein shall be exercised in accordance with applicable statutes and regulations, including the Foreign Assistance Act of 1961, as amended, and the A.I.D. Handbooks and after consultation with a Regional Legal Advisor or GC/LAC, as appropriate, and with appropriate technical and support personnel.

B. The authorities delegated pursuant to Section II and Section III.B hereof shall not be further redelegated; provided, however, that they may be exercised by the person acting in the capacity of the Mission Director while the latter is out of the country (with my prior approval).

C. Other authorities delegated pursuant to Section III hereof may, in the discretion of the principal A.I.D. officer, be further redelegated to his/her deputy, or the individual acting in such capacity or may be exercised by the person acting in the capacity of the principal A.I.D. officer while, with my prior approval, the latter is out of the country. In addition, the principal A.I.D. officer in all posts except Argentina, Belize, Brazil, Chile, Colombia, Mexico, Paraguay and Uruguay may further redelegate the authorities contained herein in Section III.A 3, 4, 5, 6 and 7 to USAID direct hire staff members as he or she should deem appropriate.

D. Delegation of Authority Number 752, dated August 2, 1991, is hereby superseded in its entirety.

E. This Delegation of Authority is effective immediately.



James H. Michel
Assistant Administrator,
Bureau for Latin America and
the Caribbean
Date: 9/14/92

Drafted: GC/LAC:GMWinter:08/4/92:X76504

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 RR RUEHGT
 DE RUEHC #7444/01 2000526
 ZNR UUUUU ZZH
 R 270523Z JUL 93
 FM SECSTATE WASHDC
 TO RUEHGT/AMEMBASSY GUATEMALA 5511
 INFO RUEHSJ/AMEMBASSY SAN JOSE 5976
 RUEHSN/AMEMBASSY SAN SALVADOR 4290
 RUEHZF/AMEMBASSY PANAMA 0952
 RUEHTG/AMEMBASSY TEGUCIGALPA 6146
 RUEHMU/AMEMBASSY MANAGUA 1816
 RUEHBE/AMEMBASSY BELIZE 2020
 BT
 UNCLAS SECTION 01 OF 03 STATE 227444

27-JUL-93 TOB: 13:08
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 DIST: AID
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| ACTION | |
| USAID | ROCAP |
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| INFO | |
| DIR | |
| DUE DATE | |
| 08-03-93 | |
| ACTION TAKEN | |
| (Date/initials) | |

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: REVIEW OF ROCAP ACTION PLAN FOR FY 1994-1995

1. THE DAEC REVIEW OF THE ROCAP FY 1994-95 ACTION PLAN WAS REVIEWED ON JULY 13, 1993. A-AA NORMA PARKER CHAIRED THE MEETING ATTENDED BY REPRESENTATIVES FROM LAC/DR, DPP, TI, CEN, PRE/H, AND FA/P. ROCAP WAS REPRESENTED BY MISSION DIRECTOR TERRENCE BROWN AND PROGRAM OFFICER RANCY HOOFF. THE ACTION PLAN WAS APPROVED.

2. THE A-AA OPENED THE MEETING BY COMPLIMENTING THE MISSION ON A CONCISE AND CLEARLY WRITTEN ACTION PLAN AND REQUESTED A QUICK BRIEFING ON THE REORGANIZATION OF ROCAP TO PROVIDE A FRAMEWORK ON SUBSEQUENT DISCUSSION. THE REGIONAL AND BILATERAL PROGRAMS ARE NOW UNDER A UNIFIED ORGANIZATIONAL STRUCTURE WHICH WILL RESULT IN SIGNIFICANT STAFF REDUCTIONS AND EVENTUAL OPERATING EXPENSE SAVINGS.

BEST AVAILABLE DOCUMENT

3. THE MISSION DIRECTOR OUTLINED THE THREE STRATEGIC OBJECTIVES OF THE ROCAP PROGRAM AND PROGRESS MADE TO DATE, NOTING THAT IT WAS CONTINUING TO EXAMINE ITS PORTFOLIO TO DETERMINE THE RELATIVE COMPARATIVE ADVANTAGES OF REGIONAL PROJECTS IN THESE AREAS.

A. MORE EFFECTIVE AND DEMOCRATIC LOCAL GOVERNANCE

IT WAS AGREED THAT THE LOGROS PROJECT, EVEN AT THIS EARLY STAGE, HAS DEMONSTRATED ITS RELEVANCE TO BILATERAL MISSION EFFORTS IN DECENTRALIZATION AND MUNICIPAL DEVELOPMENT PRINCIPALLY BY PROVIDING ECONOMIES OF SCALE FOR ACCESS TO TECHNICAL ASSISTANCE. THE PROPOSAL TO LINK PROJECT FUNDS WITH HG FUNDS TO IMPROVE MUNICIPAL FINANCE SYSTEMS AND

OTHER LOCAL GOVERNMENT POLICY ISSUES SHOULD HAVE SIGNIFICANT REGIONAL IMPACT. THE PROJECT STAFF HAS DEVELOPED GOOD WORKING RELATIONSHIPS WITH LOCAL INSTITUTIONS. MOST OF THE BILATERAL MISSIONS IN THE REGION ARE WORKING WITH THE LOGROS PROJECT TO COMPLEMENT THEIR STRATEGIC OBJECTIVES.

THE BUREAU NOTED THAT THE PROJECT HAS DEVELOPED WELL THOUGHT OUT INDICATORS THAT WOULD BE GOOD MONITORS OF PROJECT PROGRESS. THE MISSION AND BUREAU CONCURRED THAT THE PROJECT WAS PROGRESSING WELL AND HAD A DEMONSTRATED COMPARATIVE ADVANTAGE IN ITS STRATEGIC AREA.

B. ENVIRONMENTALLY SOUND AND EFFICIENT PRACTICES IN NATURAL RESOURCE MANAGEMENT

THE RENARM PROJECT WAS DEVELOPED WHEN THERE WERE NO BILATERAL PROJECTS IN THIS STRATEGIC AREA. SINCE THAT TIME MOST OF THE BILATERAL MISSIONS HAVE DEVELOPED ENVIRONMENTAL STRATEGIC OBJECTIVES AND ARE IMPLEMENTING PROJECTS IN THIS AREA. THE UPCOMING EVALUATION OF THE RENARM PROJECT IS AN OPPORTUNITY TO REEXAMINE PROJECT ACTIVITIES TO DETERMINE THE APPROPRIATE RELATIONSHIP BETWEEN RENARM AND BILATERAL PROJECTS, THE PROJECT MANAGEMENT STRUCTURE, AND DEFINE THE COMPARATIVE ADVANTAGE OF THE REGIONAL PROGRAM IN CARRYING OUT THE LAC BUREAU'S ENVIRONMENTAL STRATEGY. THE BILATERAL MISSIONS HAVE PARTICIPATED IN THE DEVELOPMENT OF THE EVALUATION SCOPE AND WILL BE CONSULTED DURING THE EVALUATION PROCESS, PRESENTLY SCHEDULED FOR OCTOBER, AND THE REASSESSMENT OF PROJECT OBJECTIVES.

C. AN OPEN AND COMPETITIVE REGIONAL ECONOMY

SIGNIFICANT PROGRESS HAS BEEN MADE IN REGIONAL INTEGRATION AND COOPERATION IN THE LAST TWO YEARS. THE NORTHERN TIER COUNTRIES HAVE ALREADY CREATED A CUSTOMS UNION AND THERE HAS BEEN A 20 PER CENT INCREASE IN INTRAREGIONAL TRADE. SALVADOR, HONDURAS AND GUATEMALA HAVE MADE VERY SIGNIFICANT PROGRESS IN HARMONIZING TRADE RELATIONSHIPS.

COSTA RICA REMAINS HESITANT AND NICARAGUAI'S PRESENT ECONOMIC SITUATION HINDERS FULL PARTICIPATION. ROCAF HAS

SUPPORTED REGIONAL TRADE POLICY REFORM THROUGH THE
PROVISION OF TECHNICAL ASSISTANCE IN THE AREA OF ECONOMIC
ANALYSIS.

THE APERTURA PROJECT HAS NOT BEEN AUTHORIZED. HOWEVER,
THE ECONOMIC POLICY RESEARCH PROJECT HAS BEEN AMENDED TO
CARRY OUT CORE ACTIVITIES IN REGIONAL POLICY
HARMONIZATION. THE MISSION IS IN THE PROCESS OF
DETERMINING HOW A REGIONAL PROGRAM SHOULD BE DESIGNED AND
OPERATED WHICH WOULD COMPLEMENT THE ONGOING BILATERAL
PROGRAMS GIVEN THE VERY DIFFERENT STAGES OF DEVELOPMENT
AND EXISTING RELATIONSHIPS AMONG THE NATIONS OF THE
REGION. THE MISSION WILL EXAMINE, IN COLLABORATION WITH
THE BILATERAL MISSIONS, HOW BEST TO ORGANIZE AND CARRY OUT
A REGIONAL TRADE AND INVESTMENT STRATEGY. THE MISSION
DIRECTOR STATED THAT A SMALL RESOURCE LEVEL IN TERMS OF
DOLLARS CAN HAVE SIGNIFICANT IMPACT ON POLICY FORMULATION.

4. THE REGIONAL AGRICULTURAL HIGHER EDUCATION PROJECT

THE CURRENT MORTGAGE OF THE REGIONAL AGRICULTURAL HIGHER
EDUCATION PROJECT IS DOLS. 2.689 MILLION. AT THE PROPOSED
FUNDING LEVELS FOR THE ROCAP PROGRAM FOR FYS 94 AND 95,
THERE IS A DOLS. 1.523 MILLION SHORTFALL FOR FUNDING OF
THE EARTH SCHOOL. THE MISSION AND BUREAU AGREED THAT THE
EARTH SCHOOL IS AN EXCELLENT AGRICULTURAL EDUCATION
INSTITUTION AND THAT THE BUREAU WILL MAKE ITS BEST EFFORT
TO PROVIDE THE DOLS. 1.523 MILLION TO MEET THE COMMITMENT
TO THE SCHOOL. IF THE BUREAU IS UNABLE TO PROVIDE THE
FUNDING, THE MISSION WILL FUND THE BALANCE OF THE MORTGAGE
FROM UNRESTRICTED FUNDS FROM ITS OYB. THIS WOULD IMPLY
THE TERMINATION OF THE EXITOS (NON-TRADITIONAL AGRICULTURE
EXPORT PROJECT) A YEAR BEFORE ITS FACD AND CURTAILMENT OF
THE MISSION'S REGIONAL POLICY HARMONIZATION ACTIVITIES.

5. THE INCAP INSTITUTIONAL STRENGTHENING PROJECT BEST AVAILABLE DOCUMENT

IN A SIDE MEETING, IT WAS DECIDED THAT A TWO YEAR FACD
EXTENSION FOR THE INCAP PROJECT WAS JUSTIFIED BASED ON THE
MID-TERM EVALUATION RESULTS. HOWEVER, AN ADDITIONAL \$1
MILLION IN FUNDING (AN EVALUATION RECOMMENDATION) IS NOT
AVAILABLE. EXTENDING THE PROJECT WILL ALLOW THE \$2
MILLION ADD-ON MECHANISM TO REMAIN OPEN IN THE EVENT THAT
EARMARKED MONEY BECOMES AVAILABLE OR BILATERALS WANT TO
ADD FUNDING DURING THE FACD EXTENSION PERIOD. THE MISSION
WILL ALSO EXPLORE OPTIONS WHICH MIGHT ALLOW INCAP TO
COMPLETE FOR AID CONTRACTS AND/OR SUBCONTRACTS.

5. THE CENTRAL AMERICAN RURAL ELECTRIFICATION SUPPORT PROJECT (CARES)

IT WAS AGREED THAT THE MISSION WOULD SUBMIT A PROPOSAL FOR
RENEWABLE ENERGY ACTIVITIES FOR DOLS. 570,000 AS AN

AMENDMENT TO THE CAREL PROJECT WHICH WOULD GO TOW. DS
MEETING THE AGENCY'S ENVIRONMENTAL/ENERGY EARMARK.

7. NPDS

A. A DOLS. 1 MILLION AMENDMENT TO THE CENTRAL AMERICAN
RURAL ELECTRIFICATION SUPPORT PROJECT (596-0146)
INCREASING THE LOP TO \$11 MILLION WAS APPROVED AND
AUTHORITY TO DESIGN AND AUTHORIZE THE PROJECT AMENDMENT
WAS DELEGATED TO THE FIELD.

B. A DOLS. 2 MILLION AMENDMENT TO THE LOGROS PROJECT
(596-0167) AND A DOLS. 10 MILLION HOUSING GUARANTEE
COMPONENT WAS APPROVED AND AUTHORITY TO DESIGN AND
AUTHORIZE THE PROJECT AMENDMENT WAS DELEGATED TO THE
FIELD.

C. A DOLS. 5 MILLION AMENDMENT TO THE EXPORT INDUSTRY
TECHNOLOGY SUPPORT PROJECT (596-0165) WAS NOT APPROVED DUE
TO BUDGET CONSTRAINTS.

6. FOLLOWING THE DISCUSSIONS SUMMARIZED ABOVE, THE A-AA
NOTED THAT THE MISSION HAS EVIDENCED THAT IT FULLY
APPRECIATES THE DIFFICULT TASK AHEAD; I.E., TO FORMULATE A

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REGIONAL STRATEGY BASED ON AN ASSESSMENT OF COMPARATIVE
ADVANTAGE, AND HAS DEMONSTRATED THAT IT HAS ALREADY BEGUN
TO MOVE TOWARDS RESOLUTION OF THE ISSUES INVOLVED.
THE A-AA ALSO CONGRATULATED THE MISSION ON THE ACCELERATED
DISEURSEMENT OF ITS PIPELINE OVER THE PAST YEAR.

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**GUARANTY AUTHORIZATION
PROGRAM NO. 596-HG-010
AUTHORIZATION No. 596-HG-010**

PROVIDED FROM: Housing Guaranty Authority

FOR: Central American Bank for Economic Integration
(CABEI)

Pursuant to the authority vested in the Mission Director by the Foreign Assistance Act of 1961, as amended (FAA) and the delegations of authority issued thereunder, I hereby authorize the issuance to eligible U.S. investors (Investors) acceptable to A.I.D. of guaranties pursuant to Section 222 of the FAA of not to exceed UNITED STATES DOLLARS FIVE MILLION ONLY (\$5,000,000) in face amount. The guaranties shall assure against losses as provided in the Housing Guaranty Standard Terms and Conditions (22 C.F.R. Part 204) with respect to loans, including any refinancings thereof. These guarantied loans shall be made to the Central American Bank for Economic Integration (Borrower) to support the provision of shelter-related infrastructure for the urban poor.

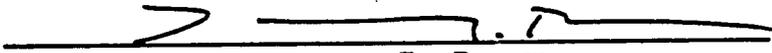
These guaranties shall be subject to the following terms and conditions:

1. **Term of Guaranty:** The loans and any refinancing thereof shall extend for a period of up to thirty (30) years from the date of each disbursement of the loans and may include a grace period of up to ten (10) years on repayment of principal, during which time interest shall accrue and be payable, and contain such other terms and conditions as are agreed to by the Borrower and the Investor, subject to the approval of A.I.D. The guaranties of the loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.
2. **Interest Rate:** The rate or rates of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the Foreign Assistance Act of 1961, as amended (FAA), and shall be consistent with rates of interest generally available for similar types of loans made in the long-term U.S. capital markets.
3. **The Central American Bank for Economic Integration Guaranty:** Prior to disbursement of any loan amounts pursuant to this guaranty authorization, a written guaranty to indemnify A.I.D.

against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the A.I.D. fee shall be provided in a form satisfactory to A.I.D. by the Central American Bank for Economic Integration.

4. **Fee:** The fee of the United States shall be payable in U.S. Dollars and shall be equal to one-half of one percent (1/2 percent) per annum of the outstanding guaranteed amount of the loans plus a fixed amount equal to one percent (1 percent) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.
5. **Other Terms and Conditions:** The Guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

In accordance with the provisions of the Federal Credit Reform Act of 1990, I hereby authorize the obligation of UNITED STATES DOLLARS THREE MILLION TWO HUNDRED AND FIFTY TWO THOUSAND (Dols. 3,252,000) to cover the subsidy cost of Authorization No. 596-HG-010 and for use of UNITED STATES DOLLARS FIVE MILLION (Dols. 5,000,000) in guaranty authority. Action must be taken to obligate these funds by no later than August 31, 1993, by receiving from the Central American Bank for Economic Integration the countersigned Letter of Advice. The guaranteed loans must be disbursed by no later than September 30, 1998, after which time the obligated funds expire.


 Terrence J. Brown
 Mission Director
 USAID/Guatemala and ROCAP

 A-g-22, 1993
 Date

UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL OFFICE FOR CENTRAL AMERICAN PROGRAMS
GUATEMALA CITY, GUATEMALA, C.A.

Letter of Advice

August 23, 1993

Federico Alvarez Fernandez
Executive President
Central American Bank for Economic
Integration
Apartado Postal 772
Tegucigalpa, M.D.C. Honduras, C.A.

Dear President Alvarez:

Subject to the terms of this Letter of Advice and such terms and conditions to be further agreed upon in a Program Implementation Agreement and in consideration for such program implementation measures and other commitments to be made by the Central American Bank for Economic Integration ("Borrower") as set forth below, the Agency for International Development ("A.I.D.") has agreed to guaranty loans to the Borrower of up to five million United States dollars (US \$5,000,000) to finance costs associated with shelter-related municipal infrastructure investments in Central America.

As set forth in detail in the approved Project Paper forming the basis for the authorization of the guaranty, which will be combined with US \$15,000,000 in an existing guaranty, the purpose of this Project is to contribute to the transfer of authority and control over financial and human resources from central to local governments while helping to improve local governments' response to citizen demands for improved services and political enfranchisement. The Project will promote democracy through municipal

Carta de Aviso

Agosto 23, 1993

Señor
Federico Alvarez Fernández
Presidente Ejecutivo
Banco Centroamericano de Integración
Económica
Apartado Postal 772
Tegucigalpa, M.D.C., Honduras

Estimado señor Alvarez:

La Agencia para el Desarrollo Internacional ("A.I.D.") ha acordado prestar en garantía al Banco Centroamericano de Integración Económica ("Prestatario") hasta la cantidad de cinco millones de dólares estadounidenses (US\$5,000,000) para financiar los costos asociados con las inversiones municipales para infraestructura de vivienda en Centroamérica. Este préstamo estará sujeto a los términos de esta Carta de Aviso y a los términos y condiciones que se acordarán en un Convenio de Ejecución de Programa, tomando en consideración las medidas de ejecución del programa, y otros compromisos que realizará el Prestatario como se indica a continuación.

Tal y como se indica en el Documento Básico autorizado, el cual constituye la base para la autorización de esta garantía que será combinada con US\$15,000,000 de otra garantía existente, el propósito de este Proyecto es contribuir a la transferencia de autoridad y control sobre los recursos humanos y financieros del gobierno central hacia las municipalidades, contribuyendo a mejorar la capacidad de la municipalidad para satisfacer las necesidades de los ciudadanos de mejoramiento de servicios y

development, focusing on municipal finance to produce improved delivery of urban services to lower income households. The local currency equivalent of the loans will be used to improve the shelter-related municipal infrastructure of households below the median income in participating Central American countries.

A.I.D.'s commitment to guaranty the loans is valid for a period of 24 months from the date this Letter of Advice is countersigned. Should the Borrower fail to execute a loan agreement within that period, A.I.D. reserves the right to cancel its commitment to guaranty.

Prior to any disbursement of the A.I.D.-guaranteed loan, the Borrower will complete, or, in the case of advances, agree to complete, expenditures satisfactory to A.I.D. which will directly benefit below-median-income families. Procedures with respect to such expenditures and advances shall be set forth in a Program Implementation Agreement to be negotiated between A.I.D. and the Borrower. A.I.D.'s issuance of a guaranty is further dependent on the Borrower's compliance with the following program parameters contained in the Project Paper: The Housing Guaranty resource will be used within the context of A.I.D.'s Local Government Regional Outreach Strategy (LOGROS) Project, to include:

- Promotion of municipal financial autonomy
- Citizen participation
- Sound municipal financial practices

participación política. El Proyecto promoverá la democracia a través del desarrollo municipal, centrándose en el financiamiento municipal para mejorar los servicios urbanos para las familias de escasos recursos. El equivalente en moneda local del valor de los préstamos será utilizado para mejorar la infraestructura municipal en el área de vivienda para las familias de ingresos por debajo de la media en los países participantes de Centroamérica.

El compromiso de A.I.D. de garantizar los préstamos es válido por un período de 24 meses a partir de la fecha en que sea firmada y aceptada esta Carta de Aviso. Si el Prestatario no ejecuta un convenio de préstamo dentro de este período, A.I.D. se reserva el derecho de cancelar su compromiso de garantía de los préstamos.

Previo a cualquier desembolso del préstamo garantizado por A.I.D., el Prestatario completará, o, en el caso de adelantos, acordará completar, los gastos que beneficiarán directamente a las familias de ingresos debajo de la media, a satisfacción de A.I.D. Los procedimientos con respecto a estos gastos y adelantos deberán establecerse en un Convenio de Ejecución de Programa, que será negociado entre A.I.D. y el Prestatario. La emisión por A.I.D. de una garantía dependerá del cumplimiento por el Prestatario de los siguientes parámetros del programa, contenidos en el Documento Básico:

El recurso de Préstamo Garantizado será utilizado dentro del contexto del Proyecto de Estrategia Regional para el Fortalecimiento de los Gobiernos Locales (LOGROS), que incluye:

- Fomento de la autonomía financiera municipal
- Participación ciudadana
- Prácticas municipales financieras sólidas

Eligibility criteria for projects to be financed under the program will include:

- Shelter-related municipal infrastructure, such as water, sewer and sanitation, solid waste, local streets, electricity
- Affordability of projects to households below the median income
- Environmental soundness
- Cost recovery at municipal/local level

Borrower agreements with financial intermediaries:

- Private sector lenders where feasible
- Public sector loan programs to be financially sound and sustainable
- All program interest rates to be at least positive

We appreciate your commitment to successful project implementation and look forward to close collaboration with you in this important effort. We especially wish to recognize the high quality of the collaboration and cooperation we have received from your staff in our joint development of this project.

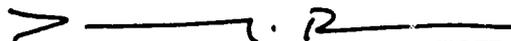
Los criterios de elegibilidad para los proyectos a ser financiados bajo el programa, incluirán:

- Infraestructura municipal relacionada con la vivienda, como por ejemplo agua, alcantarillado y saneamiento, desechos sólidos, vías de acceso, electricidad
- Accesibilidad a los proyectos por las familias de ingresos debajo de la media
- Sanidad ambiental
- Recuperación de costos a nivel municipal/local

Acuerdos del Prestatario con los intermediarios financieros:

- Prestamistas del sector privado, cuando sea factible
- Programas de préstamos del sector público financieramente sólidos y sostenibles
- Todas las tasas de interés del programa deberán ser positivas, por lo menos

Agradecemos su compromiso para ejecutar el proyecto en forma exitosa y esperamos colaborar estrechamente con usted en este esfuerzo tan importante. Deseamos reconocer especialmente la calidad de la colaboración y cooperación que hemos recibido de usted y su personal en el desarrollo conjunto de este proyecto.


Terrence J. Brown
Mission Director/Director de la Misión
USAID/Guatemala & ROCAP

Accepted/Aceptado:


Federico Alvarez Hernandez
Executive President/Presidente Ejecutivo

Date/Fecha:

Agosto 24, 1993

Attachment/Anexo:

Annex A/Anexo A: Term sheet/Lista de Términos

Annex A

TERM SHEET

HOUSING GUARANTY SUPPLEMENT TO LOCAL GOVERNMENT REGIONAL OUTREACH STRATEGY PROJECT

Project No. 596-HG-010
Authorization No. 596-HG-010

Borrower: Central American Bank for Economic Integration

A. Terms and Conditions:

1. Term of Guaranty: The loans (including any refinancing thereof) shall extend for a period of up to thirty (30) years from the date of each disbursement and may include a grace period of up to ten (10) years on repayment of principal and such other terms and conditions as may be agreed by the borrower and the investor, subject to the approval of A.I.D. The guaranties of the loans shall extend for a period beginning with the disbursement of the loans and shall continue until such time as the investors have been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate or rates of interest payable to the investors pursuant to the loans shall not exceed the allowable rate or rates of interest prescribed pursuant to Section 223(F) of the Foreign Assistance Act of 1961, as amended ("FAA"), and shall be consistent with the rates of interest generally available for similar types of loans made in the long-term U.S. capital markets.

3. Borrower Indemnity: The full faith and credit of the Central American Bank for Economic Integration shall be pledged to indemnify A.I.D. in U.S. Dollars against all losses arising by virtue of A.I.D.'s guaranties to the

Anexo A

LISTA DE TÉRMINOS

PRÉSTAMO GARANTIZADO SUPLEMENTARIO AL PROYECTO DE ESTRATEGIA REGIONAL PARA EL FORTALECIMIENTO DE LOS GOBIERNOS LOCALES

Proyecto No. 596-HG-010
Autorización No. 596-HG-010

Prestatario: B a n c o
Centroamericano de Integración Económica

A. Términos y Condiciones:

1. Término de la Garantía: Los préstamos (incluyendo cualquier refinanciamiento de los mismos) se extenderán por un período de hasta treinta (30) años a partir de la fecha de cada desembolso, y pueden incluir un período de gracia de hasta diez (10) años para la devolución de la cantidad principal y cualesquiera otros términos y condiciones que sean acordados por el prestatario y el inversionista, sujetos a previa aprobación de A.I.D. Las garantías de los préstamos se extenderán por un período de tiempo, el cual se iniciará con el desembolso de los préstamos y deberá continuar hasta cuando se les haya pagado por completo a los inversionistas, de acuerdo a los términos de los préstamos.

2. Tasa de Interés: La tasa o tasas de interés pagaderas a los inversionistas de acuerdo a los préstamos, no deberán exceder la tasa o tasas de interés permitidas prescritas en base a la Sección 223(F) de la Ley de Ayuda al Exterior de 1961, con sus enmiendas ("LAE"), y deberán ser consistentes con las tasas de interés disponibles para préstamos similares de capital a largo plazo realizados en los mercados estadounidenses.

3. Indemnización del Prestatario: El Banco Centroamericano de Integración Económica se compromete a pagar a A.I.D. en Dólares Estadounidenses cualquier pérdida por las garantías de A.I.D. para los inversionistas o de la falta de pago

investors or from non-payment of the A.I.D. fee. The indemnity obligations of the Central American Bank for Economic Integration shall be set forth in the Implementation Agreement.

4. Fee: The A.I.D. fee shall be payable by the borrower in U.S. Dollars and shall be equal to one-half of one percent (1/2 percent) per annum of the outstanding guaranteed amount of the loans plus a fixed amount equal to one percent (1 percent) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

5. Selection of Investors: At a time agreed to by A.I.D. and the borrower, A.I.D. will publish an announcement informing interested and eligible U.S. investors, as defined in Section 238(C) of the FAA, of the A.I.D. authorization and inviting such investors to communicate with the borrower directly. The text of the announcement will be agreed upon by A.I.D. and the borrower prior to its publication.

6. Approval of Investors: A.I.D.'s concurrence in the selection of investors is necessary prior to the borrower's signing a loan commitment. This concurrence will be based upon receipt of copies of loan proposals, including name, interest rate, related fees, special conditions, and the reasons for the borrower's proposed selection as well as a copy of the commitment the borrower proposes to sign.

7. Termination of Commitment: A.I.D.'s commitment to guaranty loans to the borrower is valid for a period of 24 months from the date of this letter. Should the borrower fail to execute a loan agreement within that period, A.I.D. reserves the right to terminate its commitment to guaranty.

de la cuota de A.I.D. Las obligaciones de indemnización del Banco Centroamericano de Integración Económica deberán ser estipuladas en el Convenio de Ejecución.

4. Cuota: La cuota de A.I.D. deberá ser pagadera por el prestatario en Dólares Estadounidenses y deberá ser equivalente a la mitad del uno por ciento (1/2%) anual aplicado a la cantidad garantizada pendiente de pago de los préstamos más una cantidad fija equivalente al uno por ciento (1%) de la cantidad de los préstamos autorizados o cualquier parte de los mismos, la cual será pagada como lo determine A.I.D. de acuerdo a los desembolsos de los préstamos.

5. Selección de Inversionistas: En un período de tiempo acordado por A.I.D. y el prestatario, A.I.D. publicará un anuncio informando a los inversionistas estadounidenses interesados y elegibles, de acuerdo a lo establecido en la Sección 238(C) de la LAE, de la autorización de A.I.D., e invitando a estos inversionistas a comunicarse directamente con el prestatario. El texto del anuncio deberá ser acordado por A.I.D. y el prestatario previo a su publicación.

6. Aprobación de Inversionistas: El prestatario deberá obtener la aprobación de A.I.D. de la selección de los inversionistas previo a la firma de un compromiso de préstamo por parte del prestatario. Esta aprobación se realizará en base a las copias de las propuestas de préstamo, incluyendo nombre, tasa de interés, cuotas relacionadas, condiciones especiales, y las razones para la selección propuesta por el prestatario así como la copia del compromiso que el prestatario firmará.

7. Terminación del Compromiso: El compromiso de A.I.D. de garantizar los préstamos al prestatario es válido por un período de 24 meses a partir de la fecha de esta carta. Si el prestatario no ejecuta un convenio de préstamo dentro de ese período, A.I.D. se reserva el derecho de terminar su compromiso de garantía.

8. Other Terms and Conditions: The Guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

B. Implementation Documents

1. Implementation Agreement covering the project between borrower and A.I.D.

2. Loan Agreement (or equivalent agreement) covering the loan between investors and borrower.

3. A loan-associated Paying and Transfer Agency Agreement, between the borrower and the A.I.D.-approved paying agent (The Riggs National Bank of Washington, D.C.) to facilitate loan servicing.

4. Standard Terms and Conditions (codified at 22 C.F.R., Part 204) covering the Guaranty of the loans between the investors and A.I.D.

8. Otros términos y Condiciones: La Garantía estará sujeta a cualesquiera otros términos y condiciones que A.I.D. considere necesarios.

B. Documentos de Ejecución

1. Convenio de Ejecución que ampara el proyecto entre el prestatario y A.I.D.

2. Convenio de Préstamo (o convenio equivalente) que ampara el préstamo entre inversionistas y prestatario.

3. Un Convenio de Agencia para trámites relacionados con el pago y transferencia del préstamo, entre el prestatario y el agente pagador autorizado por A.I.D. (El Riggs National Bank de Washington, D.C.) para facilitar los servicios concernientes al préstamo.

4. Términos y Condiciones Stándar (compilados en 22 C.F.R., Parte 204) que ampara la Garantía de los préstamos entre los inversionistas y A.I.D.

ACTION AID/2 INFO AMP DCM ECON /5

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19-AUG-93 TOR: 20:41
CN: 36316
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UNCLAS SECTION 31 OF 24 STATE 253854

AID ADM

E.O. 12356: N/A

TAGS:

SUBJECT: CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION
MUNICIPAL DEVELOPMENT (596-HG-310) AUTHORIZATION

1. PRE/8 HEREBY REQUESTS THAT THE MISSION FORMALLY
AUTHORIZE THE SUBJECT PROJECT BY SIGNING THE GUARANTY
AUTHORIZATION AND ISSUE A LETTER OF ADVICE TO THE CENTRAL
AMERICAN BANK FOR ECONOMIC INTEGRATION.

2. 596-HG-010 IS A FIVE MILLION DOLLAR HOUSING GUARANTY
(EG) WITH A SUBSIDY COST OF THREE MILLION TWO HUNDRED AND
FIFTY TWO THOUSAND DOLLARS. THE CREDIT SUBSIDY HAS BEEN
APPROVED.

3. THE MISSION DIRECTOR OR DEPUTY DIRECTOR OF
USAID/GUATEMALA IS REQUESTED TO SIGN AND APPROVE THE
GUARANTY AUTHORIZATION AND TO SIGN AND DELIVER THE LETTER
OF ADVICE FOR THE CENTRAL AMERICAN BANK FOR ECONOMIC
INTEGRATION IN THE NAME OF AND ON BEHALF OF THE UNITED
STATES OF AMERICA, ACTING THROUGH THE AGENCY FOR
INTERNATIONAL DEVELOPMENT. THE TEXT OF THE GUARANTY
AUTHORIZATION IS AS FOLLOWS IN PARA 5 BELOW. THE TEXT OF
THE LETTER OF ADVICE IS AS FOLLOWS IN PARA 6. ITS
ATTACHMENT A, TERM SHEET, IS AS FOLLOWS IN PARA 7.

4. FOLLOWING EXECUTION OF THE AUTHORIZATION AND RECEIPT
FROM THE BORROWER OF THE COUNTERSIGNED LETTER OF ADVICE,
PLEASE NOTIFY PRE/8 BY CABLE AND SEND ONE ORIGINAL SIGNED
COPY OF BOTH THE AUTHORIZATION AND THE LETTER OF ADVICE TO
AID/2A/PM/LM:ONEWMAN WITH COPIES TO PRE/7.

5. GUARANTY AUTHORIZATION
PROGRAM NO. 596-HG-310
(AUTHORIZATION NO. 596-HG-310)

BEST AVAILABLE DOCUMENT

FOR: CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

PURSUANT TO THE AUTHORITY VESTED IN THE MISSION DIRECTOR
BY THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED (FAA)
AND THE DELEGATIONS OF AUTHORITY ISSUED THEREUNDER, I
HEREBY AUTHORIZE THE ISSUANCE TO ELIGIBLE U.S. INVESTORS

| | |
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(INVESTORS) ACCEPTABLE TO A.I.D. OF GUARANTIES PURSUANT TO SECTION 222 OF THE FAA OF NOT TO EXCEED UNITED STATES DOLLARS FIVE MILLION ONLY (U.S. DOLS 5,000,000) IN FACE AMOUNT. THE GUARANTIES SHALL ASSURE AGAINST LOSSES AS PROVIDED IN THE FOLLOWING GUARANTY STANDARD TERMS AND CONDITIONS (22 C.F.R. PART 284) WITH RESPECT TO LOANS, INCLUDING ANY REFINANCINGS THEREOF. THESE GUARANTEED LOANS SHALL BE MADE TO THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (BORROWER) TO SUPPORT THE PROVISION OF SHELTER-RELATED INFRASTRUCTURE FOR THE URBAN POOR.

THESE GUARANTIES SHALL BE SUBJECT TO THE FOLLOWING TERMS AND CONDITIONS:

-1. TERM OF GUARANTY: THE LOANS AND ANY REFINANCING THEREOF SHALL EXTEND FOR A PERIOD OF UP TO THIRTY (30) YEARS FROM THE DATE OF EACH DISBURSEMENT OF THE LOANS AND MAY INCLUDE A GRACE PERIOD OF UP TO TEN (10) YEARS ON REPAYMENT OF PRINCIPAL, DURING WHICH TIME INTEREST SHALL ACCRUE AND BE PAYABLE, AND CONTAIN SUCH OTHER TERMS AND CONDITIONS AS ARE AGREED TO BY THE BORROWER AND THE INVESTOR, SUBJECT TO THE APPROVAL OF A.I.D. THE GUARANTIES OF THE LOANS SHALL EXTEND FOR A PERIOD BEGINNING WITH THE FIRST DISBURSEMENT OF THE LOANS AND SHALL CONTINUE UNTIL SUCH TIME AS THE INVESTOR HAS BEEN PAID IN FULL PURSUANT TO THE TERMS OF THE LOANS.

-2. INTEREST RATE: THE RATE OR RATES OF INTEREST PAYABLE TO THE INVESTOR PURSUANT TO THE LOANS SHALL NOT EXCEED THE ALLOWABLE RATE OF INTEREST PRESCRIBED PURSUANT TO SECTION 223 (F) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED (FAA), AND SHALL BE CONSISTENT WITH THE RATES OF INTEREST GENERALLY AVAILABLE FOR SIMILAR TYPES OF LOANS MADE IN THE

LONG-TERM U.S. CAPITAL MARKETS.

-3. THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION GUARANTY: PRIOR TO DISBURSEMENT OF ANY LOAN AMOUNTS PURSUANT TO THIS GUARANTY AUTHORIZATION, A WRITTEN GUARANTY TO INDEMNIFY A.I.D. AGAINST ALL LOSSES ARISING BY VIRTUE OF A.I.D.'S GUARANTIES TO THE INVESTOR OR FROM NON-PAYMENT OF THE A.I.D. FEE SHALL BE PROVIDED IN A FORM SATISFACTORY TO A.I.D. BY THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION.

-4. FEE: THE FEE OF THE UNITED STATES SHALL BE PAYABLE IN U.S. DOLLARS AND SHALL BE EQUAL TO ONE-HALF OF ONE PERCENT (1/2 PERCENT) PER ANNUM OF THE OUTSTANDING GUARANTIED AMOUNT OF THE LOANS PLUS A FIXED AMOUNT EQUAL TO ONE PERCENT (1 PERCENT) OF THE AMOUNT OF THE LOANS AUTHORIZED OR ANY PART THEREOF, TO BE PAID AS A.I.D. MAY DETERMINE UPON DISBURSEMENT OF THE LOANS.

-5. OTHER TERMS AND CONDITIONS: THE GUARANTY SHALL BE SUBJECT TO SUCH OTHER TERMS AND CONDITIONS AS A.I.D. MAY DEEM NECESSARY.

IN ACCORDANCE WITH THE PROVISIONS OF THE FEDERAL CREDIT REFORM ACT OF 1990, I HEREBY AUTHORIZE THE OBLIGATION OF UNITED STATES DOLLARS THREE MILLION TWO HUNDRED AND FIFTY TWO THOUSAND (DOLS 3,252,000) TO COVER THE SUBSIDY COST OF AUTHORIZATION NO. 596-HG-010 AND FOR USE OF UNITED STATES DOLLARS FIVE MILLION (DOLS 5,000,000) IN GUARANTY AUTHORITY. ACTION MUST BE TAKEN TO OBLIGATE THESE FUNDS BY NO LATER THAN AUGUST 31, 1993 BY RECEIVING FROM THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION THE COUNTERSIGNED LETTER OF ADVICE. THE GUARANTIED LOANS MUST BE DISBURSED BY NO LATER THAN SEPTEMBER 30, 1998, AFTER WHICH TIME THE OBLIGATED FUNDS EXPIRE.

FOR SIGNATURE BY: TERRENCE J. BROWN
ACTING REGIONAL DIRECTOR, DATE.

-6. LETTER OF ADVICE
DATE

FEDERICO ALVAREZ, EXECUTIVE PRESIDENT
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION
APARTADO POSTAL 772
TEGUCIGALPA, M.D.C. HONDURAS, C.A.

BEST AVAILABLE DOCUMENT

DEAR PRESIDENT ALVAREZ:

SUBJECT TO THE TERMS OF THIS LETTER OF ADVICE AND SUCH TERMS AND CONDITIONS TO BE FURTHER AGREED UPON IN A

PROGRAM IMPLEMENTATION AGREEMENT AND IN CONSIDERATION FOR SUCH PROGRAM IMPLEMENTATION MEASURES AND OTHER COMMITMENTS TO BE MADE BY THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION ("CABEI") AS SET FORTH BELOW, THE AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.") HAS AGREED TO GUARANTY LOANS TO THE PROPORTION OF UP TO FIVE MILLION UNITED STATES DOLLARS (US\$5,000,000) TO FINANCE COSTS ASSOCIATED WITH SHELTER-RELATED MUNICIPAL INFRASTRUCTURE INVESTMENTS IN CENTRAL AMERICA.

AS SET FORTH IN DETAIL IN THE APPROVED PROJECT PAPER FORMING THE BASIS FOR THE AUTHORIZATION OF THE GUARANTY, WHICH WILL BE COMBINED WITH U.S. \$15,320,723 IN AN EXISTING GUARANTY, THE PURPOSE OF THIS PROJECT IS TO CONTRIBUTE TO THE TRANSFER OF AUTHORITY AND CONTROL OVER

FINANCIAL AND HUMAN RESOURCES FROM CENTRAL TO LOCAL GOVERNMENTS WHILE HELPING TO IMPROVE LOCAL GOVERNMENTS' RESPONSE TO CITIZEN DEMANDS FOR IMPROVED SERVICES AND POLITICAL ENFRANCHISEMENT. THE PROJECT WILL PROMOTE DEMOCRACY THROUGH MUNICIPAL DEVELOPMENT, FOCUSING ON MUNICIPAL FINANCE TO PRODUCE IMPROVED DELIVERY OF URBAN SERVICES TO LOWER INCOME HOUSEHOLDS. THE LOCAL CURRENCY EQUIVALENT OF THE LOANS WILL BE USED TO IMPROVE THE SHELTER-RELATED MUNICIPAL INFRASTRUCTURE OF HOUSEHOLDS BELOW MEDIAN INCOME IN PARTICIPATING CENTRAL AMERICAN COUNTRIES.

A.I.D.'S COMMITMENT TO GUARANTY THE LOANS IS VALID FOR A PERIOD OF 24 MONTHS FROM THE DATE THIS LETTER OF ADVICE IS COUNTERSIGNED. SHOULD THE BORROWER FAIL TO EXECUTE A LOAN AGREEMENT WITHIN THAT PERIOD, A.I.D. RESERVES THE RIGHT TO CANCEL ITS COMMITMENT TO GUARANTY.

BEFORE ANY DISBURSEMENT OF THE A.I.D. GUARANTIED LOAN, THE BORROWER WILL COMPLETE, OR, IN THE CASE OF ADVANCES, AGREE TO COMPLETE, EXPENDITURES SATISFACTORY TO A.I.D. WHICH WILL DIRECTLY BENEFIT BELOW-MEDIAN-INCOME FAMILIES. PROCEDURES WITH RESPECT TO SUCH EXPENDITURES AND ADVANCES SHALL BE SET FORTH IN A PROGRAM IMPLEMENTATION AGREEMENT TO BE NEGOTIATED BETWEEN A.I.D. AND THE BORROWER.

A.I.D.'S ISSUANCE OF A GUARANTY IS FURTHER DEPENDENT ON THE BORROWER'S COMPLIANCE WITH THE FOLLOWING PROGRAM PARAMETERS CONTAINED IN THE PROJECT PAPER:

THE HOUSING GUARANTY RESOURCE WILL BE USED WITHIN THE CONTEXT OF A.I.D.'S LOCAL GOVERNMENT REGIONAL OUTREACH STRATEGY (LOGROS) PROJECT, TO INCLUDE:

- PROMOTION OF MUNICIPAL FINANCIAL AUTONOMY
- CITIZEN PARTICIPATION
- SOUND MUNICIPAL FINANCIAL PRACTICES

ELIGIBILITY CRITERIA FOR PROJECTS TO BE FINANCED UNDER THE PROGRAM WILL INCLUDE:

- SHELTER-RELATED MUNICIPAL INFRASTRUCTURE, SUCH AS WATER, SEWER AND SANITATION, SOLID WASTE, LOCAL STREETS, ELECTRICITY
- AFFORDABILITY OF PROJECTS TO HOUSEHOLDS BELOW THE MEDIAN INCOME
- ENVIRONMENTAL SOUNDNESS
- COST RECOVERY AT MUNICIPAL/LOCAL LEVEL

BORROWER AGREEMENTS WITH FINANCIAL INTERMEDIARIES:

- PRIVATE SECTOR LENDERS WHERE FEASIBLE
- PUBLIC SECTOR LOAN PROGRAMS TO BE FINANCIALLY SOUND AND SUSTAINABLE
- ALL PROGRAM INTEREST RATES TO BE AT LEAST POSITIVE

WE APPRECIATE YOUR COMMITMENT TO SUCCESSFUL PROJECT IMPLEMENTATION AND LOOK FORWARD TO CLOSE COLLABORATION WITH YOU IN THIS IMPORTANT EFFORT. WE ESPECIALLY WISH TO RECOGNIZE THE HIGH QUALITY OF THE COLLABORATION AND COOPERATION WE HAVE RECEIVED FROM YOUR STAFF IN OUR JOINT DEVELOPMENT OF THIS PROJECT.

TERRENCE J. BROWN
ACTING REGIONAL DIRECTOR

BEST AVAILABLE DOCUMENT

ATTACHMENT:
ANNEX A: TERM SHEET

ACCEPTED:
FEDERICO ALVAREZ HERNANDEZ
EXECUTIVE PRESIDENT

DATE:

-7. TERM SHEET
HOUSING GUARANTY SUPPLEMENT TO LOCAL GOVERNMENT REGIONAL OUTREACH STRATEGY PROJECT

PROJECT NO. 596-HG-216
AUTORIZATION NO. 596-HG-217

BORROWER: CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

- 8. TERMS AND CONDITIONS:

- 1. TERM OF GUARANTEE: THE LOANS (INCLUDING ANY REPAYMENTS THEREON) SHALL EXTEND FOR A PERIOD OF UP TO THIRTY (30) YEARS FROM THE DATE OF EACH DISBURSEMENT AND MAY INCLUDE A GRACE PERIOD OF UP TO TEN (10) YEARS ON REPAYMENT OF PRINCIPAL AND SUCH OTHER TERMS AND CONDITIONS AS MAY BE AGREED BY THE BORROWER AND THE INVESTOR, SUBJECT

TO THE APPROVAL OF A.I.D. THE GUARANTIES OF THE LOANS SHALL EXTEND FOR A PERIOD BEGINNING WITH THE DISBURSEMENT OF THE LOANS AND SHALL CONTINUE UNTIL SUCH TIME AS THE

INVESTORS HAVE BEEN PAID IN FULL PURSUANT TO THE TERMS OF THE LOANS.

- 1. INTEREST RATE: THE RATE OF RATES OF INTEREST PAID TO THE INVESTORS PURSUANT TO THE LOANS SHALL NOT EXCEED THE ALLOWABLE RATE OR RATES OF INTEREST PRESCRIBED IN SECTION 223(F) OF THE FOREIGN ASSISTANCE ACT OF 1948, AS AMENDED ("FAA"), AND SHALL BE CONSISTENT WITH THE RATES OF INTEREST GENERALLY AVAILABLE FOR SIMILAR TYPES OF LOANS MADE IN THE LONG-TERM U.S. CAPITAL MARKETS.

- 2. BORROWER INDEMNITY: THE FULL FAITH AND CREDIT OF THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION SHALL BE OBLIGED TO INDEMNIFY A.I.D. IN U.S. DOLLARS AGAINST ALL LOSSES ARISING BY VIRTUE OF A.I.D.'S GUARANTIES TO THE INVESTORS OR FROM NON-PAYMENT OF THE A.I.D. FEE. THE INDEMNITY OBLIGATIONS OF THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION SHALL BE SET FORTH IN THE IMPLEMENTATION AGREEMENT.

- 3. FEE: THE A.I.D. FEE SHALL BE PAYABLE BY THE BORROWER IN U.S. DOLLARS AND SHALL BE EQUAL TO ONE-HALF OF ONE PERCENT (1/2 PERCENT) PER ANNUM OF THE OUTSTANDING GUARANTEED AMOUNT OF THE LOANS PLUS A FIXED AMOUNT EQUAL TO ONE PERCENT (1 PERCENT) OF THE AMOUNT OF THE LOANS AUTHORIZED OR ANY PART THEREOF, TO BE PAID AS A.I.D. MAY DETERMINE UPON DISBURSEMENT OF THE LOANS.

- 4. SELECTION OF INVESTORS: AT A TIME AGREED TO BY A.I.D. AND THE BORROWER, A.I.D. WILL PUBLISH AN ANNOUNCEMENT INFORMING INTERESTED AND ELIGIBLE U.S. INVESTORS, AS DEFINED IN SECTION 239(C) OF THE FAA, OF THE A.I.D. AUTHORIZATION AND INVITING SUCH INVESTORS TO COMMUNICATE WITH THE BORROWER DIRECTLY. THE TEXT OF THE

ANNOUNCEMENT WILL BE AGREED UPON BY A.I.D. AND THE BORROWER PRIOR TO ITS PUBLICATION.

- 6. APPROVAL OF INVESTORS: A.I.D.'S CONCURRENCE IN THE SELECTION OF INVESTORS IS NECESSARY PRIOR TO THE BORROWER'S SIGNING A LOAN COMMITMENT. THIS CONCURRENCE WILL BE BASED UPON RECEIPT OF COPIES OF LOAN PROPOSALS, INCLUDING NAME, INTEREST RATE, RELATED FEES, SPECIAL CONDITIONS, AND THE REASONS FOR THE BORROWER'S PROPOSED SELECTION AS WELL AS A COPY OF THE COMMITMENT THE BORROWER PROPOSES TO SIGN.

- 7. TERMINATION OF COMMITMENT: A.I.D.'S COMMITMENT TO GUARANTY LOANS TO THE BORROWER IS VALID FOR A PERIOD OF 24 MONTHS FROM THE DATE OF THIS LETTER. SHOULD THE BORROWER FAIL TO EXECUTE A LOAN AGREEMENT WITHIN THAT PERIOD, A.I.D. RESERVES THE RIGHT TO TERMINATE ITS COMMITMENT TO GUARANTY.

- 8. OTHER TERMS AND CONDITIONS: THE GUARANTY SHALL BE SUBJECT TO SUCH OTHER TERMS AND CONDITIONS AS A.I.D. MAY DEEM NECESSARY.

- B. IMPLEMENTATION DOCUMENTS

- 1. IMPLEMENTATION AGREEMENT COVERING THE PROJECT BETWEEN BORROWER AND A.I.D.

- 2. LOAN AGREEMENT (OR EQUIVALENT AGREEMENT) COVERING THE LOAN BETWEEN INVESTORS AND BORROWER.

- 3. A LOAN-ASSOCIATED PAYING AND TRANSFER AGENCY AGREEMENT, BETWEEN THE BORROWER AND THE A.I.D.-APPROVED PAYING AGENT (THE TRUST NATIONAL BANK OF WASHINGTON, D.C.) TO FACILITATE LOAN SERVICING.

- 4. STANDARD TERMS AND CONDITIONS (CODIFIED AT 22 C.F.R., PART 214) COVERING THE GUARANTY OF THE LOANS BETWEEN THE INVESTORS AND A.I.D.
WILMINGTON

PROJECT PAPER SUPPLEMENT NO. 1

Local Government Regional Outreach Strategy
(LOGROS: 596-0167, 596-HG-010)

United States Agency for International Development
Regional Office for Central American Programs
(ROCAP)

August 1993

PROJECT PAPER SUPPLEMENT NO. 1

Local Government Regional Outreach Strategy
(LOGROS: 596-0167)

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Acronyms and Abbreviations

| | |
|-----------|--|
| A.I.D. | U.S. Agency for International Development. |
| A.I.D./W. | Agency for International Development/Washington. |
| AMHON. | Asociacion Municipal de Honduras. |
| ANAM. | Asociacion Nacional de Municipalidades (Guatemala). |
| BANMA. | Banco Municipal Autonomo (Honduras). |
| CA. | Central America. |
| CABEI. | Central American Bank for Economic Integration. |
| CACM. | Central American Common Market. |
| COMURES. | Corporacion de Municipalidades de la Republica de El Salvador. |
| CP. | condition(s) precedent. |
| DA. | Development Assistance Funds (A.I.D.) |
| FEMICA. | Federacion de Municipios del Istmo Centroamericano. |
| FAA. | Foreign Assistance Act (USG). |
| FAR. | Foreign Acquisition Regulations (USG). |
| FY. | fiscal year. |
| HG. | Housing Guaranty program (A.I.D.). |
| IA. | Implementation Agreement. |
| IDB. | Inter-American Development Bank. |
| IFAM. | Instituto de Fomento y Asesoría Municipal (Costa Rica). |
| IFI. | intermediary financial institution. |
| INFOM. | Instituto de Fomento Municipal (Guatemala). |
| INIFOM. | Instituto Nicaraguense de Fomento Municipal (Nicaragua). |
| IULA. | International Union of Local Authorities |
| IQC. | Indefinite Quantity Contract. |
| ISDEM. | Instituto Salvadoreño de Administración Municipal (El Salvador). |
| LAC. | Bureau for Latin America and the Caribbean (A.I.D.). |
| LOGROS. | Local Government Regional Outreach Strategy (RHUDO/CA). |
| LOP. | Life of Project (A.I.D.). |
| MDF. | Municipal Development Fund. |
| MIF. | Municipal Infrastructure Finance component (LOGROS). |
| NGO. | non-governmental organization |
| PIL. | Project Implementation Letter |
| PIO/P. | Project Implementation Order/Participant Training. |
| PIO/T. | Project Implementation Order/Technical Services. |
| PP. | project paper |
| PRE/H. | Bureau for Private Enterprise/Office of Housing and Urban Programs (A.I.D.). |
| PSC. | personal services contractor. |
| R&D. | Bureau for Research and Development (A.I.D.). |
| RHUDO. | Regional Housing and Urban Development Office. |
| ROCAP. | Regional Office for Central American Programs (A.I.D.). |
| SA. | South America. |
| SOW. | Scope of Work |
| TA. | technical assistance. |
| UNDP. | United Nations Development Programme. |
| US. | United States. |
| USDH. | United States direct-hire employee. |
| USG. | United States Government. |
| WID. | Women in Development. |

PROJECT PAPER SUPPLEMENT NO. 1

Local Government Regional Outreach Strategy
(LOGROS: 596-0167)

1.0 SUMMARY AND RECOMMENDATION

Summary. The Local Government Regional Outreach Strategy (LOGROS) Housing Guaranty Program (LOGROS HG) is a six year, \$20 million activity designed by A.I.D.'s Regional Housing and Urban Development Office for Central America (RHUDO/CA), in consultation with Central America's bilateral USAID Missions, for the purpose of financing municipal infrastructure investments in Central America within the context of ROCAP's LOGROS Project (596-0167). The LOGROS HG is specifically designed to address high priority municipal finance issues central to the LOGROS agenda by financing the construction of infrastructure projects in municipalities throughout Central America. Capital funds for actual infrastructure improvements under the LOGROS HG will derive from CABEI's internally generated funds, an AID Housing Guaranty loan, and capital contributions from participating municipalities and/or public or private lending agencies. The Program will be implemented over a six year period, although the supporting TA is planned for only the first four years. In accordance with HG statutory requirements, the infrastructure improvements will benefit families with incomes below the median.

The LOGROS HG is fully consistent with the goal and purpose statements of the LOGROS project, which was authorized in August 1992. The objective of the HG is to complement activities funded under LOGROS--i.e., consensus-building (political component) and problem-solving (technical component)--by providing a source of investment capital for municipal infrastructure projects. As a result of LOGROS HG implementation, municipalities will enhance their financial management capabilities and improve their ability to tap and utilize new financial resources from the public and private sectors. In this way, municipalities will be better able to respond to, and make use of, the transfer of power and responsibilities from the national to the local level.

Through this AID activity, the U.S. Government (USG) will guaranty a loan of \$20 million to the Central American Bank for Economic Integration (CABEI); CABEI will contribute some of its own funds, now estimated as at least an amount equal to 30% of the HG funds (or 25% of total project costs). All of the funds will be loaned to intermediary financial institutions for on-lending to public or private intermediaries for municipal infrastructure projects. In addition, municipal borrowers typically will contribute a portion of infrastructure project costs to supplement the funding available under the LOGROS HG.

A major innovation of this program, however, is that CABEI loans will in turn be structured to advance the LOGROS agenda with regard to constraints to the flow of funds for capital investment in the municipal sector. The assumption is that sound fiscal and financial structures at the local level are necessary to attract

additional funding sources, both internal and external to the region, to increase the flow of resources to this key developmental sector.

This Amendment also supports authorization of an additional \$2.0 million in development assistance (DA) funds to support long-term technical assistance (TA), short-term TA, training activities (including seminars), evaluation activities, audits, and project environmental impact assessment activities. These support activities are expected to be needed for the first four years of the six year Housing Guaranty element.

Recommendation. The activities to be funded by this Amendment have been carefully analyzed, and are consistent with Central American, AID/Washington, bilateral USAID and Mission priorities and strategies. Technical, financial and institutional analyses indicate that the activities to be funded will significantly expand the impact of LOGROS, and that the objectives of the new Project components are attainable with the resources allotted. The Project Design Committee therefore recommends that Amendment No. 1 to LOGROS be authorized in FY'93.

2.0 BACKGROUND, RATIONALE AND RELATIONSHIPS

2.1 BACKGROUND AND RATIONALE

In August 1992, A.I.D. authorized the Local Government Regional Outreach Strategy (LOGROS) Project (596-0167) for Central America. The purpose of the Project is "to contribute to the transfer of authority and control over financial and human resources from central to local governments while helping to improve local governments' response to citizen demands for improved services and political enfranchisement."

To accomplish its purpose, this \$6.0 million grant project funds two components. The first--the Regional Network and Consensus-Building Component--uses a regional network to establish consensus on priority decentralization issues and policies. This network is designed to foster broad consensus on decentralization processes, policies, priorities and problems. The Second LOGROS component--the Regional Technical Component--is designed to address specific constraints to decentralization via problem-solving exercises that have a high potential for replication in the region. Both components are supported by training and monitoring activities, and the Project has resources to respond to bilateral Missions' requests for assistance in developing and furthering their own local government agendas. Allocating grant funds for capital investment that could enhance problem-solving efforts was considered during the original LOGROS design.

However, because of a scarcity of resources, this became impracticable and only TA and training funds were authorized. This Amendment to LOGROS will make available capital development funds to directly support the LOGROS agenda, and establish a third Project component--Municipal Infrastructure Finance.

As of July 1993, Project implementation is well underway: a number of regional consensus-building events have been held in cooperation with the Federacion de Municipios del Istmo Centroamericano (FEMICA), two problem-solving exercises are about to begin implementation, and the first LOGROS-funded network meeting is planned for November 1993. Prior to LOGROS funding coming on-line, moreover, the regional municipal agenda was reinforced with regional meetings and training events funded by ROCAP's Regional Development Support Project (596-0162). The regional municipal agenda is based on the Declaration of Tegucigalpa of September 1992, in which over 100 of the region's mayors reached agreement on the major issues confronting decentralization and municipal development. This agenda is further elaborated in ROCAP's "Regional Support to Democratic Initiatives, A Strategic Framework" (May, 1993).

Concurrent with the design and initial implementation of LOGROS, the Central American Bank for Economic Integration (CABEI) was undergoing substantial reorganization. Two events have occurred of special significance to the themes of decentralization and municipal autonomy and the LOGROS agenda. First, CABEI's financial and administrative structures were modified extensively during the past two years, and recent reports give CABEI high marks for its overall financial health as well as its current operating procedures. Second, A.I.D. restructured an existing Housing Guaranty Loan (HG) with CABEI to finance urban infrastructure (rather than complete housing units), focusing CABEI on municipal and decentralization issues for the first time. As a result, CABEI top management and RHUDO/CA have been exploring how CABEI, with additional HG resources, might contribute to the goals of decentralization and the development of municipalities in the region. Evidence of CABEI's interest includes a meeting orchestrated by CABEI at its headquarters in Tegucigalpa in April 1993, where RHUDO/CA was invited to present the LOGROS framework and RHUDO/CA's views on the status of municipal development in each of the Central American countries. The CABEI Executive President and all department heads heard this presentation, and as a result a committee of top managers was appointed to work with RHUDO/CA to develop the framework for a new HG--one that could support municipal development

and decentralization efforts taking place in the region within the context of LOGROS (seen by CABEI as an essential development tool in this process). In addition, CABEI has informally indicated an intent to contribute to the program from its own resources an amount equivalent to at least 30% of the HG.

Studies and analyses undertaken to support this LOGROS Amendment have found that a HG investment channeled through CABEI can substantially promote the LOGROS agenda--specifically vis-a-vis municipal finance constraints--through both the Consensus-Building and the Technical Components of the Project as reflected in Conclusion 2 of the Declaration of Tegucigalpa (i.e., to "improve financial resource mobilization and support policies that increase the fiscal base"). Well-placed HG investments will support policy changes of high priority on the LOGROS agenda, such as: upgrading of municipal tax collection and recovery of back taxes; expanding local taxing and fee authorities; improving cost recovery; expanding municipal borrowing capability and credibility; introducing financing and co-financing mechanisms under conditions appropriate to different classes of municipalities and the local lending environment; and using increased citizen participation to increase the user's stake in the project and their willingness to pay for it. Real money flowing at positive rates through existing institutions operating with improved policies would enhance the replicability of workable solutions throughout the region, moreover, and encourage new public and private entities and capital to enter the municipal finance field.

HG lending has proved useful in recent years in advancing the AID municipal development and decentralization agendas in Central America and other regions of the world. The current USAID Municipal Development program in Honduras evolved from experience under HG-008 and prior Housing Guaranties, for example, and HG resources are being used to support municipal decentralization in Morocco, Indonesia, and the Philippines and will soon be so used in Guatemala.

Two features required by the HG statute are that the projects funded by the HG be accessible to families with incomes below the median, and that the projects improve the living conditions of these families. In the Central American context this translates into investments in poorer neighborhoods for such improvements as streets, surface drainage, water supply, sewerage systems, street lighting and solid waste disposal.

On the other hand, the normal flow of funds to municipalities for all kinds of development activities is constrained by centrist policies, as articulated in the LOGROS agenda. Under LOGROS, HG capital resources will be used to promote and support sound municipal finance policies that will be conducive to establishing sustainable municipal finance systems in the region. How this will take place in the context of LOGROS is detailed in Section 3.0.

Also of importance to the LOGROS approach is the promotion of democracy through municipal development. The HG will address this aspect specifically through the use of increased citizen participation in municipal finance decision-making. When citizens have a role in project selection, development, and financing, they are: (1) more likely to be willing to pay for the resulting service; (2) more careful in their choices of how to allocate their scarce resources; and (3) more likely to hold public officials accountable for the use of their funds. Indeed, citizen participation in decisions regarding resource allocation is perhaps the most fundamental and significant feature of democratic participation. In a region like Central America, where democracy nominally exists in all countries but where such huge income differences exist that empowerment for the vast majority may be an illusion, broadening the base of participation in local financial decision-making is a practical, relatively quick way to give more people a stake in democracy by giving them a central role in improving their own living conditions. More generally, increased financial autonomy for municipalities is the key to realizing the benefits of decentralization and to a broader distribution of those benefits. It is the means by which democracy can

be experienced by citizens at the local level, where they can more readily hold their elected officials accountable for the use of locally generated resources.

2.2 PROJECT RELATIONSHIPS

Relationship to Agency Priorities and Strategies. The addition of a capital assistance component to LOGROS is fully consistent with all applicable Agency priorities and strategies, including the Bureau's Economic Assistance Strategy for Central America, 1991-2000. LOGROS itself will support the development of democratic institutions, and in particular will broaden and deepen citizen participation in democratic processes. The proposed HG component will advance AID policy objectives in the area of municipal finance. Policy dialogue agenda items to be supported will include: broadened citizen participation in public decision-making regarding resource allocation; full recovery of the costs of improvements at the municipal level; increased municipal financial authorities; privatization of public services; municipal control of service provision or improvements; and more equitable distribution of the benefits of growth to include lower income populations.

Relationship to AID Regional Priorities and Strategies. The incorporation of a capital resource into LOGROS will enhance the impact of the Project. In particular, the Municipal Infrastructure Finance Component will strengthen AID's ability to develop democratic societies in Central America by providing municipalities with the ability to manage and control their financial resources and expenditures, which in turn will promote the concept of decentralization of power and responsibilities from the national to the local level. The regional strategic context for the Project is more fully elaborated in ROCAP's "Regional Support to Democratic Initiatives: A Strategic Framework" (May, 1993).

Relationship to Bilateral USAID and National Priorities and Strategies. Three USAID Missions in Central America have either in place or in design bilateral projects to support decentralization and municipal autonomy. While the use of LOGROS HG resources may not be appropriate in all countries, the municipal finance and democracy agenda to be supported by the HG will be closely coordinated with USAIDs in all countries in which it will operate. Where both the LOGROS HG and bilateral municipal projects are operating, the HG will explicitly complement bilateral efforts; this may include co-funding subprojects with HG and bilateral resources, using HG funds as a capital component to bilateral TA and training activities, focusing HG investments on municipalities targeted by USAIDs, and/or using HG funds to promote USAID policy agendas in municipal finance. Where bilateral Missions do not have in place municipal projects or activities, the HG may be used in the context of on-going LOGROS activities being pursued in consultation with the bilateral USAID. Issues to be addressed using HG resources will therefore be widespread in the region, and case studies to resolve them will be disseminated through the LOGROS network, to keep all participants abreast of progress.

Relationship to Previous Projects. The Mission's financial assistance to CABEI began in the late 1960's, with a \$10.0 million grant to provide seed capital for the creation of a Housing Finance Fund for low-income families. Since that time, AID has authorized HGs for CABEI totalling \$140 million. These HG loan funds--when mixed with CABEI counterpart funds--have generated 71 housing loans to 47 different national financial institutions--mostly savings and loan institutions--which in turn have provided 53,000 mortgage loans to low-income families totaling 286,000 people. Total investment through CABEI's Housing Finance Fund had reached \$201.4 million as of the end of 1991. Over the years, CABEI has demonstrated the feasibility of providing funding through private sector financial institutions for on-lending to individual borrowers for housing purposes.

Of special relevance to the LOGROS HG activity, however, is the redirection of CABEI HG funds currently in escrow for housing and urban upgrading subprojects in Guatemala and Honduras. Under this redirection, these funds will support the same types of municipal infrastructure investments to be funded under LOGROS--providing valuable experience and helping to smooth the transition into implementation of LOGROS HG activities.

Relationship to Other Donor Activities. Other donors active in the municipal sector include the AECI of Spain, the German GTZ, the French assistance agency, the Interamerican Development Bank (IDB), and the United Nations Development Program (UNDP). LOGROS is already working in collaboration with the Spanish, Germans and French, and has initiated contact with the UNDP in an effort to improve coordination--especially vis-a-vis the role of central government municipal institutes.

During the course of PP Supplement preparation, RHUDO and PRE/H met with officials of the IDB and the World Bank to solicit their views on the sector. Both cited disappointment with the central government municipal development agencies in general (a view shared by AID); both cited competition from AID grants to municipalities as an obstacle to more lending activity to the sector; and both blame the sluggish bureaucratic operations of central government entities for squelching demand for municipal loans. They also see the major issue as one of responsiveness, however, and believe--as does RHUDO--that a flexible and agile loan process could compete with soft loans even at higher interest rates. The IDB sees greater hope through direct lending to municipalities, and the World Bank through private sector lending.

The IDB is lending directly to municipalities in some cases, such as that of San Pedro Sula in Honduras (\$40 million, concessionary), and is having good results so far. They caution, however, that the universe of municipalities capable of managing and/or repaying loans is still quite limited in most countries. The World Bank is starting to consider lending through private banks for municipal infrastructure, but has not yet made a final decision to do so. Some World Bank staff are also interested in CABEI as a lending channel now that it has improved management. These preliminary and informal conversations offer some encouragement for the direction the LOGROS Municipal Infrastructure Finance Component will take, and both multilateral banks indicated interest in greater involvement in the municipal sector if viable mechanisms can be developed. Although the LOGROS HG is small (half the amount of one IDB loan to San Pedro Sula, for example), it promises to open a channel which could be used by other donors with greater resources.

3.0 REVISED PROJECT DESCRIPTION

3.1 PROJECT GOAL, PURPOSE AND OUTPUTS

Project Goal. The goal of LOGROS as originally articulated was "the evolution of stable democratic societies in Central America." Since the time of LOGROS authorization, however, and in consultation with Central American USAIDs and the LAC Bureau, ROCAP/RHUDO has more specifically defined its strategic objective in promoting democracy in Central America. Because the new articulation--"more effective and democratic local governance"--more clearly articulates the ultimate objective of both the program and the Project, with this Amendment to LOGROS the Project goal statement has been revised accordingly (Annex B).

Project Purpose. The LOGROS Project purpose is "to contribute to the transfer of authority and control over financial and human resources from central to local governments while helping to improve local governments' response to citizen demands for improved services and political enfranchisement." No change to the purpose statement of the Project is implied by the addition of LOGROS HG funding. Rather, the addition of capital funds directed to the development of sustainable municipal finance systems and the construction of municipal infrastructure, as described in this PP Supplement, will enhance and improve the prospects of this project purpose being achieved.

Project Outputs. Two project outputs, in addition to those articulated in the original LOGROS Project Paper, will result from authorization of this Amendment and implementation of the Municipal Infrastructure Finance component of the Project. These are:

- Not less than \$26 million (\$20 million HG, \$6 million CABEI counterpart) will have been invested in new municipal infrastructure projects over the LOP; and
- CABEI will have institutionalized its Municipal Infrastructure Finance Program by continuing to provide loans for this purpose even after the completion of the LOGROS HG Program.

3.2 MUNICIPAL AND INFRASTRUCTURE FINANCE ISSUES

Increases in urban population threaten to far outstrip the physical plant of cities and towns throughout developing countries, including those in Central America. Most governments proclaim a policy of physical decentralization--promoting the development of towns outside the capital city to relieve pressure on major metropolitan areas, among other reasons. Faced with mounting fiscal pressures and influenced by donors, many governments have also increasingly sought to use loans rather than grants for this purpose. Municipal and infrastructure credit funds (hereafter, "municipal development funds"--MDFs) have become an important means to this end. AID was a leader in this area and established MDFs in many countries in Latin America in the 1970s, although these early AID-inspired MDFs in Latin America preceded many of the reforms and the interest in decentralization necessary to make them effective, which have gained momentum since. Since then, the World Bank, the Inter-American Development Bank, and other donors have helped spread this mechanism worldwide.

A number of key issues have emerged from this experience that MDF design and implementation must deal with to succeed. The most basic issue is that MDFs typically have two goals--providing credit and encouraging development. These

goals often conflict to some extent. A grant gives the MDF greater influence over municipal clients (typically encouraging them to change their practices in developmentally sound ways) than a loan. However, a grant defeats the other basic purpose of the MDF--to provide credit as a more sustainable source of investment funds. Thus, municipal and infrastructure funds must balance these two overall goals to be effective. This overall tension gets played out in three specific issues: establishing a market for credit, loan repayment, and moving MDFs to a market basis.

Establishing a Market for Credit. Despite tremendous local infrastructure needs, the demand for near-market rate credit--that often provided by MDFs--is often small. The customary means for infrastructure finance in developing countries (including those in Central America until recently) has been central government grants. If mayors expect to continue to receive free capital funding, they will not take infrastructure loans.

Where substantial amounts of grants exist, the most basic problem of MDFs is how to deal with this competition. Various solutions have been adopted. The most common one is to tie as much of the grant system as possible to the MDF loans. (For this reason, some MDF programs--such as the World Bank/Inter-American Bank/GTZ/Government of Ecuador MDF program--target reform of the inter-governmental transfer system as their main goal. As part of this program, the government of Ecuador agreed to stop making ad hoc infrastructure grants outside the MDF and channel all grants through the MDF program in specific proportions to loans. Maintaining the political will necessary for eliminating grants is usually quite difficult.) Often, MDF programs entitle local governments to grants if they take MDF loans in specified proportion. For example, a series of World Bank/state of Parana MDFs in Brazil started as a grant program, then tied loans to grants in the proportion of two to one, and have increased this proportion as local governments have become accustomed to loans and as state government has had fewer grants to give. When higher levels of government face fiscal crises, the supply of local capital grants decreases and they become less of a problem for MDFs.

The availability of grants and, hence, the nature of this problem in Central America varies among countries--see the "Demand Profile" in Section 3 for specifics. For example, El Salvador currently has received relatively large amounts of donor funds for war reconstruction that are being channelled to local government mainly in the form of grants. However, mayors are aware that this situation is temporary and that the only sustainable solution to their capital needs is loans. Hence, Salvadoran mayors expressed willingness to take HG program loans. In contrast, Costa Rican municipalities have only one significant source of capital finance--through the municipal assistance institute, IFAM, which provides much of its financing at near-market rates.

For this as well as other reasons, the HG must have the flexibility to tailor its terms and strategies to each country. In Costa Rica, full funding of selected infrastructure projects at near-market rates is an immediate option. In El Salvador, the HG may have to work hard with the mayor of a large city whose needs far exceed the soft money available, fund only part of an infrastructure project (with the remainder financed by soft money in order to lower the overall rate), and provide more favorable terms.

Although grants represent fatal competition if localities expect this free capital funding to continue, they provide an opportunity for the HG when mayors expect grants to end, as in El Salvador. In effect, the HG can finance part of an infrastructure project, with soft money funding the remainder; thus, the overall interest rate for the project falls to below--market levels and achieves the same effect as linking grants with loans.

Because of the availability of other sources of funding, and because all the residents of a given project area may not be below the median, the HG is likely

to finance pieces rather than entire projects at first, with other sources of funds serving to lower project costs and/or finance parts of the project that the HG cannot because of statutory restrictions on beneficiaries. The Esquintla water project described in Box 1 in Section 3.5.2 is an example of an option combining sources of funds to lower total project costs.

Pricing and joining the HG with other sources of finance will help in overcoming local resistance to loans. However, marketing is likely to be at least as important. Typically, the marketing of MDF programs involves preparation of clear and easy to understand manuals, regional meetings with mayors to explain the program, and assistance in applying. The meetings with mayors often focus on the type of projects to be financed, and usually the focus is on revenue-generating projects. The application assistance often involves help in preparing the architectural design, specifications, and cash flow of a project when local governments lack this capacity. The Honduras bilateral municipal development program already has a pre-investment fund for these tasks. NGOs, local developer/contractors interested in getting project business, and other donors are also likely to be able to provide some assistance in preparation of project designs and specifications in other countries. When other sources are unavailable, LOGROS may be used for this purpose.

The HG's attachment to LOGROS potentially offers important advantages in marketing the program to local governments. LOGROS can help create the environment at the country level in which mayors are receptive to loans, as well as provide a vehicle for approaching individual mayors.

In addition to local borrowers, the HG loan component must be marketed to financial intermediaries, mostly to private financial institutions. CABEI has pre-existing relationships with commercial financial institutions in each country to draw on in this effort.

Marketing is likely to merge quickly into negotiating possible arrangements with these financial institutions on a number of key matters: the margin to be paid to financial intermediaries (typically 4-6 percent), assumption (for public financial intermediaries) or not (for private financial intermediaries) of the exchange rate risk, and extent of assumption of credit risk by the intermediary (usually 100 percent). CABEI should be entirely in charge of marketing and negotiation with financial intermediaries within HG program parameters. With the financial intermediaries as well as with municipal borrowers, the flexibility necessary to tailor the HG program to local need and capacity is crucial.

Loan Repayment. A clear and important lesson stand out from international experience with credit to local government. Municipalities pay back loans when effective sanctions or methods of collection exist; where these do not exist, they do not repay. The Municipal Development Program operated by the Calcutta Metropolitan Development Authority based its strategy for loan repayment on an ambitious effort by the state of West Bengal to improve local revenue raising capacity, but had no sanctions. Municipalities have paid back virtually none of the money. In the same country, however, loans with effective collateral get repaid. As another example, the FEC in Morocco lends to two types of clients: local governments and local utility companies. Local governments' debt is guaranteed by the central government. Until recently, local utility company debt was not. During the 1980s, the FEC experienced considerable arrears on its utility company loans, but none on its loans to local governments.

Central America also offers one of many examples. No delinquency has occurred on loans to municipalities in Costa Rica, where the Contraloria requires that municipalities include this debt in their annual budgets. In contrast, BANMA--a MDF in Honduras--has gone bankrupt because no effective sanctions existed for non-payment and local governments neglected to pay.

The most common solution to the repayment problem is for the MDF to arrange to use transfers from higher levels of government to municipalities as collateral for loans. If municipalities neglect to repay, the MDF simply has the debt service taken out of these transfers. Most of the municipal assistance agencies in Central America have access to transfers from which they can deduct debt service for loans that they administer.

Collateralizing transfers works well as a means of collecting loans in some contexts (although it is at the root of fundamental problems for MDFs--see below). However, it is a less attractive option in the Central American context for the HG MDF for three reasons. First, the region's private financial intermediaries have little confidence and interest in guarantees or promises by central government agencies. Second, using transfers as collateral would require cooperation of the region's municipal assistance agencies. Although these agencies have expressed their willingness to cooperate with the program, negotiating a firm arrangement and depending solely on them for this vital function may be problematic. In some countries, mayors hold the municipal assistance agency in low regard and may be less willing to participate in a program that requires these agencies to enforce rules against municipalities. Third, it places the responsibility for repayment on the municipality and its transfers, rather than the project. The great bulk of municipalities in Central America remain weak in financial and institutional terms. Not surprisingly, the region's financial intermediaries view local governments, with rare exceptions, as poor credit risks.

However, financial institutions also agree that many local infrastructure projects are financially viable on their own. Lenders also have considerable experience in collecting the revenue that results from infrastructure projects from local people--water fees, electricity fees, and taxes of all sorts. For these reasons, financial institutions view municipal projects as bankable, but not municipalities.

A better solution than collateralizing transfers exists to the credit risk problem in Central America. Financial intermediaries can collect the revenue resulting from infrastructure projects on which they lend directly from the beneficiary households in the name of municipalities. They can collect the water fees from water projects, electricity fees from energy projects, and betterment taxes from street-related improvements. An incipient practice of infrastructure credit is emerging in Central America exactly on this basis, as in the case of the Esquintla water project. Therefore, the LOGROS HG will use collection by financial intermediaries of infrastructure charges from household beneficiaries as its first level of repayment guarantee, and municipal borrowers will be responsible for making up any shortfalls necessary to meet debt service. In some countries, the HG may back up this first level of guarantee and the municipal borrowers' commitment by arranging with municipal assistance agencies to collateralize transfers.

The primary repayment mechanism--collection by financial intermediaries of project charges from beneficiaries--promises to help overcome the most serious problems that plague existing MDFs in Central America (as operated by the region's municipal assistance agencies) and elsewhere. Once functioning, the LOGROS HG may well attract larger sums from other donors and stimulate copies of its structure in other developing countries.

Strengthening Local Government and Moving Municipal and Infrastructure Credit to a Market Basis. In addition to their credit function--disbursing and collecting funds--MDFs typically have a variety of interrelated developmental goals. The primary one is often to encourage local governments to charge households for the project benefits they receive and, hence, improve municipal finances and municipal administration in general. The MDFs' ultimate goal is typically to move municipal finance to a market basis and, hence, sustainability and scale

through real intermediation; hence, the stated end goal is for local governments to borrow on private capital markets at market rates.

Typically, however, MDFs make virtually no progress towards this goal. The most fundamental reason is that they largely fail to induce local governments to raise and collect project charges from beneficiaries. The best functioning MDFs in the most supportive contexts have made very modest progress in this direction. For instance, the Municipal Action Program (PrAM) in the state of Parana, Brazil, influenced local governments to increase their use of betterment taxes to recoup street-related improvements; this worked to some extent, but not greatly. However, this state is one of the most prosperous and has some of the best-managed municipalities in Brazil, a medium-income country where local governments receive 22 percent of total government revenues--one of the highest shares in the developing world. The record of MDFs in inducing local governments to collect project charges from beneficiaries is much poorer in less advanced contexts.

Local governments continue depending on central government transfers to repay debt service without improving their fiscal position. The MDFs sometimes take the debt service from these transfers before they reach local government without local government even knowing how much has been deducted.

Not surprisingly, if people do not pay, they have less interest in projects. MDFs record in involving local people in selection of projects is also uneven. Often, mayors simply decide which projects to finance without consulting anyone else. In sum, MDFs largely fail in a basic task--connecting projects (infrastructure supply) to demand. This basic failure undermines their ability to reach their ultimate goal, intermediation. They virtually never reach market rates and, often, make little progress in that direction, remaining heavily subsidized. Just as important, government agencies continue as the intermediaries for MDFs and municipal borrowers have no substantive contact with commercial financial institutions. Thus, local governments continue in the hot-house atmosphere of heavily subsidized infrastructure funding without any contact with private markets.

In contrast, the LOGROS HG component depends on project repayment from beneficiaries and involves local governments with private financial institutions from the beginning. In contrast to most MDFs, these relationships are an integral part of the program, not an eventual goal which is often never reached. The basic financial mechanism of the program--private financial intermediaries directly collecting project charges from households--requires establishing these relationships.

Although project repayment from beneficiaries is fundamental, bringing local governments into direct contact with private financial institutions is important. Banking is a relationship business worldwide, and if mayors come to know bankers and understand bankers' needs, the chances and incentives for jointly doing business together increase greatly.

Based on this fundamental structural strength, the LOGROS HG has a better chance of reaching related goals, such as citizen participation in project selection. Local people have a substantial incentive to participate in infrastructure project selection if they will really end up paying for projects and they know this from the beginning. Appropriately, the LOGROS loan component also puts participation in the center of the project selection and qualification process by making it part of the financial intermediaries' financial analysis.

Further, the LOGROS HG has a better chance of making real progress in the direction of the ultimate goal, intermediation--i.e. use of private markets rather than subsidized government funds to finance increasing amounts of local infrastructure. The incipient private market for infrastructure credit in Central America uses the same repayment mechanism as the HG--direct collection

from beneficiaries of project charges by the financial institution, which facilitates moving from the HG to private markets.

3.3 HOW THE PROJECT WILL WORK

A primary objective of the new Municipal Infrastructure Finance Component of LOGROS is to increase municipal financial autonomy and citizen participation in financial decision-making, and thereby strengthen local democratic skills and increase public sector responsiveness and accountability to the municipal citizenry. More specifically, this capital component is directed at increasing investment in the municipal sector. It will accomplish this broader objective in three ways:

1. By developing a municipal lending program with CABEI, the only Central American regional development bank, the LOGROS HG will bring a major financial player into the municipal sector, opening up channels for investment of other resources (including those from other donors) generated or managed by CABEI into the municipal sector. Also, the presence of this regional bank, which enjoys a much improved reputation for financial and managerial soundness, enhances the credibility of local governments with its interest in the sector.

2. The focus of the capital investment on both the policy and technical aspects of LOGROS, rather than on simply executing \$20 million worth of municipal infrastructure projects, will reinforce the policy framework being developed under LOGROS. The municipal finance policies being promoted via the HG component in turn will affect the entire municipal sector.

3. By encouraging the entry of private financial intermediaries into municipal lending, the HG component will help develop new institutional relationships among municipalities, lenders and the local service users. The municipalities are potential new clients, the users' willingness to pay is essential to the financial viability of the projects, and the banks bring the discipline of the market to the whole system. The new relationships will be slow to grow, as municipal credibility and new user roles can only be established through track records and dissemination of experience. If successful, they can have a major effect on the municipal system.

Housing Guaranty funds will be borrowed by CABEI as a second tier lender to public and private financial intermediaries, which will in turn be certified by CABEI as eligible borrowers in the participating countries. The intermediaries will on-lend to fund municipal infrastructure projects or investment programs meeting selection criteria which reflect the LOGROS policy agenda in municipal finance, municipal autonomy and democratic participation. Eligible investments will be those which improve the living conditions of households below the median income, such as potable water, sewer, solid waste management, local street and electric power provision projects. A LOGROS problem-solving exercise designed to promote devolution of additional authority to municipalities for control of water provision, for example, may use HG loan resources for capital improvements to the municipal water system and thereby directly increasing the impact of LOGROS-funded TA. In turn, the projects to be funded--whether specific LOGROS problem-solving exercises or not--will have to incorporate both citizen participation in project selection, and development and cost recovery to amortize debt service. Project benefits must also be accessible to households below the median income.

The HG loan component of LOGROS will also use CABEI's own funds (to be negotiated but estimated at a minimum of 30% of the HG contribution), and municipalities will contribute "in-kind or in-cash." If the lending mechanism established proves successful, the loan program could be expanded. LOGROS DA funding will need to be increased over the LOP to cover the additional management costs of the

HG component, however, as well as additional TA and training in municipal finance to support the loan program agenda.

3.3.1 The Role of CABEI

This LOGROS Amendment will marry HG resources and LOGROS activities so as to increase Project impact on policy change in the municipal finance arena. This relationship will be spelled out in an Implementation Agreement (IA) between AID and CABEI, to be negotiated after the Amendment is authorized. CABEI will thus become an active participant in the LOGROS network in order to raise the profile of municipal finance issues in the region, and at the same time the Project will enlist network support for policy changes that CABEI will support with the HG investments. CABEI's stature as a regional financial institution will help focus network attention on the importance of municipal financial reforms, and if the consensus process is working this should result in a much broader constituency for reforms at the same time that it enhances replicability and sustainability.

CABEI will: (1) borrow and repay the USG-guaranteed dollar loan; (2) provide funds from its own resources for the program; (3) serve as a second tier lender and as the overall program manager; and (4) in its role as second tier lender, it will mobilize local currencies for on-lending to eligible public and private sector financial intermediaries, which will make the actual municipal infrastructure loans. As program manager, CABEI--with grant assistance from RHUDO--will develop a set of program guidelines and procedures for use by the intermediary institutions and sub-borrowers to determine the eligibility of municipal investments for program financing.

Actual disbursements by CABEI to the intermediary will be on a reimbursement basis for eligible expenditures. If justified, advances may be permitted based on investment needs for no more than 12 months in advance and on compliance with other program conditions.

CABEI will negotiate the lending terms and conditions of its loans to the intermediary institutions. The funds advanced to intermediaries will carry an interest rate that covers basic costs, at a minimum. These costs are composed of CABEI's cost of funds), CABEI's spread (1.54 percentage points, currently), and, typically, a margin (2-4 percentage points) for CABEI to cover the exchange rate risk. However, CABEI intends to negotiate higher terms with intermediaries that bring the program as near to market and, hence, sustainability as possible.

Intermediaries will have the main responsibility for negotiating with potential municipal borrowers. However, CABEI will oversee the terms and conditions of this on-lending. Typically, the interest rate will be the intermediary's cost of funds from CABEI plus the intermediary's spread, as agreed with CABEI. The term of loans to municipal borrowers will range from five to 15 years. This period will often be tailored to specific infrastructure projects in order to bring debt service below project revenues and, thus, make these projects bankable under the HG LOGROS--see the Program Financial Analysis for details.

CABEI will have agreed with A.I.D. in the IA as to the conditions of HG investment eligibility. The IA conditions will be broadly based on AID and HG statutory requirements and the LOGROS agenda, but CABEI should be allowed flexibility in the design of its loans to country borrowers. These could be government institutions in a position to exact policy changes to generally stimulate lending in the area of concern (another version of the sectoral approach, as proposed by USAID/Honduras) or public or private entities which would on-lend for eligible activities that are cost-recoverable and conducive to promoting greater citizen participation in the identification and selection of urban services projects.

There must be flexibility in approaches for channelling the HG resources based on the circumstances of each country. CABEI's arrangements with country borrowers would be formalized with agreements which would be subject to A.I.D. approval. Grant-funded TA will also be provided under this Amendment to help CABEI set up and train staff, and to assist with design and negotiation of the intermediary agreements (at least during the first three years of implementation).

CABEI will need assistance in defining and operationalizing its role as a second tier lender, which implies a different kind of monitoring and supervision function from the one it has heretofore exercised in the current Housing Guaranty program implementation. Under the new program, funds should flow with consideration of purpose at each level of borrowing, and neither A.I.D. nor CABEI need to be concerned about monitoring the specific projects that will ultimately be attributed to the HG financing; that job is for the intermediary according to its normal loan supervision practices.

CABEI's concerns with regard to HG borrowing will probably be related more to US market conditions and CABEI's portfolio requirements than to funding of specific projects under the program. In all countries except Honduras, CABEI now has local currency sufficient at least to initiate some program activities. Between CABEI and the local borrowers, there need not be--nor will there likely be--any direct relationship with the borrowing of funds by CABEI from the US. This should also apply to CABEI's country intermediaries, and any projects that would contribute to the ultimate attribution of HG resources which will be CABEI's responsibility under the IA.

3.3.2 Intermediary Institutions

Eligible intermediaries may be either public sector or private sector entities. However, both CABEI and RHUDO are interested in maximizing the use of private, or at least market-oriented, intermediaries because of (1) their better track records in recovering loans; (2) the enhancement of municipal autonomy implied in increasing access of municipalities to diverse sources of funding, and (3) as an important step in moving municipal credit from a highly subsidized, government function to a sustainable private activity.

The use of private lenders imposes a discipline on municipal finance that is sorely needed. Such an approach may not be possible in all countries, however, and there is no reason that the program should be restricted to one intermediary per country. Therefore, depending on country circumstances and on bilateral USAID policies, a public sector intermediary might be used at first, with provision made for a transition to private intermediaries as they develop. Multiple intermediaries would also be permitted. Another concern with public sector intermediaries is that if they were to borrow dollars from CABEI, a situation that is unlikely but possible, they would have to obtain Congressional approval, a lengthy process probably fatal to project implementation.

CABEI has certified a number of banks in the region as eligible to borrow from CABEI under its ongoing private sector lending program. As necessary, CABEI will identify and determine the eligibility of other regional banks and financial institutions to participate in this program. The intermediaries will function as the program's implementing institutions. Their role will be to identify eligible municipal projects and programs and to qualify borrowers under the program guidelines agreed with CABEI (and approved by AID). Under one scenario, they could receive a line of credit from CABEI to provide loans for a number of projects; they would disburse the loans in accordance with loan agreements with the end users; and they would service the loans and repay CABEI.

3.3.3 Municipal Projects

To the extent possible, the program will encourage the use of the private sector to finance, build, manage and/or operate infrastructure projects being undertaken under the auspices of municipalities. At the present time, relatively recent legislation permitting these kinds of private sector involvement exist in Honduras, Costa Rica, and Guatemala; however, these authorities have not yet been used. An important caution in this type of privatization, particularly that of ownership and operation, is that almost nowhere are regulatory frameworks in place to enable municipalities to exercise appropriate controls over the private operators of these basic services. The intent of LOGROS is to empower municipalities and their citizens, not to privatize per se, although privatization is one means of decentralizing central government power. One agenda item for LOGROS might be the establishment of appropriate municipal regulations to permit and manage private provision of public services. It is important, however, to keep the focus on the municipality as the level of government closest and most accountable to citizens.

3.3.4 Eligible Expenditures

The Housing Guaranty statute requires that HG-financed projects benefit the shelter conditions of, and be accessible to, households below the median income. This means that the activities eligible for reimbursement under this program will be those that improve the living conditions of low income households: water, sewer and sanitation, solid waste, electricity, and local street improvements. In some cases, community facilities such as markets could be included as eligible expenditures, but only if they can be shown to improve the living conditions of eligible households and/or are part of a larger upgrading effort that includes one or more of the above-listed improvements.

Income eligibility of beneficiary neighborhoods will have to be established first by the municipal borrower and confirmed by the financial intermediary, who will certify to CABEI that the program income requirements are met. In practice, of course, neighborhoods are composed of a range of incomes. In general, HG funds will participate up to the same proportion that eligible beneficiaries represent the population to be served by the improvement. To be negotiated with CABEI is which median limit will be used: one median for the whole country, separate urban and rural medians, capital city/rest of country median, etc. These may vary by country, depending on the demographics and the target populations.

3.3.5 Assessing and Covering Risk

A major issue in the program is the security of the three separate loans: the guaranteed dollar loan to CABEI, the CABEI loan to the local intermediary institution (a bank or other type of financial entity), and the bank loan to the local borrower. The two types of risks for which security is required are the exchange rate risk and the credit risk. The HG US dollar loan will be provided security from both of these risks by the full faith and credit guaranty of CABEI, in the same manner as previous HG loans. In addition, under the Credit Reform Act of 1990, appropriated funds will be set aside to cover the calculated risk of default by CABEI. This subsidy element is calculated in AID/W, and PRE/H is responsible for allocating it. The subsidy funds are obligated via a countersigned Letter of Advice to CABEI immediately following authorization.

In turn, while CABEI's loan to the intermediary institution could be secured from both risks by a full faith and credit guaranty from the national government of the country in which the funds are eventually loaned, this type of security is not likely to be forthcoming. Central banks in the region are increasingly reluctant to give such guaranties, and when the borrower is a private sector entity may not be able to do so legally.

In addition, central government guarantees have three serious drawbacks for the LOGROS HG. First, a central government guaranty violates the principles of municipal autonomy which LOGROS and CABEI are trying to promote. Second, the existence of a central government guaranty often results in non-payment by the municipalities, further reducing their credibility as borrowers and effectively removing the discipline of a loan facility on municipal finance. Third, since the municipality feels little obligation to repay, it, in turn, often fails to recover costs from project beneficiaries. Therefore, to the extent possible, central guaranties will not be sought by the Project. Where they become necessary, other measures to ensure repayment by the municipality (e.g., collateralization of central government transfers) will be explored.

In the likely event that national governments do not provide a guaranty, then the two risks will be addressed in several different ways. For the exchange rate risk, CABEI's practice is to charge a fee, generally by adding points to the interest rate. CABEI has developed an interest rate formula that includes the cost of money to the institution as well as operating costs and profit, to which would be added a fee to cover this risk.

One way CABEI covers the credit risk on the loan to the intermediary is by having carried out a certification or management audit of all financial institutions participating in its private sector lending program. This certification process is comprehensive, and provides sufficient assurance to CABEI that a financial institution is financially sound and well managed. Second, CABEI periodically updates its certification of institutions to reassure itself that the institution continues to function soundly. And third, CABEI reviews the loan applications to ensure that the borrowing institutions are correctly applying the Program loan guidelines to the local borrower.

In cases in which CABEI already has sufficient local currency to lend for the program, or parts of the program, there is no exchange rate risk, since the dollar loan can be managed independently. There would also not be an exchange rate risk on the on-lending from the intermediary to the local borrower, since these loans would be in local currency. However, in cases in which CABEI must use the dollar proceeds of the HG loan to generate local currency, the exchange rate risk will have to be managed. CABEI, who deals with such management on most of its portfolio, normally adds a premium to the cost of the loan to cover the risk, which would vary with the term of the loan and the currency involved.

The credit risk on intermediary loans to borrowers, however, is covered in three ways. First and foremost, all projects will, generally, be self-financing--that is, the income generated by the project itself should be sufficient to amortize the loan. Second, the municipality must have a sufficient financial base (either through taxes or fees which it controls) to ensure income adequate to make repayments, and the municipality will provide a full guaranty to the intermediary that the loan will be repaid. The municipal guaranty is particularly important in cases where the municipality wishes to spread the costs of the improvements over a larger population than just the immediate beneficiaries. Third, to the degree possible, the intermediary will obtain other collateral from the borrower; for example, use of the municipalities' central government transfers, where they exist, has been shown to be an effective means of ensuring repayment. Another type of collateral may be the tax revenues that the central government (in the case of Guatemala and Honduras) collects and then rebates to the municipalities. While obtaining collateral may be difficult, financial intermediaries can be expected to attempt to do so.

3.3.6 Marketing the Program

The basic thrust of LOGROS is the regional promotion of policy change in the direction of increasing effective local governance in a context of highly centralized Central American governments. The addition of a capital component

gives LOGROS a new instrument with a different way to reinforce change in municipal finances, and marketing the program will be essential to maximizing program impact.

The strengthening of municipal finances through the policy approach employed by LOGROS requires special care, since any change directly affects the allocation of scarce resources. The oral tribute paid to decentralization by the controlling political forces at the national level frequently becomes lip service when central agents must relinquish resources to a lower, and still suspect, level of government. For this reason, it is important that the LOGROS approach be brought fully into play when bringing the capital component of the Project to bear on policy change.

LOGROS, and the municipal development efforts prior to it, have succeeded in producing policy change and an environment conducive to its continuance by following the demand-driven approach, that is, consultation with the individual municipal network elements involved in the change process. The LOGROS network includes virtually all of the principal actors in the Central American municipal system: central government and municipal officials, USAIDs, other donors, the private sector, and members of the community who are the ultimate beneficiaries of the Project's efforts. Adversaries in the system, moreover, by being brought into the consultation process in seminars and informal contacts, have sometimes become allies.

The use of the new Municipal Infrastructure Finance Component of LOGROS is consistent with this approach. Shortly after Amendment authorization, LOGROS will fund a regional network meeting (probably in November 1993) to discuss, among other topics, how the new capital resources can best serve the different municipal sectors at the national level while at the same time creating pressure for changes in municipal finance environments. Based on past experience with these types of municipal network meetings in Central America, network members from different countries--constrained by their own specific laws and institutional environments--will likely make recommendations that will support CABEI and the intermediary institutions in marketing the program. The initial regional meeting could be followed by country-level workshops to address specific new approaches. These meetings would be financed, at least in part, with LOGROS funds.

CABEI will be a partner in this networking effort, which will offer a forum in which to publicize the program design. A basic assumption of the program is that, if it is designed to meet the need for speed, accessibility and a critical mass of funding, municipalities will be willing to pay the interest rates that will have to be charged. The network therefore becomes a key marketing tool, both from the demand and supply sides.

3.4 KEY FINANCIAL FLOWS AND RELATIONSHIPS

The LOGROS HG program involves three sets of financial flows and relationships--(1) between a U.S. lender and the Central American Bank for Economic Integration (CABEI), (2) between CABEI and financial intermediaries, and (3) between the financial intermediaries and the municipal borrowers. AID's interest in these transactions will be spelled out in the Implementation Agreement between AID and CABEI, and in the Guaranty Agreement between AID and the U.S. lender. The crucial parameters of these financial flows and relationships, however, are outlined below.

AID-CABEI. AID and CABEI agree on the program's overall philosophy and structure. The following points will be covered in the Implementation Agreement for the program:

1. General relationship of the HG capital component to the LOGROS policy context:
 - a. Promotion of municipal financial autonomy;
 - b. Citizen participation in project selection and development; and
 - c. Sound municipal financial practices.
2. Eligibility criteria for projects to be financed:
 - a. Types of projects--municipal infrastructure to include water, sewer and sanitation, solid waste, local streets and electricity;
 - b. Accessibility of projects to households below the median income; and
 - c. Environmental soundness.
3. Financial intermediaries:
 - a. Private sector lenders where feasible; and
 - b. Where public sector lenders are used, loan program to be financially sound and sustainable.
4. To be negotiated by CABEI and US investor:
 - a. Loan term (usually 30 years);
 - b. Grace period;
 - c. Interest rates (fixed or variable); and
 - d. Prepayment conditions, if any.
5. To be negotiated between CABEI and AID:
 - a. Number and size of, and basis for, dollar borrowings;
 - b. CABEI contribution and how/when disbursed;
 - c. Use of advances and how liquidated;
 - d. Documentation of fulfillment of eligibility requirements; and
 - e. Interest rate policy on subloans.

AID will introduce and involve CABEI and, subsequently, financial intermediaries into the LOGROS network. As the program unfolds, AID will continue to mediate between CABEI and other LOGROS network participants in order to market the program to municipalities, solve operational problems, and set policy goals. At first, the program will focus on the best available projects in the best municipalities, and on overcoming the resistance of local government to credit--e.g., through supplemental financing of projects otherwise partially funded by grants or the municipality's own revenues. As experience accrues, more challenging projects and municipalities will be chosen and policy goals added, based on advice from the LOGROS network. Throughout implementation, AID will monitor CABEI compliance with the agreements reached.

CABEI-Financial Intermediaries. CABEI negotiates its relationship with each financial intermediary within the overall program parameters, as shown above. Typically:

1. The financial intermediary assumes the entire credit risk of loans to the municipal borrower and, hence, for repayment of the loan to CABEI;
2. CABEI increases its margin to financial intermediaries to cover the exchange rate risk, if any; and

3. Interest rates to the municipal borrower are positive.

The following specifics, however, will need to be negotiated:

1. Exchange rate risk and loan term;
2. Margins to be charged by the intermediary and, hence, final interest rate to the borrower;
3. Legal character of the relationship and resulting credit risk to CABEI and the intermediary; and
4. Collection practices.

In addition, CABEI will:

1. Monitor financial intermediaries' overall financial health;
2. Conduct evaluations of projects; and
3. Monitor agreements with municipal borrowers to ensure compliance with program requirements and parameters.

As experience accrues--and to the extent the program is financially successful--CABEI can be expected to extend the scope of its municipal lending and to access or generate funds from other donors for this purpose.

Financial Intermediaries-Municipal Borrowers. The financial intermediary will receive, analyze, and decide on loan applications from municipal borrowers based on program parameters; the project's ability to repay; and commitment of local residents to repayment, based on their participation in project selection and preparation.

The municipal borrower's creditworthiness would not necessarily be determining criterion, however, although municipal creditworthiness will be promoted. (For example, municipal control of the property tax would enhance creditworthiness and is a major policy agenda item for LOGROS, since it would spread cost recovery over a larger population, which in some cases may be more appropriate than cost recovery from beneficiaries only.)

Municipal borrowers are typically single local governments, but could also include neighborhood associations, non-governmental organizations, infrastructure supply agencies, and regional groups of local governments.

The financial intermediary may enter into agreement with the municipality to collect revenues resulting from the project on behalf of local government, as in the cases of water rights fees and water bills for water projects, betterment charges for street-related projects, and electric bills for energy projects. The financial intermediary will pay debt service to CABEI with these fees, and remits any excess to the local government.

The municipal borrower will contract for the design and construction of the infrastructure project, and is responsible, directly or indirectly, for operation and maintenance. The financial intermediary typically oversees construction and makes progress payments directly to the contractor.

Monitoring of the loan program through the LOGROS network encourages the development of an ongoing relationship between financial intermediaries and municipal borrowers generally that can be expected to extend to future projects,

with or without LOGROS. LOGROS may provide technical assistance to strengthen financial management and administration in municipalities that receive infrastructure financing under its HG capital component. Projects in municipalities benefiting from USAID bilateral municipal development projects, where they exist, may also benefit from USAID TA and training.

3.5 DEMAND PROFILE AND COUNTRY SUBPROGRAMS

3.5.1 Demand Profile

The demand for municipal credit in Central America at the terms available under the proposed HG--that is, at near-market terms--varies with many factors:

The pipeline of projects under consideration by local governments in the region. A substantial backlog of project applications to the municipal assistance agencies in the region exists that could potentially be financed, at least in part, by the HG. The demand study team conducted a survey that roughly estimates the size of this backlog. The results are presented on Table 1. Because of time and resource constraints, the quality and meaning of data vary among countries--see the Section 8.3 for a discussion.

Consequently, these figures fall far short of measuring effective demand for infrastructure from the HG program. In some instances--such as Costa Rica and El Salvador--they measure the current backlog for projects at municipal assistance agencies for the financing now available, which is highly subsidized in Salvador and near-market in Costa Rica. Since mayors are unlikely to apply for funding that is unavailable, the total backlog is, almost certainly, much larger. In others--Guatemala and Honduras--they represent an estimate by a small portion of each country's municipalities of demand for market-rate financing.

Thus, these figures are extremely conservative and represent a small part of the potential backlog of projects. Even so, they far exceed the \$20 million in HG funds available. Nicaragua requires \$5.6 million, Costa Rica \$28.1 million, El Salvador \$209.6 million¹, Honduras \$13.8 million, and Guatemala \$4.4 million. The grand total for the four countries is \$261.5 million; \$142.5 million of this total is for project types eligible for financing under the LOGROS HG. Of this \$142.5 million, 21 percent are--essentially--ideas, 51 percent have preliminary designs, and 28 percent--about \$40 million--are fully prepared and ready to go. What remains unknown due to the resource constraints on the demand study is what proportion of these would benefit households below the median income.

These figures strongly indicate that effective demand is more than ample for the LOGROS HG should the factors noted below be addressed. The interviews conducted by the demand study team suggest that \$20 million represents a pilot project through which vastly more funds could subsequently be channelled. The willingness of others donors--such as the World Bank and IDB--to finance a working municipal loan program in Central America also suggests that the LOGROS HG may well turn out to be pilot project for a larger program.

The ability of local governments to prepare new projects, and to contract debt legally. The largest local governments--those of capital cities--have the ability to design their own infrastructure projects. Many others lack the engineering, architectural, and financial expertise necessary for project preparation. However, capacity varies substantially among countries. The large amounts of funding available to local governments in Salvador over the last three years have strengthened their ability to prepare projects. Most large and medium-sized municipalities in Honduras have the professional staff capable of preparing infrastructure project proposals and contracting their execution, largely because of AID's bi-lateral municipal development program. In contrast, all but the two

¹ The \$209.6 million in El Salvador represents a listing of potential needs for infrastructure projects identified by both urban and rural municipalities.

largest municipalities in Guatemala lack any sort of professional staff, and depend on pro-bono help to design infrastructure projects.

Central government regulations also affect the ability of local governments to raise tariffs, as well as contract debt. Traditionally, central government has placed strict limits on municipal autonomy to raise tariffs. In Guatemala, for instance, local governments must get permission from the national congress. However, Central American national governments are increasingly removing these restrictions--Honduras, Salvador, in particular, have made progress in this direction. LOGROS, through FEMICA and the municipal network, will work to lift the restrictions on municipal control of local tariffs that exist, as described in the original LOGROS Project Paper.

Little problem exists with local governments' ability to contract debt in national currency, except--possibly--in Costa Rica. Municipal codes in three of the four countries authorize local government to obtain credit when contracted with domestic institutions. The municipal council can authorize debt on its own in Honduras, El Salvador, and Guatemala. In Costa Rica, local debt must be approved by the Contraloria General de la Republica. However, the experience of IFAM--which lends around \$7 million per year--suggests that this approval is not a serious bottleneck. An important consideration, but one which should not affect HG implementation, is that in all CA countries, public sector institutions who want to contract debt in other than local currency must obtain Congressional approval, a lengthy, possibly endless process. Since CABEI will, in almost all cases, be lending in local currencies, this constraint should not arise in the LOGROS HG.

Competition from soft sources of infrastructure funding. Up until now, infrastructure finance has occurred mainly at highly subsidized rates or by grants from central government. Given the choice between a grant--i.e. free money--and a loan, even progressive mayors will take the grant.

However, most mayors will not have this choice in the future, for various reasons. Even now, the demand for infrastructure finance far exceeds the supply of grants and soft funds in the region. In addition, the ability and willingness of central government to continue giving substantial sums of money to municipalities for infrastructure projects is decreasing with increasing fiscal pressures on central government budgets. The amounts of soft donor money for "reconstruction" in such countries as Salvador are also fast dwindling. In this context, many mayors see that their future depends on making the shift to market rates as the only sustainable long-term alternative.

Supplementation by soft sources of infrastructure funding. The availability of grants, soft funds, and municipal savings offers an opportunity as well as a competitive threat to demand for HG program loans. When local governments have part but not all of the funds necessary for an infrastructure project from one of these other sources at little or no on-going cost, the HG may well represent an attractive source for the remainder.

By joining the HG with soft sources of money, the effective overall rate for the project taking into account all funds will be below market. The opportunity to leverage the soft money that currently exists in the region is a great opportunity for overcoming mayors' resistance to near-market rates. Many successful municipal loan programs have employed a similar strategy by linking their loans with grants and, eventually, phasing into just loans.

The ability of local governments to raise tariffs and other charges in order to meet debt service on credit. In the past, national laws, regulations, and institutions (the Contralorias, in particular) have stopped local governments from raising tariffs. In Guatemala, water tariffs in many municipalities have not changed since the 1950s and cover only a fraction of operation and maintenance costs, let alone capital costs (Ferguson, 1991). However, national

laws and regulations increasingly allow greater flexibility. Honduras has a new municipal code that permits raising tariffs, while regulations have allowed Salvadoran municipalities to increase charges in the last two years--many have taken the opportunity to raise these charges manyfold.

The interest and ability of financial intermediaries to lend for local infrastructure projects. The region's financial institutions are reluctant to extend credit to local governments, and have done so only to the largest and most financially sound. Throughout the regions, the demand study team found that lenders consider local governments poor candidates for credit. However, many financial institutions are quite interested in financing viable urban infrastructure projects if they can collect repayment directly from beneficiary households rather than local government. This reality has fundamental importance for the viability and mechanisms of the HG program. LOGROS and the HG seek to turn local governments into the creditworthy entities by, first, financing projects and, then, building on these projects to reform municipal finances and administration.

The interest of intermediaries also depends on the margins that the HG offers them for their services. The minimum that they would accept is 4-6 percent.

The exact terms of finance under the HG, which have yet to be determined. Both the interest rate and the term play a fundamental role in effective demand. Even if interest rates near market and, hence, higher than other sources available to local government, a term sufficient for the municipality to recoup the cost of infrastructure investment from beneficiaries would make the HG attractive. However, the term that the HG will be able to offer depends fundamentally on dealing with the exchange rate risk. CABEI demand study team members indicate that the term is likely be a maximum of about 15 years and is negotiable with the economics of the specific project.

Marketing. International experience shows that a full-scale marketing effort to mayors is typically essential to explain municipal credit programs and to overcome mayors' resistance to near-market rate infrastructure finance. Typically, this marketing takes the form of preparation of manuals on the program and, then, presentation of the program to regional groups of mayors. Because of the relatively small amount of funds available under the HG--US \$20 million for an entire region--CABEI may well be able to place a sizeable portion of funds with projects already under consideration in the financial institutions with which it works. The LOGROS network potentially offers an important tool for marketing.

The attitudes of powerful actors in the municipal sector in each country towards the HG, particularly the municipal assistance agencies. Despite a good structure and hard work, a HG municipal credit program must incorporate the participation of the existing municipal assistance agencies in the region to succeed. Many alternatives exist for their cooperation short of lending funds--a role reserved mainly to private intermediaries under the program. These roles include guaranteeing loan repayment ("aval"), preparation of infrastructure projects under contract to local governments, and overseeing construction. The demand study team found that municipal assistance agencies in three countries were willing and interested in participating in a HG program on a limited basis, even though they offered and would prefer to act as financial intermediaries.

3.5.2 Country Subprograms

In sum, effective demand for municipal credit under the HG depends on many factors, most of which have yet to be defined. Consequently, a rigorous assessment is an infeasible task at this point. However, the demand study has produced evidence of an effective demand in excess of the \$20 million available under the HG exists if the program addresses these factors. The following

summarizes indications of effective demand and the experience with municipal credit, reviews AID bi-lateral municipal development efforts, and suggests approaches to working with local Missions under the LOGROS HG. In addition to the four countries in which HG LOGROS will start--Honduras, Costa Rica, Guatemala, and Salvador--it briefly notes conditions in other Central American countries to which the program could expand should local conditions change--Nicaragua and Panama.

Costa Rica. IFAM--the municipal assistance agency--is virtually the only source of local infrastructure loans. In 1990-91, for example, IFAM funded 82 projects for a total of about US \$7 million. IFAM's resources appear to satisfy only a small fraction of effective demand. A backlog of US \$28 million in local infrastructure projects exists at IFAM. Local governments must wait two to three years to get their projects funded, largely because IFAM lacks the resources to fund projects sooner and, hence, delays their consideration.

In contrast to other countries in Central America, Costa Rican municipalities are already accustomed to market terms. IFAM loans currently carry near-market rates for medium and large municipalities. IFAM funds self-financing infrastructure projects in municipalities with larger budgets--which account for much of its loans--at 16-24 percent per annum compared to market rates of 23-26 percent.

Given the near-market rates for much of its lending, the two to three-year line for IFAM finance clearly indicates that substantial effective demand exists for more such credit. Its availability under the HG would, most likely, inspire mayors currently discouraged by the two to three-year wait (which approaches the length of a mayor's term and, hence, reduces the political benefits from a project) to prepare more project applications.

Two factors lie behind this effective demand. First, a funding source exists from which municipalities can supplement market-rate debt to complete projects, or pay debt service: transfer of the 80 percent of the centrally collected property tax to local government. Second, central government, in effect, guarantees local government debt by approving the local government budget and committing to make up deficits.

The offices of both candidates for president have begun emphasizing decentralization and the strengthening of Costa Rican municipalities. Hence, political support for municipal credit may in fact exist, though its strength and application in practice remain to be determined.

LOGROS is working with several institutions in Costa Rica to hold a national seminar this fall on municipal decentralization. USAID/San Jose has indicated support for the project concept if the program requires measures such as municipal fee collection and privatization of services as a condition of participation.

El Salvador. Currently, El Salvador enjoys large amounts of donor financing of local infrastructure in the name of "reconstruction" relative to other Central American countries. Funds are available from the municipal assistance agency (ISDEM), the Secretariat of National Reconstruction, and directly from donors.

At the time of the NPD submission, USAID/EL Salvador supported the LOGROS efforts and encouraged RHUDO innovation in increasing municipal financial autonomy and citizen participation in financial decision-making. They agreed in principle on the use of HG resources for this purpose.

However, during the development of the PP Supplement demand for credit to finance infrastructure needs was deemed negligible, as demonstrated under the GTZ-funded loan program managed by ISDEM. Private banks, also, showed little interest in

lending to municipalities for the present as well, due largely to the perceived poor creditworthiness of the municipalities. USAID/El Salvador, through its planned FY 93 Municipal Development Project, will strengthen the financial and administrative capacity of a limited group of municipalities. It is hoped that project-funded technical assistance and training, along with project and ESF policy dialogue efforts, will lead to greatly strengthened municipalities which will have established their creditworthiness over the medium-term. The primary emphasis of the Mission's strategy is to enhance local revenue generation and diminish the traditional dependence on central government transfers. The introduction of a property tax to complement user fees and other sources of local revenue is seen as essential to offset declining USAID grant resources and establish a solid basis for municipal autonomy.

Until the financial viability of a significant group of municipalities can be demonstrated, expected over the coming 2-3 years, USAID/El Salvador does not believe that the proposed LOGROS HG Program is a viable option. It is interested, however, in learning of progress in neighboring countries under the LOGROS program and in reexamining the merits of participation in the regional program over the next 2-3 years.

Honduras. AID has been working in the municipal sector in Honduras since 1980 when a HG loan provided US \$10 million for basic infrastructure. Since 1990, AID has focussed on the 14 municipalities with the best potential for development and the highest growth rates. Recently, the municipal development project has expanded to 22 municipalities. The technical assistance and training provided to these municipalities has resulted in better administration and planning systems.

The Ministerio de Hacienda y Credito Publico has acted as the lead agency and disbursed funds. Since the closing of BANMA--a municipal credit agency that went bankrupt because of operational and political problems--the AID/Ministerio de Hacienda program has become a major source of local infrastructure debt finance. The country's two largest cities borrow on a limited basis from other sources. In addition to providing capital financing, the AID/Ministerio de Hacienda program has advanced funds to municipalities to support the preparation of projects. At the municipality's request, the Ministry makes progress payments directly to the contractor. Overall, the program has functioned well and resulted in strengthening the capacity of the original 14 municipalities to prepare and implement projects in addition to funding public works. As less than five percent of the country's municipalities have participated in this program, a large potential market as well as the capacity exists for a much larger program.

Thus, it makes sense for the HG to channel funds through the current bi-lateral program. Because the Ministerio de Hacienda y Credito Publico lends on the same terms it receives the HG loan, the current bi-lateral program provides funds at somewhat concessionary rates and long terms relative to the Honduran market. The term of these loans is the same as that from the US HG investor--30 years. The faster repayment from project beneficiaries--typically set at amounts that allow full project recovery in three to five years--allows municipalities to build up a substantial cash flow. The much shorter terms of loans under the HG program--probably from five to 15 years--would eliminate most of this cash flow to local governments and, hence, part of the attraction of the program. However, the HG would much more quickly recapitalize the HG program itself and, hence, allow HG funds to be recycled as loans for other projects. The HG would finance much more infrastructure given the same amount of funding, but would eliminate much of the immediate cash flow to local government. Reconciling these two approaches is the most immediate task in channelling HG funds through the Honduran bi-lateral program.

One alternative is to reach a compromise on loan term--significantly longer terms than those normally used by municipalities in calculating beneficiary charges for infrastructure, but shorter than the thirty years currently in use. Such a compromise depends on resolution of the exchange rate risk problem. In the case of Honduras, the Ministerio de Hacienda--which currently channels the funds for the bi-lateral program--appears willingly to assume the exchange rate risk. Thus, in principle, a compromise on term seems possible.

The LOGROS HG might begin to work with the bi-lateral program by offering a modest (ca. \$ 5 million) line of credit to the government of Honduras to support the efforts of Honduran municipalities to raise revenues and complement the transfers the GOH makes to its municipalities. This line of credit would be used by the GOH for municipalities having investment plans for water, sewer, and/or other infrastructure programs to improve the life of the poorest half of their residents, and would include funding for the preparation of construction plans for the projects. Eligibility of municipalities for participation would be based on evidence of reduction in the ratio of their operating budgets to total budgets, and increases in their investment budgets.

The Mission sees the reduction in operating budget as the key policy change to be promoted by the HG. Disbursements from CABEI to the GOH would be based on an investment plan negotiated with the GOH, which may include giving higher priorities to municipalities that can secure private sector financing for the investments. Ultimately, the Mission believes that the program could evolve to include other sectors being decentralized by the GOH, resulting eventually in an infrastructure block grant linked with debt finance.

Effective demand in Honduras is likely to be good, based on the ability of municipalities to supplement debt finance with capital contributions from central government transfers. The law requires central government to transfer five percent of its annual budget minus certain deductions to municipalities. Currently, this amount totals about US \$23 million, of which 90 percent--about \$21 million--must go to capital infrastructure investment. Assuming that the HG LOGROS finances only about 30 percent of each municipality's investment plan--a conservative supposition (see Project Financial Analysis)--the effective demand for infrastructure debt finance would be \$7 million per year.

Guatemala. INFOM--the municipal assistance institute--is currently the only source of credit for Guatemalan municipalities outside the largest two cities--the capital and Esquintla. Regulations limit its interest rate to 5 percent per annum, except for donor-sponsored programs such as those of IDB, which carry somewhat higher rates. The capital is, currently, the only municipality that has borrowed directly from commercial banks. Esquintla is likely to soon, as discussed below.

Guatemala appears ripe for market-rate municipal credit for two reasons. First, HG infrastructure loans could leverage the eight percent of the national budget that Guatemalan local governments currently receive for infrastructure construction.

The eight percent can only be used for infrastructure--either direct capital expenditures or debt service--and not for municipal administrative costs or operation and maintenance of infrastructure. This constraint greatly hampers municipal financial management. In the absence of much municipal credit, many Guatemalan municipalities end up simply saving the eight percent until they have enough to pay for an infrastructure project at one time, or construct part of the infrastructure project each year. HG loans would be an ideal means of complementing local governments' savings from the eight percent to get projects on line sooner rather than later. In addition, the HG loans would result in income to local government from project beneficiaries in the form of tariffs that could be used for any purpose, not just infrastructure construction, while the

eight percent could be used for paying debt service on the HG loan. In effect, HG financing would free the eight percent for wider use by municipalities that finance infrastructure under the HG program.

Second, market-rate municipal finance appears to be starting in Guatemala, and the HG could help it along. For example, the municipality of Esquintla--the second largest in the country--is negotiating an agreement with a major Guatemalan commercial bank, Banco Metropolitano, and CABEI to finance a large expansion of its water system. This project has a positive cash flow at market rates and substantial economic and social benefits--see Box 1 for a description. It represents exactly the type of project that should be funded, at first, under the HG in order to gain operational experience before moving on to more difficult projects that require policy and tariff reforms. The HG program could support the incipient practice of market-rate local infrastructure finance in Guatemala and move it down the urban hierarchy to smaller, but still economically sound municipalities.

Nicaragua. Demand for local infrastructure funding is tremendous in Nicaragua, exceeding that of other countries. However, local people and government face severe economic problems--60 percent of adults are unemployed--and capacity to supplement LOGROS HG credit and repay loans may be more limited than elsewhere. Central capital transfers to local government channelled through INIFOM--the municipal assistance agency--have steadily fallen. Some resources exist, from the Social Investment Emergency Fund (FISE) and NGOs linked to external donors. Of the total capital investments made by municipalities, central government transfers account for two percent, 10 percent comes from NGOs, and 88 percent are own-source revenue.

Recently, commercial banks re-started their operations after ten years of suspension. Not surprisingly, they are extremely conservative in their lending.

Box 1--Esquintla Water Project, Rio del Cantil System

In September 1990, PROPUR, S.A.--a private firm--proposed to the municipality of Esquintla that this company construct a major expansion of the water system. Currently, only about one-quarter of the municipal population receives piped water, and even this supply is irregular. The lack of water restricts the growth of local industry and commerce, as well as depriving households. PROPUR's payment would be sale of household water rights that go with the property ("pajas de agua"--each of which allows use of up to 60,000 liters per month), which the firm would use to debt service the project. The project consists of construction of a dam and distribution lines to provide 35,000 pajas de agua in two phases--25,000, and then 10,000. After PROPUR, S.A. completes construction, the system is to be transferred to the Municipal Water Company to operate.

PROPUR, S.A. and the municipality have applied to Banco Metropolitano--one of Guatemala's larger commercial bank--for project financing. Since banking regulations limit the amount Banco Metropolitano can lend to any one developer, CABEI has also been approached for financing. Current plans are for CABEI to fund about 50 percent of projects costs, while Banco Metropolitano and PROPUR, S.A., itself, each intend to finance about 25 percent.

This project enjoys a positive cash flow at market rates. Each paja de agua can be sold for US \$760. Thus, 35,000 pajas de agua result in US \$26,600,000. Under the project, households can finance this sum over five years, although many are likely to opt to pay much of this sum up front. The total cost of the project is estimated at US \$12.6 million. Taking into account these terms and amounts, project revenues from the pajas de agua substantially exceed project costs; at current market terms of 25 percent per annum over seven years, the present discounted value of project revenues from the pajas de agua is \$13.7 million, above that of project costs. In addition, local government will receive a monthly water fee of US \$1.75 from project beneficiaries for operation and maintenance.

The key to the financing of this project is that the Banco Metropolitano will charge project beneficiaries directly for the pajas de agua in the name of the municipality. The HG will use the same mechanism--direct collection of fees resulting from projects by financial intermediaries in the name of local government.

However, even in these conditions, the extreme demand for infrastructure has resulted in some municipalities using creative financing mechanisms. Matagalpa--one of the larger municipalities--has decided to issue and sell bonds to local people and companies in the amount of US \$1.5 million, to finance infrastructure directly and to channel through various organizations to provide infrastructure. In sum, effective demand may exist in the larger cities for the LOGROS HG.

USAID/Nicaragua actively participates in LOGROS, and is currently designing a bilateral municipal development project, one component of which will be a municipal investment fund. The Mission has decided against participation in the HG component of LOGROS because of the difficult economic conditions in Nicaragua at the present time, but RHUDO would like to keep open the possibility of future participation--at USAID's option and initiative--should conditions permit.

Panama. At the present time Panama lacks membership in CABEI, although there are indications that the Country may wish to join. In addition, the Government of Panama is currently in the process of redefining the role of local government in the Country. For example, legislated changes in the electoral code, passed in June of this year, permit, for the first time, the direct elections of mayors. What this will mean for further advances in municipal autonomy and a revised role for local government remains to be seen. Nevertheless, once the municipality's new role becomes better defined, USAID/Panama will be in a position to define how LOGROS can operate in Panama.

Belize. During the initial design of LOGROS, USAID/Belize indicated that it did not wish to participate in the Project because of major differences between the Belize political system and those of other Central American countries. Also, because Belize is not a member of CABEI, neither is it expected to participate in this component of LOGROS.

3.6 DA-FUNDED ACTIVITIES

The current life of Project (LOP) funding level for LOGROS, authorized on 21 August 1992 for the Consensus-Building and Problem-Solving components of the Project over the seven year LOP, is \$6.0 million. With this Amendment, an additional \$2.0 million in DA funding will be authorized to support management and implementation of the \$20 million HG-funded Municipal Infrastructure Financing Component of LOGROS, bringing the overall LOP DA funding level for LOGROS to \$8.0 million. These funds will be disbursed for long-term technical assistance (TA); short-term TA, including environmental analyses, training and seminars; and any additional audit requirements. Details on the use and budgeting of the additional \$2.0 million are provided in Sections 4 (Cost Estimates and Financial Plan), 5 (Implementation Plan) and 6 (Procurement Plan).

Short term TA will be aimed principally at helping CABEI enter what is for them a new market: the varying municipal and financial systems in the Region. It will be used to orient both CABEI and the intermediate financial institutions, helping them enter into agreements within the context of the Implementation Agreement between CABEI and A.I.D. Consultants acquainted with both the use of HG funds and CABEI's financial and municipal objectives, policies and procedures will be contracted to assist CABEI internally and with the putting in place with different types of financial intermediaries the individual agreements that will be needed for the Program. These consultants will be expected to work with the CABEI staff and the A.I.D.-contracted long term consultant located within the Bank. Similarly, expertise may be required in the marketing of the Program in view of its many innovative features, such as combining grants or concessionary loans with market rate funds, collateralizing transfers or other sources of municipal revenues, and establishing new relationships between municipalities and the private sector. Funds from the short-term TA line item will also be set

aside, probably within the HB3 grant to CABEI, for environmental studies and analyses which may be needed as specific projects are identified for funding.

Training will concentrate on the use of seminars and workshops. Consensus building objectives will predominate in the early phases of the Program where the advantages of new modes of financing within the context of the rules for modernizing government can be demonstrated and marketed. CABEI will also need to project its image as a second tier financial agency at the service of a new sector. As the Program advances more workshop type meetings and the horizontal exchange of experiences with the other Countries of the Region will be used to present, instruct in, and improve the operational procedures followed by the Program. Limited short term participatory training in the US is expected to be used and no long term training.

The \$2.0 million will be budgeted and disbursed over four of the approximately six years of the HG activity, although obligation of this additional \$2.0 million will not occur until approximately 1996-97. Spending for FY 1994 and 1995 will be restructured within the existing obligation plan to provide the necessary support to the HG component. RHUDO estimates that approximately \$500,000 in FY 94 and \$750,000 in FY 95 will have to be reprogrammed from the existing LOGROS obligation plan to provide support to the Housing Guaranty component.

3.7 END OF PROJECT STATUS

In addition to the five EOPS indicators articulated in the original LOGROS PP--two under the Consensus-Building Component and three under the Technical Component--there are two additional EOP conditions that will indicate the success of the Municipal Infrastructure Finance Component of LOGROS funded through this Project Amendment. These are:

- CABEI will have increased investment in the municipal sector; and
- The private sector--especially private financial institutions--will be playing a larger role in financing and/or providing municipal services.

These EOP conditions contribute to LOGROS Program Output No. 3.2, "increased financial independence of municipalities," as shown in ROCAP's 1994-1995 Action Plan and approved by the LAC Bureau. The HG component in turn will contribute to the indicator "ratio of locally generated revenue in municipal budget to total municipal budget," since municipal borrowings require increased local revenue generation.

3.8 BENEFICIARIES

In addition to the broad array of beneficiaries identified in the LOGROS PP, this new LOGROS component will incorporate as beneficiaries the low-income people living in municipalities which participate in the program. Institutional beneficiaries will include both the private and/or public sector financial institutions in each of the Central American countries which make project loans, and the municipalities which participate in the Program.

Experience in municipal development programs has shown that, although women are disproportionately represented among the urban poor and would be primary beneficiaries of municipal services projects, women's participation in municipal affairs is low and their representation among local officials is even lower. RHUDO/South America (RHUDO/SA) has entered into an agreement with the Latin American chapter of the International Union of Local Authorities (IULA) to carry out a program of activities focused on women and local government. RHUDO/SA has requested funding from R&D/WID for a second phase of this program to broaden the

areas of municipal action that are of concern to women, further exploring the implications of the principle of gender equity in municipal affairs.

RHUDO/CA has agreed to participate in RHUDO/SA's program over the next three years, using funds for TA and training to increase the role of women in local government within the LOGROS framework. Therefore, although the HG component will work in the area of municipal finance generally, other resources will address the special needs of women as beneficiaries of the larger municipal program.

3.9 SUSTAINABILITY

The LOGROS HG loan program was designed with the specific intent of making it sustainable with funds from other sources. First, CABEI counterpart funds will participate in the program. If the relatively small HG component succeeds in establishing agile loan mechanisms in the participating countries, municipal demand can attract other CABEI resources available for placement. These investment funds are substantial, and CABEI has already indicated a larger interest in municipal sector investment. What is needed is a demonstrated success with the HG program. As noted above, the IDB and World Bank have voiced similar attitudes. Once again, AID--with limited financial resources but considerable expertise and the advantage of its field presence--is in a position to open up new opportunities for other lenders.

Of even more importance, however, is the program's focus on involving private financial institutions. Like the international institutions, these banks see the potential of municipal lending but have been dissuaded from such lending in the past by cumbersome central government procedures and by financially weak municipalities. The HG, in conjunction with its accompanying grant and the bilateral USAID municipal development programs, offer the potential to change the situation. Considerable resources under the control of Central American investors, both within the region and in offshore investments, could be attracted to a viable municipal lending program as the Central American political situation stabilizes. This, however, will depend on a successful initial effort.

4.0 COST ESTIMATES AND FINANCIAL PLAN

4.1 PROJECT COST ESTIMATES

LOGROS was originally authorized as a seven year, \$6.0 million activity. This Supplement, which describes a major capital investment component to the Project by providing capital for the development and construction of municipal infrastructure, supports amendment of the original authorization to add \$20.0 million in HG funds and \$2.0 million in DA funds to the LOP funding level of the Project. Of the \$20.0 million in HG authorization, \$10 million will be derived from an existing HG authorization to CABEI (596-HG-008), and \$10 million will be in new authority. Summary Amendment cost estimates are presented in Tables 4-1A to 4-1C detailing original Project, Amendment, and Consolidated Costs. A projection of expenditures by fiscal year for the DA portion of the Amendment is presented in Table 4-2A, and the same projected expenditures are consolidated with those of original Project in Table 4-2B. An Illustrative Obligation Schedule for the LOGROS Project as amended--including the DA funds being presented here--is presented in Table 4-3. Table 4-4 shows the timing of implementation of the DA support. Tables 4-5A and 4-5B present the Methods of Implementation and Financing for the new DA Grant funds as well as consolidated with the original Project Table. Detailed Illustrative Costs Estimates are presented in Annex H, together with a breakdown by Implementation Methods. Illustrative costs for a Grant Agreement with CABEI and an institutional contract are presented in Tables H-3 and H-4 respectively.

Of the newly authorized \$2.0 million in DA funds, an estimated \$450,000 (23%) will be expended consensus building activities; \$900,000 (45%) on technical support (including \$200,000 for environmental impact analyses); \$600,000 (30%) for project management, and \$50,000 (2%) for additionally required evaluations.

4.2 METHODS OF IMPLEMENTATION AND FINANCING

Long-term TA, that is implementation and management services, will be procured as described in Table 4-5A and 4-5B, detailing procurement methods for the Amendment monies and consolidating them with the original Project funds and Section 6. In summary, long-term TA will be obtained via a non-PSC with either a US or Central American hire; the short-term TA will be secured via an AID direct institutional contract or a HB 3 Grant with CABEI, eliminating the use of IQC, Buy-in, and direct contracting mechanisms, in order to reduce the contracting load to be produced for the Mission by the Amendment. Additional resources are programmed for evaluations. These are included in the direct institutional contract. The resources programmed for environmental analyses are included in a proposed HB3 Grant to CABEI, since that institution will be responsible for adhering to environmental requirements. No audits beyond those programmed in the original LOGROS Project Paper are called for.

4.3 RECIPIENT CONTRIBUTION

Section 110(a) of the Foreign Assistance Act (FAA) states that "no assistance shall be furnished by the United States Government to a country under Sections 103 through 107 of this Act until the country provides assurances to the President, and the President is satisfied that such country will provide at least 25 percent of the costs of the entire program, project or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an 'in kind' basis." Pursuant to HB 3, Appendix 2G, Section A (Application of Section 110 (a)), however, "(this) provision is not applicable to... authentically multilateral, regional or inter-regional programs." More importantly, however, the grant to CABEI is intended to help

CABEI set up and operate the new municipal loan program; it is incidental to the program and does not need to be continued once the lending operation is underway. Project sustainability does not depend on grant funded activities, but on the loan portion. Therefore, the counterpart contribution to the grant agreement is not considered important to the project, in contrast to the counterpart contribution to the loan program (see below).

For these reasons, no recipient or counterpart contribution will be required under the authorization of the \$2 million DA amendment to LOGROS.

Housing Guaranty loans do not carry any statutory requirement for counterpart contributions, although PRE/H policy is to negotiate them into Implementation Agreements wherever feasible. CABEI has informally agreed to use from its own funds an amount equal to 30% of the HG authorization, and at the time of Supplement design, it was also expected that local borrowers would contribute to some degree to individual projects. The counterpart contribution to the HG program is considered critical to project success and sustainability. During Implementation Agreement negotiations, RHUDO intends to push for the greatest contribution possible, and to push as well for initiation of project activities with CABEI's own funds. Once agreement is reached, the counterpart funds will be tracked at the point of each disbursement from HG funds, when the contribution factor will be applied to each request for disbursement. For example, if CABEI submits documentation to support a \$10 million disbursement, and if the IA calls for a 40% counterpart contribution, \$6 million would be disbursed and \$4 million credited to the counterpart contribution.

4.4 OBLIGATION SCHEDULE

This Supplement to LOGROS was included in ROCAP's FY '94-95 Action Plan at an estimated funding level of \$ 2.0 million (DA grant), to be obligated in the out/years of project implementation. A revised illustrative obligation schedule for the DA portion of LOGROS, reflecting the addition of \$2.0 million in DA funds through this Supplement, is presented in Table 4-3. At the time of Supplement design, the Mission expected to obligate \$0.73 million for LOGROS in FY'93; \$1.36 million in FY'94; \$2.51 million in FY'95; \$2.20 million in FY'96; \$0.8 million in FY'97; and \$0.20 million in FY'98.

HG funds are not obligated, only authorized, and the new HG authority in the amount of \$5 million is expected to be authorized in FY'93. The subsidy element-appropriated funds required under the new Credit Reform legislation to cover the estimated risk to the USG of guarantying a loan to CABEI--will be obligated via a countersigned Letter of Advice with CABEI prior to 31 August 1993.

Table 4-1A
Summary Project Cost Estimates
 (US Dollars)
 (US\$ 1.00)

| Element | Total Cost (US\$) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 |
|--------------------|----------------------|----------------|------------------|------------------|----------------|----------------|----------------|----------------|
| Consensus Building | 2,175,400 | 355,500 | 569,300 | 370,800 | 316,500 | 234,900 | 207,700 | 120,700 |
| Technical | 2,245,150 | 315,400 | 326,250 | 821,000 | 310,000 | 282,200 | 163,100 | 27,200 |
| Project Management | 1,305,050 | 108,750 | 217,500 | 217,500 | 217,500 | 217,500 | 217,500 | 108,800 |
| Evaluations | 115,400 | 0 | 0 | 54,400 | 0 | 0 | 0 | 61,000 |
| Audits | 159,000 | 22,000 | 22,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 |
| TOTAL | 6,000,000 | 801,650 | 1,135,050 | 1,486,700 | 867,000 | 757,600 | 611,300 | 340,700 |

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Table 4-1B

Summary Cost Estimates and Financial Plan
 DA Grant in US Dollars
 (US\$ 1.00)

| Element | Total Cost (US\$) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 |
|--------------------|----------------------|----------|----------------|----------------|----------------|----------------|----------|----------|
| Consensus Building | 450,000 | 0 | 125,000 | 135,000 | 115,000 | 75,000 | 0 | 0 |
| Technical | 900,000 | 0 | 175,000 | 250,000 | 250,000 | 225,000 | 0 | 0 |
| Project Management | 600,000 | 0 | 100,000 | 200,000 | 200,000 | 100,000 | 0 | 0 |
| Evaluations | 50,000 | 0 | 0 | 0 | 0 | 50,000 | 0 | 0 |
| Audits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 2,000,000 | 0 | 400,000 | 585,000 | 565,000 | 450,000 | 0 | 0 |

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Table 4-1C

Summary Cost Estimates and Financial Plan
Total Project Cost Estimates
(US\$ 1.00)

| Element | Total Cost (US\$) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 |
|--------------------|----------------------|----------------|------------------|------------------|------------------|------------------|----------------|----------------|
| Consensus Building | 2,625,400 | 355,500 | 694,300 | 505,800 | 431,500 | 309,900 | 207,700 | 120,700 |
| Technical | 3,145,150 | 315,400 | 501,250 | 1,071,000 | 560,000 | 507,200 | 163,100 | 27,200 |
| Project Management | 1,905,050 | 108,750 | 317,500 | 417,500 | 417,500 | 317,500 | 217,500 | 108,800 |
| Evaluations | 165,400 | 0 | 0 | 54,400 | 0 | 50,000 | 0 | 61,000 |
| Audits | 159,000 | 22,000 | 22,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 |
| TOTAL | 8,000,000 | 801,650 | 1,535,050 | 2,071,700 | 1,432,000 | 1,207,600 | 611,300 | 340,700 |

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Table 4-2A

Projection of Expenditures by Fiscal Year
(DA Grant)
(US\$ 1.00)

| <u>Fiscal Year</u> | <u>Dollars</u> | <u>Percent</u> |
|--------------------|---------------------|----------------|
| 1993 | 0 | 0 |
| 1994 | 300,000 | 15.0 |
| 1995 | 440,000 | 22.0 |
| 1996 | 420,000 | 21.0 |
| 1997 | 340,000 | 17.0 |
| 1998 | 400,000 | 20.0 |
| 1999 | 100,000 | 5.0 |
| TOTAL | \$ 2,000,000 | 100.0 |

Table 4-2B

Projection of Expenditures by Fiscal Year
(Total LOGROS Budget)
(US\$ 1.00)

| <u>Fiscal Year</u> | <u>Dollars</u> | <u>Percent</u> |
|--------------------|------------------|----------------|
| 1993 | 50,000 | 1 |
| 1994 | 1,500,000 | 19 |
| 1995 | 1,940,000 | 24 |
| 1996 | 1,620,000 | 20 |
| 1997 | 1,340,000 | 17 |
| 1998 | 1,150,000 | 14 |
| 1999 | 400,000 | 5 |
| TOTAL | 8,000,000 | 100 |

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Table 4-3

Illustrative Obligation Schedule
(Total for LOGROS Project as Amended)
(US\$ 1.00)

| <u>Fiscal Year</u> | <u>Total</u> | <u>Cumulative</u> |
|--------------------|--------------|-------------------|
| 1992 | 200,000 | |
| 1993 | 730,000 | 930,000 |
| 1994 | 1,360,000 | 2,290,000 |
| 1995 | 2,510,000 | 4,800,000 |
| 1996 | 2,200,000 | 7,000,000 |
| 1997 | 800,000 | 7,800,000 |
| 1998 | 200,000 | 8,000,000 |

Table 4-5A

Methods of Implementation and Financing - DA Grant
(US\$ 1.00)

| <u>Project Element</u> | <u>Implementation Methods</u> | <u>Financing Methods</u> | <u>Amount</u> |
|---|-------------------------------|------------------------------|------------------|
| Long-term TA (Implementation and Management Services) | Non-PSC | Direct Payment/Reimbursement | 600,000 |
| Short-Term TA Services | Direct Contract (HB 14) | Direct Payment/Reimbursement | 750,000 |
| Training and Seminars | Direct Contract (HB 14) | Direct Payment/Reimbursement | 450,000 |
| Evaluations | Direct Contract (HB 14) | Direct Payment/Reimbursement | 200,000 |
| | | | <u>2,000,000</u> |

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Table 4-5B

Methods of Implementation and Financing
Consolidation of DA Grant Monies
(US\$ 1.00)

| Project Element | Implementation Methods | Financing Methods | Amount |
|---|--|------------------------------|------------------|
| Long-term TA (Implementation and Management Services) | PSCs and Non-PSCs | Direct Payment | 3,210,000 |
| Short-Term TA Services | 1. Local PSCs | Direct Payment | 2,821,000 |
| | 2. HB 3/13 Grants/Coop. Agrs. | Direct Payment/Reimbursement | |
| | 3. Buy-ins | Direct Payment | |
| | 4. IQCs | Direct Payment | |
| | 5. Direct Contract (HB 14) | Direct Payment/Reimbursement | |
| Training Services | 1. Local PSCs | Direct Payment | 1,620,000 |
| | 2. Direct Contract (HB 14) | Direct Payment/Reimbursement | |
| Commodities | 1. Purchase Orders (or ancillary through: | Direct Payment | 24,000 |
| | 2. HB 3/13 Grant/Coop. Agrm. | Direct Payment | |
| | 3. Buy-ins | Direct Payment | |
| Evaluations | IQCs/Direct Contract (HB 14) | Direct Payment | 166,000 |
| Audits | Local IQCs | Direct Payment | 159,000 |
| TOTAL | | | 8,000,000 |

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5.0 IMPLEMENTATION PLAN

5.1 OVERVIEW

Once the HG loan and supporting grant are authorized, CABEI and ROCAP will enter into a grant agreement to provide for long- and short- term technical assistance needs, training and workshops for the life of the project.

With regard to the HG loan(s), CABEI is planning to place the initial investments under the project using its own funds. At some time in the future (six months to a year), when CABEI is disbursing funds against the first projects under contract, and negotiations are well advanced between CABEI and financial intermediaries for additional projects, CABEI will seek AID approval to go to the U.S. market for a HG loan. The amount of the HG loan sought will depend upon the amount of CABEI disbursements to intermediate finance institutions for eligible projects already under contract plus an advance for projects which CABEI, according to a disbursement plan approved by AID, believes it can put under contract within a reasonable period after the HG borrowing (not to exceed 12 months). CABEI plans to seek up to three HG borrowings under the program with borrowed funds going directly from the U.S. lender to CABEI and the terms for borrowing precluding any need for escrow. The final HG borrowing will be only for projects already under contract, and all prior advances to CABEI will have been liquidated.

Arrangements between AID and CABEI related to (1) borrowing of HG resources, (2) the eligibility of investments, and (3) procedures to be following in carrying out the program will be formalized in an Implementation Agreement between CABEI and RHUDO/CA. This document will be negotiated immediately after authorization of the HG loan. It will spell out implementation responsibilities and will contain conditions precedent and covenants related to borrowings and CABEI performance. (A Summary Implementation Timeline is presented in Table 4-4.)

5.2 PROJECT MANAGEMENT

The major management burden for the LOGROS HG Program will be borne by CABEI. CABEI is currently utilizing an ad hoc committee of six senior managers to develop the Program, but eventually CABEI will hire a municipal management specialist to direct the Program. A Condition Precedent to borrowing is that CABEI will hire this specialist.

This new program will not place any immediate additional and unusual burden on RHUDO/CA, assuming that RHUDO's full complement of two US direct hires and two PSCs is maintained. The expected completion soon of several ongoing HGs in the region may free up some time for the present staff to dedicate to this new HG, but to what degree is not clear yet. Nevertheless, additional specialized technical assistance to CABEI will be required to ensure that the municipal finance agenda of the program is properly supported and that the loan program itself operates expeditiously.

CABEI has specifically requested long term technical assistance to help design and install its Municipal Infrastructure Finance Program and short-term assistance to meet ongoing project needs. For this purpose, ROCAP plans to place a Non-Personal Services Contractor in Tegucigalpa, subject to the concurrence of the Honduras Mission, during the first three years of the program. This individual will work in CABEI headquarters to assist CABEI in the establishment of a new division in the Bank to develop and manage the new municipal development portfolio. The contractor will also assist CABEI with scopes of work and monitoring of short-term technical assistance under the Grant and with monitoring and documentation required under the HG Implementation Agreement. An important responsibility of this contractor is to assure that HG operations adequately address municipal finance issues in the spirit of the ongoing LOGROS activity.

The grant will also provide local short-term technical assistance to support CABEI, the Non-PSC and RHUDO/CA in management of the project. It will also provide for participant training and regional workshops to support project activities.

5.3 CONDITIONS AND COVENANTS

The following conditions precedent (Cps) to borrowing, and the following covenants will become part of the Implementation Agreement between RHUDO/CA and CABEI.

Conditions Precedent to First Borrowing. In addition to any Cps required by the Loan and Guaranty Agreements:

a. CABEI will have hired a Municipal Management Specialist to head the Municipal Finance Division.

b. CABEI will have disbursed its own funds (amount or percent to be negotiated) for eligible projects under the program.

Conditions Precedent to Subsequent Borrowings. CABEI will have liquidated any advances outstanding from prior borrowings.

Covenants. a. CABEI will use its best efforts to assure that municipal development activities financed under this program are carried out within the context of the LOGROS agenda, especially with regard to community participation in project selection and development.

b. CABEI will provide sufficient personnel in the field and in Tegucigalpa to manage the implementation of this program.

c. CABEI will ensure that environmental impact assessment is conducted on each subproject in accordance with CABEI environmental policies and procedures. As necessary to complement and supplement CABEI staff capabilities, CABEI will use DA funds earmarked under the grant in the amount of US\$ 200,000 for the purpose of contracting specialized short-term environmental impact assessment expertise to help CABEI evaluate the environmental impacts of those projects for which CABEI determines that such analyses are needed.

d. CABEI will ensure that subprojects use positive interest rates and are cost recoverable.

e. CABEI will honor statutory limitations included in the U.S. Foreign Assistance Act of 1961, as amended; as well as such restrictions contained in authorization and appropriation bills for A.I.D.; as well as restrictions in other pertinent U.S. legislation and policy regarding use of project funds.

f. CABEI will finance the cost of an annual independent audit which meets AID requirements and provides for additional certification statements as required.

5.4 SUMMARY OF IMPLEMENTATION RESPONSIBILITIES

5.4.1 RHUDO/CA

RHUDO's USDH LOGROS Project Officer has responsibility for implementation of the Project, as stipulated in the LOGROS Project Paper. For the HG component, RHUDO will have additional responsibility for:

- Ensuring that CABEI implements the Program in accordance with the Implementation Agreement and HG statutes;
- Providing technical assistance to CABEI to develop and implement the Program; and
- Integrating the HG activities of the Project with the two ongoing LOGROS components and the bilateral USAID programs.

5.4.2 Bilateral USAIDs

Since authorization in August, 1992, LOGROS has been working in Honduras, El Salvador, Nicaragua, Costa Rica, and Guatemala. Activities have been, and will continue to be, developed in close collaboration with the USAID Missions in those countries. Bilateral USAIDs have been consulted at all stages of the design of the HG-funded Municipal Infrastructure Finance Component, and country participation depends upon agreements reached with each USAID. Program management authority is delegated to RHUDO for all HG activities, but the HG will operate in the same way that LOGROS is operating with regard to USAID coordination. The HG will not place any additional management burdens on the USAIDs.

5.4.3 CABEI

The activities to be funded by this HG will be implemented by CABEI through its Private Sector Division, in coordination with the CABEI Public Sector Division and with the oversight of the Strategic Planning and Resources Division. RHUDO/CA will provide short-term TA to CABEI to help establish CABEI's municipal development program, and to set up the Program guidelines.

As Project Manager for the Municipal Infrastructure Finance Program, CABEI will be responsible for the following aspects of the Program:

- Meeting Conditions Precedent and contracting and repayment of the HG loan;
- Identifying the appropriate procedures to channel the loans to the recipient countries;
- Qualifying and selecting the local intermediary institutions;
- Establishing the conditions and guidelines for local intermediary institutions to contract the CABEI loan;
- Defining the eligibility guidelines and criteria for infrastructure projects;
- Monitoring the implementation of their agreements with the intermediaries; and
- Servicing its loan portfolio.

5.4.4 Intermediary Institutions

The primary responsibilities of the local financial intermediary institutions under the LOGROS HG include:

- Qualifying eligible municipal projects, in accordance with CABEI's guidelines and their own lending procedures;
- Making loans to borrowers for eligible infrastructure projects;
- Making construction inspections and progress payments to the contractors;
- Collecting infrastructure charges from project beneficiaries and shortfalls necessary to repay debt service from municipalities;
- Making loan repayments to CABEI.

5.4.5 Municipalities

The primary responsibilities of the participating municipalities in the CABEI Municipal Infrastructure Finance Component include:

- Identifying municipal infrastructure projects, beneficiaries and payment mechanisms;
- Preparing, or having prepared, the feasibility study for the selected infrastructure project(s);
- Applying to financial intermediaries for a loan;
- Providing counterpart funding to supplement HG LOGROS debt in order to complete project funding;
- Promoting the infrastructure project with community groups and households;
- Contracting private sector companies to design, build, manage, and/or service the project and the loan;
- Enforcing cost recovery through such measures as cutting service, placing liens on property, and impeding legal transfer of property in cases of non-payment for services;
- Monitoring construction and certifying completion.

5.4.6 FEMICA

FEMICA's role in the revised project will be similar to its role as described in the original PP. It will not have direct financial responsibilities under the loan program, but will be able to provide critical networking and marketing support to the program. Regional meetings can serve as fora for loan program information, and mayors and other network members can be exposed to approaches being used in other countries.

Perhaps as important, however, is FEMICA's continuing role as proponent of the policy changes needed to enable municipalities to become more financially viable. As the loan program identifies needed changes, these can be added to FEMICA's policy agenda and made part of the policy framework being advocated by FEMICA and the network throughout the region.

5.4.7 AID/W

AID/W will be responsible for executing any buy-ins under centrally managed contracts and IQC delivery orders. PRE/H and LAC/DI will be responsible for providing technical backstopping as needed on Program activities, and LAC/DI and RHUDO/CA will ensure coordination of regional activities in the sector.

5.5 GUARANTY ARRANGEMENTS

The proposed arrangement, based partly upon the existing \$140 million portfolio of HG loans to CABEI, is to rely upon CABEI's creditworthiness, payment history and the economic interests of CABEI's members, both within the region and investors from outside the region, to maintain CABEI's financial viability. This interest has been reconfirmed in recent years by member states increased efforts to keep up to date with capital contributions and loan repayments. The financial analysis for this project has found that CABEI's financial condition is the soundest since its founding in 1960.

However, under the Credit Reform Act of 1990, AID is also required to set aside appropriated funds as a reserve sufficient to cover the contingent liability created by the granting of a USG guaranty to borrowers of Housing Guaranty (and other USG loan guaranty) funds. These funds are obligated in AID/W as a de facto subsidy to support the HG loan. This subsidy element has been calculated by PRE/H and will be obligated by a countersigned Letter of Advice following the authorization of the new \$5 million HG (the \$15 million of existing HG authority, also being used for this program, was authorized before the Credit Reform Act and is therefore not subject to the same reserve requirement.)

The central focus of sublending by CABEI under this program will be financial intermediaries in the private sector. CABEI plans to require that these borrowers assume any exchange risk and the costs of their doing so will be negotiated by CABEI.

Some public sector lending will also be permitted under the program, and the exchange rate risk will be negotiated with them as well. One way in which this risk has been handled in the past is the compensatory loan mechanism, in which CABEI swaps dollars with the Central Bank for an equivalent amount of local currency. Another form involves a direct loan to the implementing national government agency, with the U.S. dollars being passed through the Central Bank for conversion to local currency. In both cases, the central governments assume the exchange rate risk as well as guarantying repayment to CABEI.

6.0 PROCUREMENT PLAN

LOGROS HG funds will be authorized and contracted in accordance with the Implementation Agreement (AID-CABEI) and Loan Agreement(s) (CABEI-US lender), to be negotiated and signed by USAID and CABEI after the HG is authorized, in accordance with HB 7, Housing Guaranties.

6.1 RESPONSIBILITIES

Initiation of procurement of long-term TA, short-term TA, training, and audit and evaluation services will be the responsibility of RHUDO/CA. Procurement of these services will be carried out by the Regional Contracts Office in Guatemala City, or by the AID/W contracts office, based on PIO/Ts prepared by RHUDO technical and support offices. Procurement under any grants to CABEI (see below) will be the responsibility of CABEI, subject to A.I.D. requirements.

6.2 REQUIREMENTS

Non-Personal Services Contract. This provider of support to CABEI will be contracted directly by AID and will be located at CABEI, subject to the concurrence of the Tegucigalpa Mission. This individual will be responsible for day-to-day management TA and monitoring of the loan program, identifying needs for training or short term TA, and keeping AID informed of implementation progress and problems. A limited amount of short-term technical assistance might also be procured via PSC, though efforts will be made to minimize this approach because of the contracting burden. A total of approximately \$600,000 is budgeted for this requirement.

Handbook 3 Grant to CABEI. CABEI, as the primary implementing agency for the HG portion of LOGROS, will require TA and training to support the establishment of a municipal loan program. Some of that support will be provided by the resident adviser; other needs will need to be met via short-term TA and training. Some short-term TA will be provided via an A.I.D. direct institutional contract, as described below. It is important, however, that CABEI itself have control over some grant funds, and at this stage a Handbook 3 agreement seems most appropriate. Included in this grant would be \$200,000 specifically reserved for any necessary environmental impact analyses.

Prior to executing any grant, however, CABEI's financial systems will have to be certified by the A.I.D. Controller. The last audit report on CABEI (by Arthur Anderson) identified actions that need to be taken by CABEI prior to any future grants. When those actions are taken, the Controller can begin the certification process.

In addition, if CABEI is to do host country contracting under the HB 3 grant, the A.I.D. Controller and Regional Contracting Officer will need to review their procedures to determine whether they are adequate to undertake this type of contracting.

Any additional audits required by the addition of the LOGROS HG and increased DA funds will be undertaken, and funds have been budgeted in the DA component for this purpose.

Institutional Contract. In order to facilitate implementation, RHUDO intends to request that the Regional Contracting Officer compete a contract for short-term TA services over the life of the project. Depending on funds available, this contract should be let as early in the first year of HG implementation as possible. The resident non PSC and CABEI would be able to call on this facility

to meet needs for short-term TA at CABEI or the IFIs, or, in some cases, the municipalities. This contract will be DA-funded. It will also provide services for other items on the LOGROS agenda. Based on current funding scenarios, RHUDO/CA expects to use \$400,000 of the DA funds supported by this Amendment as part of the funding for this contract.

Indefinite Quantity Contracts and Buy-ins. Work orders under IQC arrangements will most likely be used for evaluations and audits as necessary. Again, because of the contracting burden, efforts will be made to minimize these actions by use of an institutional contract, as above.

Purchase Orders. Purchase orders will be used to the extent practicable because of contracting ease, including for procurement of short-term TA to conduct environmental impact analyses when such services will cost less than \$25,000.

6.3 LIMITATIONS

All commodities, services and their suppliers financed by AID under this authorization shall have their source and origin in the United States, except as AID may otherwise agree in writing. Buy America policy will be followed except as AID may otherwise agree in writing in the various agreements, contracts or Project Implementation Letters (PILs). Local cost financing is authorized to the extent permitted by the Buy America Policy as outlined in 90 State 410422 and in HB 1B, Chapter 18.

Except for ocean shipping, the suppliers of commodities or services shall have the United States as their place of nationality, and ocean shipping financed by A.I.D. under the CABEI Grant shall be financed only on flag vessels of the United States except as A.I.D. may otherwise agree in writing. A record of all local procurement shall be maintained during implementation of activities financed under the Project.

6.4 WAIVERS

No waiver requirements were identified during LOGROS design, nor have any such requirements been identified during preparation of the PP Supplement. To the extent, however, that it may be appropriate during implementation to waive host government funding of international travel pursuant to HB 10 Chapter 16, then the justification for such waivers will be attached to the specific PIO/P or other documentation to which it applies.

6.5 GRAY AMENDMENT CONSIDERATIONS

The Mission encourages to the maximum extent practicable participation of Small Business Concerns, Small Disadvantaged Business concerns, and women-owned small business concerns in this Project as either Prime Contractor or as subcontractor thereto in accordance with Part 19 of the Federal Acquisition Regulations (FAR). The same provisions that were articulated in the LOGROS Project Paper to ensure that these entities may participate to the maximum extent practicable in Project-funded activities funded shall apply to the activities funded under this authorization.

Table 6-1
Illustrative Procurement Plan

| <u>Requirements</u> | <u>Time</u> | <u>Start</u> | <u>Cost</u> | <u>Procurement Mode</u> |
|------------------------------|-------------|--------------|-------------|-------------------------|
| 1. Municipal Finance Adviser | 3 yrs | FY94 | \$600,000 | Non-PSC Competition |
| 2. Grant to CABEI | 4 yrs | 1/94 | \$600,000 | HB 3 |
| 3. Institutional Contract | 3 yrs | 3/94 | \$400,000 | Competition* |
| 4. IQC/buy-ins | TBD | FY94 | \$350,000 | |
| 5. Evaluations & Audits | | | \$ 50,000 | IQCs |

*This contract will also include other funds from the LOGROS project since it will provide TA to other project components. The \$400,000 only represents the portion attributable to HG support.

7.0 HG MONITORING, EVALUATION AND AUDITS

7.1 MONITORING

A.I.D. does not directly monitor the HG-financed subprojects, which are selected and funded by the country-level financial intermediaries and then approved (or not) for funding by CABEI based on their conformance with program parameters as negotiated in the AID-CABEI Implementation Agreement. The terms of this agreement are what AID monitors. AID's "control" on program expenditures is via review of documentation submitted in support of disbursement requests and ex post, via evaluations and audits. AID's exposure is limited by the terms of the Implementation Agreement and CABEI's responsibilities in monitoring the financial intermediaries. CABEI, as a second tier lender, in turn monitors their agreement with these borrowers, not the projects themselves. The financial intermediaries are responsible for monitoring actual project construction activities and reporting to CABEI.

Repayment agreements spread the risk among all three parties. For example, if a project ran into severe construction problems, the municipality would be responsible for working out payment problems with the intermediary lender. The intermediary would still be responsible to CABEI for repayment, and CABEI for repayment to AID. AID's ultimate safeguard at the project level is that projects could not be considered "eligible expenditures" for purposes of obtaining reimbursements or of liquidating advances until they are complete.

CABEI has agreed to provide AID with semi-annual reports on project progress, timed to coincide with AID SAR preparation.

7.2 EVALUATION

The LOGROS PP calls for a mid-term evaluation in year 3 of implementation. That evaluation will also cover the HG program.

7.3 AUDITS

In accordance with AID regulations the implementing institutions should be audited annually. Program grantees will be required to contract a comprehensive audit to be conducted by one of the firms included on the AID approved list of audit firms. The AID funds will be audited following the "Guidelines for Financial Audits Contracted by Foreign Recipients", issued by the AID Inspector General; and the "Government Auditing Standards" (1988 revision), issued by the U.S. General Accounting Office.

Program grantees will also be responsible for ensuring that subrecipients which receive \$25,000 or more in any one calendar year are audited in accordance with the above mentioned guidelines.

Auditing of the US contractors will be the AID/W responsibility.

The audit requirements of the HG program are contained in the Implementation Agreement and normally include AID review of:

CABEI annual reports, annual financial audits and monthly financial reports (unaudited) and

CABEI monthly and annual reports relating specifically to the municipal Infrastructure Finance Program.

These requirements are part of current Implementation Agreements between AID and CABEI for ongoing HG programs and are being adhered to by CABEI. \$159,000 were

budgeted in the LOGROS Project Paper, for the seven year life of project to audit AID funds.

8.0 KEY ANALYSES

8.1 CABEI INSTITUTIONAL AND FINANCIAL ANALYSES

8.1.1 CABEI Institutional Analysis

An institutional analysis of CABEI, conducted during Amendment design, is attached as Annex C. CABEI has undergone profound changes in its institutional structure and management over the past few years, changes that have left the institution much stronger and better able to meet the needs of its regional borrowers. In 1992, CABEI's Constitutive Agreement (essentially its Articles of Incorporation and By-laws) was revised and overhauled, and important changes were made in the organization and management of the institution. These changes, as described below, have opened the Bank to critical input and assistance from non-regional countries, as well as led to more transparency in the Bank's policy making decision process and operations.

One of the most important changes has been in the composition of the Board of Governors, which represent the Bank's country shareholders. Instead of two representatives from each of the five regional members, the Board of Governors now consists of one representative from each regional member (having full voting rights), plus a representative from each non-regional member. In addition, non-regional members, of which there are two presently (Mexico and the Republic of China), are now represented on the Board of Governors, with each country having the right to one vote.

As the number of countries joining CABEI increases, at some point non-regional members will outnumber the regional members. This is expected to have a major impact on the Bank's policies. With respect to the Board of Directors, for example, instead of one Director from each regional country (for a total of five directors) there are now nine directors--one each from the regional members plus four additional directors to represent the non-regional members. While regional directors still dominate, the presence of almost as many non-regional directors, with full voting powers, has made a difference in the way policy decisions are made and carried out in the Bank.

Another important change at CABEI has been in the definition of the Bank's objectives. Previously, CABEI could only finance projects of a regional nature or projects that promoted inter-regional commerce, i.e., import substitution loans. The new criteria call for: (1) loans to be made based on the economic benefits to the individual countries (which will have critical repercussions on the entire region); and (2) strengthened production capabilities, especially with respect to export products to regional as well as non-regional countries. This means that the Bank's policies are much more in tune with worldwide market realities, which in turn strengthens the region's ability to compete and the Bank's ability to serve the borrowing needs of its clients.

On the operational side of the Bank, other critical changes have been made. One of the most important is that the internal auditor now reports directly to the Board of Directors, rather than through the Comptroller as was previously the case. By placing this independent auditing function solely at the Board level, the Bank's ability to monitor its financial and operational activities has been greatly improved. The Bank's staff has also been reduced by 25% from its peak level, which has reduced operating expenses and improved efficiency.

Two main operational divisions have been set up at CABEI; all private sector activities are consolidated into one of these operating divisions, while all public sector programs remain in the second. This will help ensure that the all-important private sector lending operations will continue to be a prominent part

of the bank's lending portfolio. Finally, lending procedures and processes have been consolidated and simplified, thereby improving significantly the management of CABEI's entire operation.

These institutional changes within CABEI appear to be "durable," i.e., regardless of changes in CABEI's management and personnel, any attempt to revert to policies and actions that caused the previous problems is highly unlikely to be successful. Furthermore, changes in the By-laws/Articles of Incorporation, coupled with an increase in the influence and power of the non-regional members (who are also creditors of the Bank, all significantly enhance the prospects for continuation of the bank's current performance.

8.1.2 CABEI Financial Analysis

A financial analysis of CABEI, conducted during Amendment design, (Evaluation of CABEI, Eliecer Fernandez, Agency for International Development, 1993) is attached as Annex D. CABEI lived through its most critical financial period during the period 1989-90, when member countries (borrowers) refused to honor their financial obligations to the Bank due to a policy of restricting disbursements unless all sub-borrowers in that particular country were current in their debt service to the Bank. This meant that even if only one sub-borrower was in arrears, no disbursements could be made for projects in progress (including others from that same country that were current). This effectively dried up all disbursements in the region, and loan amortization was put on hold. Financial operations between CABEI and the member countries and borrowers therefore virtually ceased.

In 1991, a new CABEI administration reversed this position and reached agreements with each country to reopen the disbursement facility as long as payment of arrearage was properly scheduled. This resulted in a reasonable cash flow to most of the countries: CABEI's disbursements were directed to specific projects, whereas the countries' payments were applied to reducing arrears. This new approach resulted in positive financial results for the Bank and lending benefits to the countries. Accordingly, loan recuperation has increased to the point where CABEI had about CA\$350 million as of February 1993 in short- and medium-term investments. This is more than sufficient to cover future disbursements against committed funds for projects in progress.

From a loss of CA\$2.5 million in 1990, CABEI's profits soared to CA\$21.0 million in 1991 and CA\$26 million in 1992. This major improvement was due, in part, to the recuperation of accrued interest payments from previous years. While it is not expected that income will continue at the same high rate of the previous two years, CABEI's income projections indicate that the return on assets will remain at a very respectable level in the coming years.

As a result of the improvement in CABEI's financial condition, capital contributions have increased substantially. In the past two years, non-regional members have contributed CA\$51.9 million in new capital, while regional members have made new contributions of CA\$256.3 million; all have considerably improved CABEI's balance sheet. Further, the financial position of the Bank as measured by both its financial ratios and CAMEL analysis procedure indicates that there has been substantial and real improvements in CABEI's financial condition. All of these factors together indicate that CABEI is not only in its best financial condition since its founding in 1960, but that it is also a financially sound institution by any banking standard.

8.2 PROGRAM FINANCIAL ANALYSIS

The financial feasibility of projects under the LOGROS HG is a function of many factors, principally those covered in the "Demand Profile" section. The

most basic question is whether project revenues--from tariffs and other charges--will cover the debt service resulting from financing project development costs.

Thus, the answer depends most on two factors: (1) the cost of debt service, determined principally by the portion of development costs to be financed and the terms of the HG loan and (2) project revenues, which depend on cost recovery from tariffs and other charges.

The Portion of Development Costs to be Financed and the Terms of Finance. Occasionally, a project will be able to support near-market rate terms--those available under the LOGROS HG--for all of its costs. Such entirely self-financing projects will generally occur in the largest cities for the types of infrastructure for which users are most willing to pay--water provision and certain public markets. The Esquintla water project described in Box 1 is an example.

However, the low incomes and willingness to pay of households below the median in Central America will rarely support debt service for projects' entire development cost at near-market terms. Hence, the LOGROS HG will typically fund pieces of projects, and capital contributions from municipalities will match LOGROS HG debt finance. Such municipal counterpart funding is likely to come from a variety of sources. Central government transfers in Guatemala (eight percent of central government's budget), Honduras (five percent of the central budget), and Costa Rica (80 percent of the nationally collected property tax) is likely to be the major source. The Social Investment Funds in most Central American countries and other types of softer funding from donors may also finance the municipality's match.

Cost Recovery from Beneficiaries. Cost recovery from beneficiaries will be the main source of the revenues necessary to debt service the portion of project costs that are financed under the LOGROS HG. As discussed below and in Box 2, the key factor in cost recovery is the participation of local people and their commitment to the project.

The AID Municipal Development loan program in Honduras operates on these two principles. It finances part of projects while requiring municipalities to make up the difference in other funds, and has made progress in recovering costs from beneficiaries. Hence, a project funded under this program serves as a good example:

The municipality of Villanueva--a medium-sized municipality--has applied to this program to finance a water distribution system to replace and add to the deficient system currently in the municipality's western section. The beneficiaries will total 975 households, with the capacity to expand to 1,400 households as the area grows. The capital cost of the distribution system and the amount of the requested loan is US \$415,000. The city will fund from its annual budget the capital costs of off-site to provide water to the distribution network in the amount of US \$400,000. Hence, the amount financed under the AID bi-lateral municipal development program in Honduras represents 51 percent of total development costs, with the municipality contributing 49 percent.

A survey conducted by AID-Honduras of about a third of the area's population determined the distribution of household incomes. The analysis assumes that 8 percent of household income is affordable for capital costs of water provision.

The amount that each household pays for water under the AID-Honduras loan depends on the area of the lot it owns, as determined by review of cadastral records. Thus, households with larger lots pay more. The municipality uses betterment taxes to charge for these capital improvements. The analysis assumes that larger lots help compensate for insufficient income because these households can rent or sell part of their lot to support debt service.

The cost recovery analysis for the distribution component of the project--that financed by USAID/Honduras--separates households into three groups--see Table 8-1.

TABLE 8-1

Projected Cost Recovery from Distribution Component of Villanueva Water Project

| | HOUSEHOLD BENEFICIARIES | | INVESTMENT | |
|---|-------------------------|------------|---------------------|------------|
| | # | % of Total | Amount (US Dollars) | % of Total |
| Households with Sufficient Income to Pay Debt Service | 749 | 76.8 | \$206,500 | 49.6 |
| Households with Insufficient Income, But Larger Lots That Allow Paying Debt Service | 191 | 18.5 | \$187,500 | 45.01 |
| Households without the Capacity to Support Debt Service | 45 | 4.6 | \$22,500 | 5.43 |
| Totals | 975 | 100.0 | \$416,500 | 100.0 |

First, about three quarters of households (76.8 percent) have sufficient income to pay the debt service resulting from the distribution component of the project. Their payments support 49.6 percent of the investment receiving AID-Honduras loan finance. Second, 18.58 percent of households lack sufficient income, but have larger lots and, thus, the capacity to rent or sell part of their lot to earn sufficient revenue for debt service. Their payments support 45.0 percent of the distribution system cost--a much larger share than their number because these households own more land and, hence, are pro-rated proportionately more of project costs. Third, 4.6 percent of households clearly lack the capacity to pay debt service, representing 5.43 percent of the loan.

Overall, the analysis concludes that the municipality will be able to raise revenues from project charges sufficient to meet the debt service from loan finance of the water distribution component of this project--although the structure of the Honduras program also builds in a substantial cushion for local governments, which could be used to meet any shortfalls (See Box 2). As noted, the water distribution component is roughly one-half (51 percent) of total project costs, while the municipality funds the remaining 49 percent, consisting of off-site improvements.

The LOGROS HG can modify either interest rate or term to support different proportions of total project development cost. Table 8-2 presents a sensitivity

analysis of the proportion of total project cost that would be covered under different interest rates and terms.

The first row--at 10%/year--corresponds to the project's financial structure under the USAID-Honduran program. However, current market rates (about 20 percent per annum) are about twice that available under the HG to municipalities (10 percent per annum). If financing were to be available under the LOGROS HG mid-way between that under the current program and the market--at 15 percent--the project's revenue would support two-thirds of the cost of the distribution component, and one-third of the cost of the entire project.

Similarly, extending the loan term would change the proportion of the distribution component and project cost that could be supported. Holding the interest rate fixed at a near-market rate of 15 percent, the portion of the development cost supported by projected cost recovery goes from 43 percent at seven years to 59 percent at 15 years.

TABLE 8-2

Sensitivity Analysis of Financing the Villanueva Water Project in Honduras

| Loan Conditions | Portion of Total Development Costs Supported by Project Revenues |
|---|--|
| <u>Interest Rate to Municipality Varies*, Holding Term Constant**:</u> | |
| 10%/year; one-half current market | 51 percent |
| 15%/year; a near-market rate consistent with the LOGROS HG | 33 percent |
| 20%/year; current market rate | 25 percent |
| <u>Term to Households** Varies, Holding Interest Rate at 15%/annum:</u> | |
| 7 years | 43 percent |
| 10 years | 51 percent |
| 15 years | 59 percent |

* In turn, the municipality calculates betterment taxes for households on this project at 14 percent, i.e. at a margin of 4 percent over 10 percent.

** The term that the municipality uses to calculate betterment taxes for beneficiary households averages about seven years.

Finally, both the interest rate and the term could be varied to achieve a given amount of loan finance to supplement a municipality's savings. A 10-percent per-annum interest rate with a seven-year term results in financing 51 percent of total project cost. However, so does a 15-percent interest rate with a ten-year term. Under the LOGROS HG, CABEI will have some ability to play with term and interest rate to make deals work.

Based on the Honduran experience (see Appendix to this section) the most crucial part of the financial analysis of each LOGROS HG project involves building support with local community organizations and households for the project and project repayment. The effectiveness of such promotion far exceeds any other factor in determining cost recovery. Smaller, poorer municipalities that are

highly committed to a project typically produce better cost recovery outcomes than larger, more prosperous ones where promotion and commitment are lacking.

Project promotion could include meetings with the local neighborhood association ("patronato", in Honduras), meetings with groups of households, surveys of households, and requiring the written and oral approval of project design from neighborhood association and a threshold percent of households. As with other aspects of the LOGROS HG, CABEI must have the flexibility to tailor the exact nature of the participation component to the local country context. Once requirements for public participation are defined in each country, CABEI should consistently enforce them and AID oversee this enforcement.

8.3 DEMAND ASSESSMENT METHOD AND SUMMARY OF FINDINGS

8.3.1 Background

The Central American Bank for Economic Integration (CABEI), in a joint effort with a consultant of A.I.D., undertook an analysis of the demand existing in the Region to support the proposed Housing Guaranty (HG) loan for municipal infrastructure. The CABEI members of the team were part of the Ad Hoc Committee set up by the Bank for analyzing the implications of a new type of HG loan.

It was universally accepted that the need for resources for municipal infrastructure is immense in Central America, and the study confirmed that fact. However, the Program required that the thrust of the analysis address the effective demand of the municipalities for the resources being offered. A basic premise on which the demand analysis was based was that the HG provision of resources to the Region's municipal sector implied the insertion into municipal systems of new financial mechanisms. Feasibility of the Program, then, would be evaluated from the point of view of the existence of an effective demand and the functional marketability of CABEI's HG resources within the context of new financial mechanisms.

The team undertook the assessment within severe time and resource constraints. Although they interviewed the most important actors in the municipal systems of four Central American Countries (Nicaragua was not included except in the CABEI survey), they were limited to analyzing the only statistical data available, that from the Central Government Institutes, without the possibility of accessing directly the municipalities, except through a limited number of interviews.

The team efforts were aimed at four objectives:

1. Quantifying to the extent possible the effective demand for municipal infrastructure resources;
2. Evaluating resource options available to satisfy the demand;
3. Discussing the Program's acceptance with potential users; and
4. Consulting with interested parties on options for the Program's implementation.

8.3.2 Method

CABEI, through its regional offices, collected data on potential demand, from its five member countries. A survey questionnaire, designed at Bank headquarters in Tegucigalpa, was sent by the Bank's mail to its regional offices that in turn sent it to the institutions that would be able to provide demand data on all levels of municipalities. In the case of Honduras where the Central Government institution, BANMU, was recently liquidated, a representative mix of municipalities was directly consulted. The following are the institutions and municipalities polled:

| | |
|-------------|--|
| Guatemala | Instituto de Fomento Municipal (INFOM). |
| El Salvador | Instituto Salvadoreno de Desarrollo Municipal (ISDEM). |
| Honduras | The municipalities of: San Pedro Sula, Amapala, Marcala, Trujillo, San Marcos de Colon, Juticalpa, Tegucigalpa, La Lima and Santa Barbara. |

Nicaragua Instituto Nicaraguense de Fomento Municipal.

Costa Rica Instituto de Fomento y Asesoría Municipal (IFAM).

The above municipal development institutes were key sources of what data exist on municipalities and were critical to the team's information gathering effort, which was constrained in time and resources. Even they, however, lacked data in sufficient detail and reliability to enable the team to put a firm figure on what municipal investments exist, let alone make projections.

In addition to the questionnaire, the study team visited each of the countries, with the exception of Nicaragua, personally interviewing mayors, municipal associations, commercial banks, savings and loans, and ministries related to local government, for purposes of discussing the acceptance of the concepts characterizing the HG Program.

8.3.3 Principle conclusions

1. According to the questionnaire, demonstrated demand for financing municipal infrastructure projects in the region at various stages of elaboration comes to approximately \$262 million dollars. Of this amount approximately \$40 million dollars refer to projects fully ready for execution. Information on the socioeconomic conditions of the beneficiaries and details on project types were not available from the sources surveyed.
2. Private intermediary financial institutions in general indicated a willingness to negotiate the conditions for participating in CABEI's new Program. One bank already lends to municipalities in local currency and was willing to continue with external funds. Most banks, although expressing doubts about municipalities as borrowers, were interested in financing viable infrastructure projects and recovering costs directly from beneficiaries. The savings and loan institutions of Honduras manifested their willingness to cooperate with the Program as long as the exchange risk would not be a problem.
3. All the municipal assistance agencies consulted expressed interest in cooperating with the Program as presented both through technical assistance as well as the provision of guaranties. The Banco Hipotecario de la Vivienda of Costa Rica showed interest in intermediating CABEI's resources, even possibly assuming the exchange risk.
4. Mayors demonstrated great interest in sources of agile financing that would permit them to leverage their own resources. One municipal leader, who pays market rates for financing through a municipal assistance agency that takes excessively long periods for approval, welcomed what would be an easier route to resources. Mayors are also becoming more aware of the scarcity of concessionary resources, and expressed the need for the financing of project preparation. At the same time they have been unaccustomed to securing financial resources except through Central Government agencies, and did not know how private banks would relate to working with them.

The demand characteristics of each of the countries can be found in Section 3 of this Project Paper. The tables accompanying the Demand Assessment can be found together with the full text of the study in Annex F, **THE DEMAND ASSESSMENT**.

8.4 ENVIRONMENTAL ANALYSIS

An Initial Environmental Examination (IEE) for the activities described in this PP Supplement is attached as Annex H. Pursuant to the provisions of 22 CFR 216.2(c), and in accordance with discussions between the Mission and LAC/DR/E on 19 July 1993, the activities to be funded under this Amendment are eligible and recommended for Categorical Exclusion. An institutional evaluation of CABEI vis-a-vis the environmental policies, procedures and capabilities of that institution is appended to the IEE. That review found that, while CABEI has the policies and procedures in place to ensure that the significantly adverse impacts of the projects it funds are mitigated to acceptable levels, it does not have the in-house technical resources required to ensure technically adequate project environmental impact assessment of its projects. For this reason, one percent of the cost of the loan funds that will be expended for infrastructure activities (i.e., US\$200,000) have been earmarked for the specific purpose of procuring short-term TA to help CABEI assess the likely environmental impacts of the activities to be funded under the LOGROS HG.

Annexes

- Annex A. Mission Comments and Action Plan Approval Cable
- Annex B. Revised Logframe
- Annex C. Institutional Analysis of CABEI
- Annex D. Financial Analysis of CABEI
- Annex E. Audit Report Recommendation on Project No. 596-0114
- Annex F. Demand Assessment
- Annex G. The A.I.D. Municipal Development Program in Honduras
Lessons for the LOGROS HG
- Annex H. Initial Environmental Examination
- Annex I. Detailed Illustrative Cost Estimates
- Annex J. Statutory Checklist

Annex A
Mission Comments
Action Plan Approval Cable



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A.I.D. MISSION TO EL SALVADOR

June 8, 1993

INFORMATION MEMORANDUM FOR THE DIRECTOR

FROM: J. Michael Deal, PRJ

SUBJECT: Housing Guaranty Supplement to the LOGROS Project

This memo is in reference to Terry Brown's memo for Central American Mission Directors regarding the CASC meeting next week in Costa Rica (attached). An agenda item for the meeting will be the ROCAP/RHUDO proposed amendment to the LOGROS Project.

USAID/San Salvador is very supportive of the LOGROS effort, and encourages RHUDO innovation in increasing municipal financial autonomy and citizen participation in financial decision-making. The use of HG loans for this purpose, thereby increasing municipal independence as outlined in the NPD, is consistent with this Mission's Municipal Development Strategy. The Mission Strategy does not envision, and the Mission's proposed FY93 Municipal Development Project (MDP) does not contemplate using a loan mechanism for financing new municipal investment projects, focusing instead on increasing revenues from local sources and developing investment budgets for capital improvements. However, HG investments in municipalities targeted by the Mission could prove to be an effective complementary program. As USAID San Salvador finalizes the design of the MDP, we would like to discuss such a possibility with ROCAP/RHUDO.

While USAID/San Salvador agrees in principal on the use of HG resources for expanding municipal autonomy and democratic decision-making, we would urge RHUDO to proceed with caution in the use of the Housing Guaranty mechanism in this capacity. Several questions have been raised by Mission staff based on the NPD, some regarding the HG mechanism itself such as: what are the likely rates on HG loans; and who bears the foreign exchange risk? Specific to El Salvador, two issues raised include:

- 1) What is the effective demand for HG loans in El Salvador, especially with the current level of MEA resources and the limited repayment capacity of most municipalities?

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Cleared by: *Carol Steele*

Office Director
BPP

RELEASE APPROVAL: *Carol Steele*

USAID/SS-306 (7/91)

- 2) What mechanism/financial intermediary will be utilized at the country level? A small GTZ-funded loan program managed by ISDEM is the only one known to the Mission. Consideration of this mechanism would have to protect against central government interference with movement towards greater local autonomy.

The Mission understands that some of these questions, particularly the latter two, will be addressed during a visit from a RHUDO team later this month to determine more precisely the constraints/opportunities in El Salvador for the LOGROS HG component. The timing for the RHUDO design of the HG component of the LOGROS Project is particularly opportune as the Mission is in the final stages of designing the MDP, and we look forward to close collaboration with RHUDO.

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Cleared by:

Carol State
Office Director
DPY

RELEASE APPROVAL:

Carol State

USAID/SS-306 (7/91)



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TELEFAX COVER SHEET

USAID/COSTA RICA FAX MESSAGE NO. ~~002262~~

PAGE 1 OF 2 PAGES

DELIVER TO: Ronald Carlson

DATE: 6/2/93

AT: RHUDO, GUATEMALA

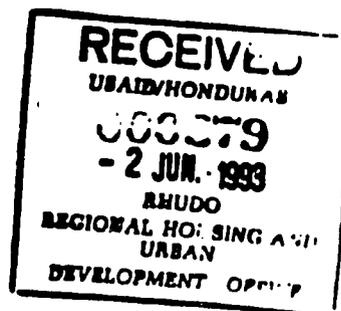
FAX NO.: 502 2 32-0663

FROM: Peter Krastover *PK*

SUBJECT:

*Now re LOGROS project. Sorry for
the delay.*

PK



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Per refel, Mission wishes to offer the following observations regarding the NPD for the LOGROS project.

First of, we think it is a good idea conceptually. The economic framework is right. Costa Rican reforms over the past decade in the macroeconomic arena and in public sector reform, most notably in pension reform, labor mobility and public sector spending, have given the GOCR some breathing room, now allowing it to concentrate on various social sector issues and look towards what might be an empowerment of local governments.

Such empowerment would be particularly welcome from both a management efficiency point of view and financially, but, (we offer this only as a friendly warning) difficult to implement as it represents a reversal of policy practice for the past forty years. In essence the expansion and strengthening of Central Ministries and the creation of many specialized institutions with a national character has greatly reduced the participation of local governments in the provision of basic services which at one time had been within their jurisdiction. This centralization of government services positioned the state as the principal provider of social services as well as greatly expanded the role of the state in the production of goods and services.

yes. || A recognition of the inherent inefficiency of centralized bureaucracy and state enterprise has hopefully now set the stage for the reversal of this process. We would think that some conditions precedent would have to be included in the authorization indicating that policy measures on fee collections, privatization of services, etc. must be decreed before some project components are implemented.

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**AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID/HONDURAS**



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TELEFAX CONTROL NUMBER 315 193

TO : Mr. Terrence Brown FAX NO. : (502)(2) 31-1151
OFFICE : Mission Director DATE : June 2, 1993
COUNTRY : Guatemala NO. OF PAGES : -3-

(including cover sheet)

FROM : Mario Pita

AID OFFICE : MDI

TEXT :

Attached please find Memorandum "HG and the Logros Program".

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USAID/HONDURAS

MEMORANDUM



DATE : May 25, 1993
TO : Terrence Brown, MD,
USAID/Guatemala
FROM : Marshall Brown, MD 67
SUBJECT : NG and the Logros Program

Ref : Your May 12 Memo

Thanks for sharing with us the NPD for a \$20 million HG with CABEL in support of the objectives of the Local Government Regional Outreach Strategy (LOGROS) program.

As long as CABEL operates as a second tier entity and does not involve itself in the operations of the projects, this Mission does not have objections to the use of CABEL. However, you need to be sure that financial problems with CABEL, as happened recently, do not cut the flow of resources in the middle of program implementation.

The support of the bilateral Missions' agenda in the municipal sector stated in the NPD is welcome. Because of our current efforts in local government, this linkage of the HG-LOGROS with our policies, programs and strategies is essential for the participation of USAID/Honduras in the proposed financing. We do not foresee conceptual differences between the regional and bilateral agendas.

We see, however, the need to explore a different strategy in the way monies will flow. As designed, the HG-LOGROS proposes a combination of policy changes and specific project activities. The clients for the monies range from governments, private sector institutions and municipalities. Their participation is conditioned to the certification by CABEL as eligible institutions.

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We believe the resources should flow to the Governments in support of their municipal sector programs. The sector program will include policies and investment. The "attribution" of the HG investments will be made using projects under the different lines of finance and programs of the GOH, the private sector and the municipalities. We understand PRE/H has used the HG in support of sector programs in other regions.

The fact that the program level is \$20 million, should not be a deterrent for a sector approach. As described, the HG resources will complement the TA efforts to bring about changes. These changes are progressive and the resources can be disbursed in line with the pace of changes. A certain degree of success can open the possibility for new resources.

Again, thanks for the opportunity to comment on the proposed program.

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AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID/PANAMA



FAX No.: 502-2-320523
To: TERRY BROWN

CONTROL No.: 879
DATE: 5/1/93
No. of Pages: 2
(including Cover sheet)
Office: Director
From: Kevin Kelly

Office: Director
Country: Guatemala

Remarks:

USAID/Panama appreciates the opportunity to comment on ROCAP's draft Action Plan and recognizes your efforts to continue to narrow the focus of the Program.

Action Plan

We support the three strategic objectives identified and find that they are appropriate for a regional program.

For S.O. #1 (Open and Competitive Regional Market), however, it is not clear that the program output on investment climate can be achieved through regional efforts. There is only limited project support from the ROCAP portfolio. Why not focus even more narrowly on increased trade in non-traditional ag exports and access to market information these are areas where the project assistance appears to be positioned to make a clear difference and contribute to achieving the S.O. We also suggest that the narrative describe how performance indicator baselines and targets will be developed.

For S.O. #2 (Environmentally Sound and Efficient Practices in Natural Resource Management), the indicators and accomplishments do not appear to reflect what should already be known given the many years of work ROCAP already had done in this sector. Perhaps this is because of an unclear cause/effect relationship between planned activities and intended results. There are also two points of clarification in the narrative for this section: we are not aware of any "active participation" by indigenous groups regarding the La Amistad park (p.8); also, the comment (p.8) on the utility of the Green Book does not reflect the sense of the ADOs as expressed in their meeting in Guatemala last year.

For S.O. #3 (More Effective and Democratic Governance), we agree with the narrow focus but believe that there are too many program outputs given that there is basically only one project supporting

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this strategic objective. The "program" outputs seem to be end of project indicators.

Logros HG NED

The Mission concurs with the policy orientation of the proposed HG component to the Logros project, but questions whether the policy agenda is too ambitious -- or is the agenda as presented a composite of what the various countries in the region will be working on, with Logros simply providing additional resources to complement bilateral efforts?

Given that the HG resources will pass from CABEI through an intermediary financial institution before reaching the benefitting community, and that the use of the intermediary will add to the cost of the funds, how will this affect the financial viability of the planned projects and the objective of full cost recovery? What incentives will be necessary for the intermediaries to participate? Why should both public and private banks be eligible to serve as intermediary institutions? What steps will the HG take to assure resources are focused on low income communities?

Democratic Initiatives Strategic Framework

The strategy is consistent with previous discussions among the CASC members with its limited focus on local governance. The use of networking events, in particular, appear to be useful and a good mechanism for bringing issues of common interest to the attention of a broad spectrum of regional leaders. We also agree that the concept of decentralization is key to effective and meaningful local governance. The strategy recognizes that there are many constraints to achieving decentralization of authority, but there is no explicit discussion of the political will to permit decentralization to go forward. How does this issue affect/influence the policy agenda the strategy plans to pursue, and what steps can be taken to strengthen political will as it relates to decentralization?

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GUATEMALA FOR ROCAP; ALSO INFO FOR USAID GUATEMALA

E.O. 12356: N/A
 SUBJECT: USAID/NICARAGUA COMMENTS ON ROCAP ACTION PLAN

1. USAID/NICARAGUA APPRECIATES THE OPPORTUNITY TO COMMENT ON THE ROCAP ACTION PLAN SUBMISSION. WE APOLOGIZE FOR THE LATENESS OF OUR COMMENTS BUT WE HOPE YOU WILL TAKE THEM INTO CONSIDERATION. WE'VE TRIED TO GROUP OUR COMMENTS IN A FEW AREAS:

2. SCOPE OF OBJECTIVES

ROCAP IS TO BE COMMENDED FOR ITS EFFORTS TO FURTHER FOCUS ITS PROGRAM IN LINE WITH THE STRENGTHS OF A REGIONAL MISSION. MOST OF THE ACTIVITIES CITED IN THE ACTION PLAN SEEM TO BUILD ON EXPERTISE DEVELOPED THROUGH PAST ACTIVITIES AND THE UNIQUE PERSPECTIVE THAT ROCAP HAS. THE BROADER STRATEGIC FRAMEWORK, HOWEVER, STILL SEEMS OVERLY AMBITIOUS AND BEYOND THE 'MANAGEABLE INTEREST' OF A REGIONAL MISSION WITH BUDGET RESOURCES FAR FELOW SOME OF THE BILATERAL MISSIONS. FOR EXAMPLE, IT SEEMS A BIT MUCH FOR ROCAP TO BE "RESPONSIBLE" FOR INCREASED TRADE INVOLVING THE ENTIRE REGION WHEN ROCAP'S MAIN ROLE REALLY SEEMS TO BE HARMONIZATION OF POLICIES AND IMPROVEMENT OF REGIONAL INSTITUTIONS. MOST OF WHAT IS REQUIRED FOR INCREASED TRADE IS PROBABLY OUT OF ROCAP'S CONTROL AND MORE LIKELY IN THE REALM OF THE BILATERAL CHANGES THAT MUST OCCUR WITHIN RESPECTIVE ECONOMIES.

WE ENCOURAGE ROCAP TO STRUCTURE THE MID-TERM EVALUATION OF RENARM TO BE HIGHLY PARTICIPATORY FOR THE BI-LATERAL MISSIONS TO BETTER HELP US UNDERSTAND THE REGIONAL IMPLICATIONS OF ENVIRONMENTAL PROBLEMS AND POSSIBLE SOLUTIONS. WE HAVE SOME QUESTIONS ABOUT THE ROLE AND IMPACT OF CCAD BUT FEEL THAT IT IS BETTER DEALT WITH IN THE CONTEXT OF THE RENARM EVALUATION RATHER THAN AS AN ACTION PLAN ISSUE.

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AS NOTED BELOW, THE MISSION IS ALSO USING ELEMENTS OF THE LOGROS PROJECT TO SERVE AS A BASIS FOR THE DEVELOPMENT OF THE MUNICIPAL DECENTRALIZATION AND DEVELOPMENT PROJECT.

4. HIG ADDITION TO LOGROS

THE PROPOSED 20 MILLION DOLLARS HIG TO FINANCE MUNICIPAL INFRASTRUCTURE UNDER THE LOGROS PROJECT MAY MAKE SENSE IN SOME OTHER COUNTRY, BUT IT SHOULD NOT BE UNDERTAKEN IN NICARAGUA.

THE PROPOSED HIG DOVETAILS NICELY WITH THE OBJECTIVES OF THE LOGROS PROJECT. THE ISSUES ADDRESSED IN THE NPD ARE MANY OF THE SAME ISSUES THIS USAID IS ADDRESSING IN ITS MUNICIPAL DECENTRALIZATION AND DEVELOPMENT PROJECT DESIGN. IN FACT WE PLAN TO USE THE LOGROS PROJECT TO HELP MEET PROJECT OBJECTIVES IN THE AREAS OF TRAINING AND OBSERVATIONAL VISITS FOR NICARAGUAN MUNICIPAL LEADERSHIP. WE ARE PROPOSING A SMALL MUNICIPAL MATCHING INFRASTRUCTURE FUND BUILT VERY MUCH ON THE PRINCIPLES ELABORATED IN THE DRAFT NPD I.E. CITIZEN PARTICIPATION IN THE SELECTION AND MONITORING OF COMMUNITY PROJECTS; INCREASE IN THE COLLECTION AND RETENTION OF LOCAL TAXES; RECOVERY OF FINANCIAL COSTS THROUGH CHARGING APPROPRIATE USER FEES AND USE OF PRIVATE SECTOR INSTITUTIONS TO IMPLEMENT ACTIVITIES. WE BELIEVE A GRANT FUND WILL PROBABLY BE REQUIRED AT THE START, AT LEAST UNTIL NICARAGUA'S ECONOMIC SITUATION CHANGES FOR THE BETTER.

WE WOULD STRONGLY DISCOURAGE NICARAGUA FROM BORROWING MONEY AT COMMERCIAL RATES FOR INFRASTRUCTURE OR ANY OTHER INVESTMENT AT PRESENT.

IT WOULD BE IRRESPONSIBLE ON OUR PART TO ENCOURAGE NICARAGUA TO BORROW MONEY UNDER THE PROPOSED PROGRAM, ESPECIALLY SINCE NICARAGUA WOULD NOT QUALIFY FOR A DIRECT HIG PROGRAM. WE SHOULD NOT CONSIDER ADDING DEBT

TO NICARAGUA'S ALREADY SIGNIFICANT DEBT BURDEN.
THEREFORE FOR THE ABOVE REASONS USAID NICARAGUA PREFERS
NOT TO PARTICIPATE IN THE PROPOSED HOUSING GUARANTY IN
NICARAGUA. GODARD

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E.O. 12356: N/A

TAGS:

SUBJECT: REVIEW OF ROCAP ACTION PLAN FOR FY 1994-1995

1. THE DAEC REVIEW OF THE ROCAP FY 1994-95 ACTION PLAN WAS REVIEWED ON JULY 13, 1993. A-AA NORMA PARKER CHAIRED THE MEETING ATTENDED BY REPRESENTATIVES FROM LAC/LR, DPP, TI, CEN, PRE/H, AND FA/P. ROCAP WAS REPRESENTED BY MISSION DIRECTOR FERRENCE BROWN AND PROGRAM OFFICER NANCY HOFF. THE ACTION PLAN WAS APPROVED.

2. THE A-AA OPENED THE MEETING BY COMPLIMENTING THE MISSION ON A CONCISE AND CLEARLY WRITTEN ACTION PLAN AND REQUESTED A QUICK BRIEFING ON THE REORGANIZATION OF ROCAP TO PROVIDE A FRAMEWORK ON SUBSEQUENT DISCUSSION. THE REGIONAL AND BILATERAL PROGRAMS ARE NOW UNDER A UNIFIED ORGANIZATIONAL STRUCTURE WHICH WILL RESULT IN SIGNIFICANT STAFF REDUCTIONS AND EVENTUAL OPERATING EXPENSE SAVINGS.

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3. THE MISSION DIRECTOR OUTLINED THE THREE STRATEGIC OBJECTIVES OF THE ROCAP PROGRAM AND PROGRESS MADE TO DATE, NOTING THAT IT WAS CONTINUING TO EXAMINE ITS PORTFOLIO TO DETERMINE THE RELATIVE COMPARATIVE ADVANTAGES OF REGIONAL PROJECTS IN THESE AREAS.

A. MORE EFFECTIVE AND DEMOCRATIC LOCAL GOVERNANCE

IT WAS AGREED THAT THE LOGROS PROJECT, EVEN AT THIS EARLY STAGE, HAS DEMONSTRATED ITS RELEVANCE TO BILATERAL MISSION EFFORTS IN DECENTRALIZATION AND MUNICIPAL DEVELOPMENT PRINCIPALLY BY PROVIDING ECONOMIES OF SCALE FOR ACCESS TO TECHNICAL ASSISTANCE. THE PROPOSAL TO LINK PROJECT FUNDS WITH HG FUNDS TO IMPROVE MUNICIPAL FINANCE SYSTEMS AND

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OTHER LOCAL GOVERNMENT POLICY ISSUES SHOULD HAVE SIGNIFICANT REGIONAL IMPACT. THE PROJECT STAFF HAS DEVELOPED GOOD WORKING RELATIONSHIPS WITH LOCAL INSTITUTIONS. MOST OF THE BILATERAL MISSIONS IN THE REGION ARE WORKING WITH THE LOGROS PROJECT TO COMPLEMENT THEIR STRATEGIC OBJECTIVES.

THE BUREAU NOTED THAT THE PROJECT HAS DEVELOPED WELL THOUGHT OUT INDICATORS THAT WOULD BE GOOD MONITORS OF PROJECT PROGRESS. THE MISSION AND BUREAU CONCURRED THAT THE PROJECT WAS PROGRESSING WELL AND HAD A DEMONSTRATED COMPARATIVE ADVANTAGE IN ITS STRATEGIC AREA.

P. ENVIRONMENTALLY SOUND AND EFFICIENT PRACTICES IN NATURAL RESOURCE MANAGEMENT

THE RENARM PROJECT WAS DEVELOPED WHEN THERE WERE NO BILATERAL PROJECTS IN THIS STRATEGIC AREA. SINCE THAT TIME MOST OF THE BILATERAL MISSIONS HAVE DEVELOPED ENVIRONMENTAL STRATEGIC OBJECTIVES AND ARE IMPLEMENTING PROJECTS IN THIS AREA. THE UPCOMING EVALUATION OF THE RENARM PROJECT IS AN OPPORTUNITY TO REEXAMINE PROJECT ACTIVITIES TO DETERMINE THE APPROPRIATE RELATIONSHIP BETWEEN RENARM AND BILATERAL PROJECTS, THE PROJECT MANAGEMENT STRUCTURE, AND DEFINE THE COMPARATIVE ADVANTAGE OF THE REGIONAL PROGRAM IN CARRYING OUT THE LAC BUREAU'S ENVIRONMENTAL STRATEGY. THE BILATERAL MISSIONS HAVE PARTICIPATED IN THE DEVELOPMENT OF THE EVALUATION SCOPE AND WILL BE CONSULTED DURING THE EVALUATION PROCESS, PRESENTLY SCHEDULED FOR OCTOBER, AND THE REASSESSMENT OF PROJECT OBJECTIVES.

C. AN OPEN AND COMPETITIVE REGIONAL ECONOMY

SIGNIFICANT PROGRESS HAS BEEN MADE IN REGIONAL INTEGRATION AND COOPERATION IN THE LAST TWO YEARS. THE NORTHERN TIER COUNTRIES HAVE ALREADY CREATED A CUSTOMS UNION AND THERE HAS BEEN A 23 PER CENT INCREASE IN INTRA-REGIONAL TRADE. SALVADOR, HONDURAS AND GUATEMALA HAVE MADE VERY SIGNIFICANT PROGRESS IN HARMONIZING TRADE RELATIONSHIPS.

COSTA RICA REMAINS HESITANT AND NICARAGUAS PRESENT ECONOMIC SITUATION HINDERS FULL PARTICIPATION. ROCAF HAS

SUPPORTED REGIONAL TRADE POLICY REFORM THROUGH THE
PROVISION OF TECHNICAL ASSISTANCE IN THE AREA OF ECONOMIC
ANALYSIS.

THE APERTURA PROJECT HAS NOT BEEN AUTHORIZED. HOWEVER,
THE ECONOMIC POLICY RESEARCH PROJECT HAS BEEN AMENDED TO
CARRY OUT CORE ACTIVITIES IN REGIONAL POLICY
HARMONIZATION. THE MISSION IS IN THE PROCESS OF
DETERMINING HOW A REGIONAL PROGRAM SHOULD BE DESIGNED AND
OPERATED WHICH WOULD COMPLEMENT THE ONGOING BILATERAL
PROGRAMS GIVEN THE VERY DIFFERENT STAGES OF DEVELOPMENT
AND EXISTING RELATIONSHIPS AMONG THE NATIONS OF THE
REGION. THE MISSION WILL EXAMINE, IN COLLABORATION WITH
THE BILATERAL MISSIONS, HOW BEST TO ORGANIZE AND CARRY OUT
A REGIONAL TRADE AND INVESTMENT STRATEGY. THE MISSION
DIRECTOR STATED THAT A SMALL RESOURCE LEVEL IN TERMS OF
DOLLARS CAN HAVE SIGNIFICANT IMPACT ON POLICY FORMULATION.

4. THE REGIONAL AGRICULTURAL HIGHER EDUCATION PROJECT

THE CURRENT MORTGAGE OF THE REGIONAL AGRICULTURAL HIGHER
EDUCATION PROJECT IS DOLS. 2.699 MILLION. AT THE PROPOSED
FUNDING LEVELS FOR THE ROCAP PROGRAM FOR FYS 94 AND 95,
THERE IS A DOLS. 1.523 MILLION SHORTFALL FOR FUNDING OF
THE EARTH SCHOOL. THE MISSION AND BUREAU AGREED THAT THE
EARTH SCHOOL IS AN EXCELLENT AGRICULTURAL EDUCATION
INSTITUTION AND THAT THE BUREAU WILL MAKE ITS BEST EFFORT
TO PROVIDE THE DOLS. 1.523 MILLION TO MEET THE COMMITMENT
TO THE SCHOOL. IF THE BUREAU IS UNABLE TO PROVIDE THE
FUNDING, THE MISSION WILL FUND THE BALANCE OF THE MORTGAGE
FROM UNRESTRICTED FUNDS FROM ITS OYB. THIS WOULD IMPLY
THE TERMINATION OF THE EXITOS (NON-TRADITIONAL AGRICULTURE
EXPORT PROJECT) A YEAR BEFORE ITS FACD AND CURTAILMENT OF
THE MISSION'S REGIONAL POLICY HARMONIZATION ACTIVITIES.

5. THE INCAP INSTITUTIONAL STRENGTHENING PROJECT ^{BEST AVAILABLE DOCUMENT}

IN A SIDE MEETING, IT WAS DECIDED THAT A TWO YEAR FACD
EXTENSION FOR THE INCAP PROJECT WAS JUSTIFIED BASED ON THE
MID-TERM EVALUATION RESULTS. HOWEVER, AN ADDITIONAL \$1
MILLION IN FUNDING (AN EVALUATION RECOMMENDATION) IS NOT
AVAILABLE. EXTENDING THE PROJECT WILL ALLOW THE \$2
MILLION ADD-ON MECHANISM TO REMAIN OPEN IN THE EVENT THAT
EARMARKED MONEY BECOMES AVAILABLE OR BILATERALS WANT TO
ADD FUNDING DURING THE FACD EXTENSION PERIOD. THE MISSION
WILL ALSO EXPLORE OPTIONS WHICH MIGHT ALLOW INCAP TO
COMPETE FOR AID CONTRACTS AND/OR SUBCONTRACTS.

5. THE CENTRAL AMERICAN RURAL ELECTRIFICATION SUPPORT
PROJECT (CARES)

IT WAS AGREED THAT THE MISSION WOULD SUBMIT A PROPOSAL FOR
RENEWABLE ENERGY ACTIVITIES FOR DOLS. 570,000 AS AN

AMENDMENT TO THE CARES PROJECT WHICH WOULD GO TOWARDS MEETING THE AGENCY'S ENVIRONMENTAL/ENERGY EARMARK.

7. NPDS

A. A DOLS. 1 MILLION AMENDMENT TO THE CENTRAL AMERICAN RURAL ELECTRIFICATION SUPPORT PROJECT (596-0145) INCREASING THE LOP TO \$11 MILLION WAS APPROVED AND AUTHORITY TO DESIGN AND AUTHORIZE THE PROJECT AMENDMENT WAS DELEGATED TO THE FIELD.

B. A DOLS. 2 MILLION AMENDMENT TO THE LOGROS PROJECT (596-0167) AND A DOLS. 10 MILLION HOUSING GUARANTEE COMPONENT WAS APPROVED AND AUTHORITY TO DESIGN AND AUTHORIZE THE PROJECT AMENDMENT WAS DELEGATED TO THE FIELD.

C. A DOLS. 5 MILLION AMENDMENT TO THE EXPORT INDUSTRY TECHNOLOGY SUPPORT PROJECT (595-0165) WAS NOT APPROVED DUE TO BUDGET CONSTRAINTS.

6. FOLLOWING THE DISCUSSIONS SUMMARIZED ABOVE, THE A-AA NOTED THAT THE MISSION HAS EVIDENCED THAT IT FULLY APPRECIATES THE DIFFICULT TASK AHEAD; I.E., TO FORMULATE A

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REGIONAL STRATEGY BASED ON AN ASSESSMENT OF COMPARATIVE
ADVANTAGE, AND HAS DEMONSTRATED THAT IT HAS ALREADY BEGUN
TO MOVE TOWARDS RESOLUTION OF THE ISSUES INVOLVED.
THE A-AA ALSO CONGRATULATED THE MISSION ON THE ACCELERATED
DISBURSEMENT OF ITS PIPELINE OVER THE PAST YEAR.

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Annex B
Revised Logframe

**PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK**

Life of Project: 1992-1999
 From FY '93 to FY '99
 Total U. S. Funding \$28 million
 Date Prepared: 21 July 1993

Project Title & Number: LOGROS Amendment No. 1 (Housing Guaranty): LOGFRAME Modifications (only)

| NARRATIVE SUMMARY | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|--|--|-----------------------|--|
| <p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p><u>Modification:</u> "More effective and democratic local governance."</p> | <p>Measures of Goal Achievement:</p> | | <p>Assumptions for achieving goal targets:</p> |
| <p>Project Purpose:</p> <p><u>No Change</u></p> | <p>Conditions that will indicate purpose has been achieved: End of project status.</p> | | <p>Assumptions for achieving purpose:</p> |
| <p>Outputs:</p> <p><u>Additions:</u> (1) Not less than \$26 million will have been invested in new municipal infrastructure projects over the LOP. (2) CABEI will have institutionalized its Municipal Infrastructure Finance Program by continuing to provide loans for this purpose after the PACD of LOGROS.</p> | <p>Magnitude of Outputs:</p> | | <p>Assumptions for achieving outputs:</p> |
| <p>Inputs:</p> | <p>Implementation Target (Type and Quantity)</p> | | <p>Assumptions for providing inputs:</p> |

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Annex C

Institutional Analysis of CABEI

PROGRAMA H.G. / BCIE

ANALISIS INSTITUCIONAL Y DE
PROGRAMAS PARA OFICINA
RHUDO/CA.
(Informe Preliminar).

Consultor: Pedro Lasa

- Abril, 1993 -

I. RESUMEN EJECUTIVO
Programa HG/BCIE
(Apoyo a Gobiernos Locales)

1. Cambios en la posición operativa y organización del Banco.

El BCIE en los últimos tres años ha tenido una sensible mejora en su posición financiera y de balance.

Una parte de ese cambio está relacionado con la estabilización y mejora de la región, lo que ha permitido la llegada de nuevos financiamientos, pero además el Banco ha implementado mejoras operativas, entre las que destacan:

- 1.1 Acelerado y exitoso saneamiento de la cartera, duplicando la recuperación de ésta.
- 1.2 Ampliación de los márgenes de intermediación financiera, logrando mejorar la posición de utilidades.
- 1.3 Reducción y racionalización de los gastos operativos, eliminando un 25% del personal y reduciendo el peso de los gastos de operación sobre los activos productivos.

Estos cambios reflejan un nuevo estilo de manejo institucional, flexible y con fuerte contenido de control financiero.

El cambio de estilo operacional tiene su reflejo en el nuevo organigrama en el que hay que señalar los siguientes cambios:

- A. Cambio de las Gerencias, pasando de una concepción de proyectos a una de programas.
- B. Creación de la Gerencia del Sector Privado y la División de Planificación Estratégica.
- C. Fortalecimiento de las áreas de Auditoría Externa, Interna y Control.

La incorporación de los conceptos de sector privado y planificación estratégica moderna, están significando un cambio muy importante en el clima organizacional que se percibe en el Banco.

2. Cambios institucionales, legales y de política

La evolución que se percibe en el BCIE, no se limita a acciones administrativas, o a un modo de gestión.

El estatuto orgánico que rige la institución ha sido modificado en profundidad por la Asamblea de Gobernadores, con innovaciones tan importantes como:

- 2.1 Prohibición expresa de tener en cuenta consideraciones políticas particulares de un país, en la aprobación de operaciones. Art. 8.
- 2.2 Ampliación del capital y autorización para que existan socios y directores extraregionales. Art. 4.
- 2.3 Cambio del enfoque operativo del Banco pasando, del apoyo a proyectos públicos y sustitución de importaciones, a programas para el Sector Privado, la promoción del sector externo y el desarrollo económico y social individual y general.

Estos cambios de enfoque se traducen en nuevas prioridades para la institución entre las que podemos señalar:

- A. Transparencia financiero-organizacional que facilite el conocimiento y permita una permanente evaluación del Banco a los nuevos socios y a las fuentes de crédito.
- B. Posicionamiento del Banco como intermediario regional, financiando programas que fortalezcan los mecanismos de mercado, en vez de ser financiador de proyectos.
- C. Promoción de programas de desarrollo integral de la región, con prioridad en los programas que promuevan la atención de los problemas económicos y sociales más urgentes.
- D. Promoción masiva de recursos hacia la región, para apoyar el proceso de estabilización iniciado.

3. El programa HG en la actual situación del Banco.

En el actual momento del Banco un programa HG, orientado hacia los gobiernos locales, no sólo encaja plenamente dentro de las actuales prioridades del Banco, sino que tiene una altísima potencialidad de impacto, como consolidador de políticas.

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El Banco presenta unar condiciones económicas como sujeto de crédito muy superiores a las de años atrás. Ahora bien un programa no es bueno porque el deudor puede pagar, sino porque la actividad que se financia es rentable, y esto es lo que hay que cuidar en el diseño del programa.

Para que esto se cumpla el proyecto deberá considerar las siguientes características:

- A. Ser sectorial. Es decir que se enfoque, en base a un claro concepto de política sectorial, procurando ayudar a implementar la isma en apoyo a los municipios de cada país, y concordante con los objetivos del proyecto LOGROS.
- B. Operada en base a programas. El objeto no son proyectos, sino programas y procesos que se apoyarán financieramente, jugando el BCIE un rol de entidad de segundo grado.
- C. De intermediación financiera. El BCIE canalizará los recursos a él o los intermediarios locales, en un proceso compatible con el mercado. Por tratarse de una operación financiera, para lograr impacto se requiere tener acceso a una masa sustancial de recursos, muy superior a la suma aprobada inicialmente.
- D. De fortalecimiento institucional del BCIE. Este programa debe integrarse y ser parte importante de los cambios en proceso en el Banco.

4. Criterios de Acción:

Tras el primer contacto con el BCIE, surgen las siguientes consideraciones.

- A. El Banco está en proceso de fijación e implementación de las nuevas políticas institucionales, por ello, cualquier acción nueva que el Banco deba desarrollar requiere de un seguimiento muy cercano; caso contrario puede diluirse su implementación entre el conjunto de actividades en proceso.
- B. Si bien el tema de las municipalidades está reconocido como de clara prioridad, el conocimiento del mismo en el Banco es muy limitado. Una actividad pronta de capacitación para que conozcan lo que RHUDD/CA ha hecho y diagnosticado es necesario.

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- C. La ubicación del programa dentro del Banco, deberá salir del área social que sigue actuando con criterio de proyecto, y crearse a la mayor brevedad un grupo "AD HDC", (sector público, finanzas, sector privado y planificación estratégica), que se encargue de este proyecto.

II. EVOLUCION INSTITUCIONAL DEL BCIE

Tras la crisis que afectó al Banco durante la década de los '80, los primeros años de la década del 90, revelan una profunda transformación de signo claramente positivo.

Cabría inicialmente pensar que esta evolución, guarda relación con el proceso de estabilización que, en lo político, social y económico, está experimentando el área.

Sin duda este es un factor positivo importante, pues con la región dividida y en conflicto, se limitan las posibilidades reales del Banco, pero los cambios registrados no son sólo cuantitativos, sino cualitativos y reflejan un nuevo enfoque de la relación Banco/Mercado.

Se señalan a continuación los aspectos más relevantes de este cambio.

A. ORGANIGRAMA

Existen diferencias fundamentales entre la estructura organizacional vigente hasta 1990, y la actual, como puede verse en los anexos 1 y 2.

Las diferencias más importantes a señalar son:

1. Area de Auditoría y Contraloría

En el nuevo esquema se incorpora la auditoría externa como función permanente, a nivel de Asamblea de Gobernadores. Igualmente la contraloría, pasa a reportar al más alto nivel del Banco. Esto significa profundizar e independizar la labor de control general.

A su vez, la auditoría interna, se separa de la contraloría y queda como función independiente, reportando a la Junta Directiva y apoyando a la Presidencia Ejecutiva. Esta modificación es importante, por lo que significa de reforzar todo lo relativo al control de la operación.

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2. Area de Planificación

Cambia totalmente el rol de esta área. En el regimen anterior se dedicaba, en forma casi exclusiva, a estudios y análisis internos y estadísticas. En el actual esquema se desarrolla un concepto de planificación estratégica, con áreas nuevas tan importantes como:

- a. Captación y movilización de recursos.
- b. Cooperación internacional
- c. Presupuesto y control de recursos.

Estos departamentos, coordinados en la planificación estratégica, llevan al Banco hacia una muy interesante especialización de funciones y modernización en su relación con el mercado, activo y pasivo.

3. Area Operativa

En este campo, se presentan, quizás, los más significativos cambios.

En el periodo pasado, el Banco se relacionaba casi exclusivamente con el sector público, y el organigrama seguía el proceso de los préstamos. Se iniciaban en el área de promoción, se ejecutaban en el área de operaciones, y sus recuperaciones quedaban en una área intermedia entre operaciones y finanzas. Esto significaba fragmentación y problemas de coordinación en el proceso de ejecución de los programas.

En el actual esquema de operación, nada de eso queda. Se han creado dos gerencias operacionales, una para el sector público y otra para el sector privado. Cada una de estas gerencias es responsable de los respectivos proyectos, desde su inicio hasta su completa ejecución, llevándose así un estricto control de los mismos.

La incorporación del sector privado como filosofía operativa, y la responsabilidad plena por los proyectos, está cambiando el clima de la organización, que se proyecta con nuevo dinamismo.

Es importante destacar, entre las nuevas políticas, las de apoyo al sector privado, que fueron aprobadas por la Asamblea de Gobernadores y que se acompañan como anexo 3.

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Para no entrar en más detalles, sólo señalar que dentro de la gerencia de finanzas, se ha creado el departamento de manejo de cartera, exclusivamente dedicado a este propósito, el que está registrando, en una completa base de datos, toda la cartera del Banco, con lo que se busca optimizar el control y la gestión de cobros.

La configuración de esta base, se ha facilitado al crearse un departamento especial de procesamiento de datos, dentro del organigrama.

4. Comentarios al Nuevo Organigrama

Entendiendo el organigrama como la expresión formal de cómo la alta gerencia y dirección conciben el Banco, el nuevo organigrama es, sin duda, más adecuado a las actuales necesidades y evolución de los mercados regionales, más flexible y sobre todo más claro en sus funciones, y más seguro en su control.

B. REFORZAMIENTO DE LOS INDICADORES FINANCIEROS.

Los cambios institucionales, unidos al mejoramiento del entorno, se han reflejado en forma clara en los siguientes indicadores básicos de comportamiento de resultados.

1. Retorno sobre Activos (ROA) y Capital (ROE).

A efectos de lectura de los cuadros, debe entenderse que, el \$CA o peso centroamericano, es una moneda de cuenta equivalente al dólar norteamericano.

Return on Assets (ROA)

| | A | B | (A/B)(100%) |
|---------|--------------|------------------|-------------|
| Year | Net Income/1 | Average Assets/1 | ROA |
| 1987/88 | 5,031 | 1,266,265 | 0.40 |
| 1988/89 | 3,054 | 1,273,280 | 0.24 |
| 1989/90 | (2,521) | 1,290,906 | (0.20) |
| 1990/91 | 21,012 | 1,338,621 | 1.57 |
| 1991/92 | 26,023 | 1,420,903 | 1.89 |

/1: In thousands of \$CA.

Return on equity (ROE)

| | A | B | (A/B) (100%) |
|---------|---------------|-------------------|--------------|
| Year | Net Income /1 | Average Equity /1 | ROE |
| 1987/88 | 5,031 | 405,988 | 1.24 |
| 1988/89 | 3,054 | 391,718 | 0.78 |
| 1989/90 | (2,521) | 416,117 | (0.61) |
| 1990/91 | 21,012 | 436,837 | 4.81 |
| 1991/92 | 26,023 | 482,803 | 5.39 |

1/: In thousands of \$CA.

Source: BCIE. A Comprehensive Examination of the Central American Bank for Economic Integration.

Los cuadros claramente reflejan la crisis financiera de la pasada década, que terminó en una intermediación negativa en el periodo 89/90, y la rápida recuperación en los años 90/92. Esta tendencia sigue evolucionando positivamente durante el presente ejercicio, y su consistencia deberá marcar la sanidad de las políticas del Banco.

2. Margen neto de interés y gastos de operaciones.

El siguiente cuadro mide el margen neto de interés, como porcentaje de la cartera promedio, durante el mismo período. Destaca lo reducido del margen en el periodo 87/88, de apenas un 1%, y la rápida recuperación en los dos últimos años, que duplican el margen inicial. En esta evolución ha influido en forma importante, la acelerada recuperación de la cartera en mora.

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Net Interest Margin

| | A | B | C | |
|---------|-------------------------|--------------------|-------------------|-----------------------|
| Year | Interest Expenses 1/ | Interest Income /1 | Average Portfolio | Net Interest Margin/2 |
| 1987/88 | 49,176 | 60,193 | 1,053,878 | 1.04 |
| 1988/89 | 52,730 | 66,062 | 1,072,590 | 1.24 |
| 1989/90 | 53,183 | 69,980 | 1,095,567 | 1.54 |
| 1990/91 | 52,818 | 75,799 | 1,157,490 | 1.99 |
| 1991/92 | 50,858 | 90,898 | 1,269,723 | 3.15 |

/1: In thousands of \$CA.

/2: Both interests expenses and income are divided by the same base, the average portfolio of loans and investments. $(100\%) (B/C) - (A/B)(100\%)$

3. Gastos de Operaciones

El fuerte peso de los gastos de operación, como se refleja en el siguiente cuadro, fue uno de los causantes del proceso de desintermediación, y su reducción uno de los factores de crecimiento de los ingresos y saneamiento del Banco.

Change in Operating Expenses

| Year | Operating Expenses (1) | Change In OP/Expen. (2) | Average Portfolio | Operating Cost Aver. Portfolio | Total Employees |
|---------|------------------------|-------------------------|-------------------|--------------------------------|-----------------|
| 1987/88 | 26,800 | 100 | 1,053,878 | 2.5% | 475 |
| 1988/89 | 15,990 | 60 | 1,072,590 | 1.5% | 494 |
| 1989/90 | 16,320 | 61 | 1,095,567 | 1.5% | 435 |
| 1990/91 | 13,390 | 50 | 1,157,490 | 1.2% | 384 |
| 1991/92 | 12,950 | 48 | 1,269,723 | 1.0% | 372 |

(1) In thousands of \$CA.
(2) 1988 =100

Source: BCIE-Finacial Statements
Elaboration: Padco Inc.

Este cuadro es el que mejor traduce los cambios en el manejo del Banco, pues todas los ajustes son resultado directo de la toma de decisiones de la administración. Se logra así, en el breve periodo de 4 años, reducir los gastos en valores monetarios en un 52%; como porcentaje sobre la cartera en un 60%, y en personal en un 22%. Todo ello sin afectar para nada la operación.

Naturalmente, estas reducciones tienen un límite, lo importante es que se ha racionalizado en forma sustancial la base operativa.

4. Regularización de la Cartera

Quizás el problema más serio que venía pesando sobre el Banco, y que afectaba su función financiera, debilitando la calidad de sus activos, era el pobre servicio dado a la cartera por los países deudores.

De no variarse los patrones de pago de los pasados años, cualquier crecimiento de cartera era, cuando menos, cuestionable pues suponía incrementar una cartera morosa.

Para corregir esta situación se firmaron entre el BCIE y los respectivos Bancos Centrales, tres compromisos en el periodo 1990/92, el primero el de El Salvador, el segundo el de Bangkok y el tercero el de la Antigua.

Se acompaña como anexo 4, el sumario de estos acuerdos actualizados al 21 de enero de 1993, cuya evolución demuestra la positiva voluntad de los países, en regularizar su posición con el Banco.

Pese a los buenos resultados obtenidos, el área de la recuperación adquiere cada día mayor importancia no sólo por el crecimiento que refleja la cartera, sino por la distinta composición de la misma, en cuanto a plazos, deudores, riesgos y demás variables y, en ese sentido, es importante el desempeño que tenga el nuevo departamento de manejo de cartera, al que anteriormente se hizo referencia.

A continuación se presenta la evolución de la recuperación total de la cartera en el último trienio.

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Recuperación de Cartera
(Millones de \$CA)

| Países | 1988/89 | 1990/91 | 1991/92 | Total |
|-------------|---------|---------|---------|-------|
| Guatemala | 19.6 | 14.2 | 24.5 | 58.3 |
| El Salvador | 17.4 | 28.7 | 22.0 | 68.1 |
| Honduras | 27.9 | 53.4 | 87.8 | 169.1 |
| Nicaragua | 7.4 | 17.9 | 28.3 | 53.6 |
| Costa Rica | 18.3 | 10.6 | 29.7 | 58.6 |
| Org.Reg. | 0.7 | 0.4 | 4.3 | 5.4 |
| Total | 91.3 | 125.2 | 196.6 | 413.1 |
| 1988/89=100 | 100.0 | 137.1 | 215.3 | |

El aumento en la recuperación para 1992 más que duplica la de 1989, y toma su real significado si se tiene en cuenta que, en ese mismo período, la cartera total únicamente creció un 28.3%.

C. TRANSPARENCIA INSTITUCIONAL Y RELACIONES EXTERNAS

Desde el punto de vista de la planificación estratégica es claro para el BCIE que el crecimiento de su servicio a la región depende, en forma predominante, de la capacidad que tenga de atraer recursos extrarregionales hacia el área, y ello a través de dos grandes líneas, créditos y recursos de capital.

En ambos casos, la precondition necesaria es una transparencia financiera/operacional, que permita a los potenciales prestamistas o socios, evaluar sin distorsiones ni dudas, la real posición del Banco. A este propósito es que se implementaron los cambios en la auditoria y control señalados en el punto A.1

En base a esta transparencia es que se están negociando líneas de crédito con instituciones como el EXIMBANK de Japón, BID en Washington, KFW de Alemania. Se acompaña como anexo 5 una relación de las instituciones con las que el Banco opera en la actualidad.

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Igualmente, se está negociando con España, Suiza y Francia, la calificación del Banco, para ser sujeto del seguro a la exportación en dichos países y poder así canalizar hacia la región todas las facilidades de créditos a la exportación, lo que ampliará la presencia del sector privado en la cartera de operaciones del Banco, y promoverá su crecimiento en las diferentes economías de la región.

Como parte de esta búsqueda de nueva imagen para el Banco, se solicitó la calificación de riesgo ante el Federal Reserve Bank of Atlanta, que lo clasificó como "Latin American Regional Agency"; según carta que se acompaña como anexo 6.

Dentro de este proceso de cambio en el Banco, es muy importante resaltar la apertura a socios extrarregionales. Dos efectos complementarios se buscan a través de este proceso de apertura, el primero, mejorar la disponibilidad de recursos frescos de capital, y mejorar así la capacidad de apalancamiento, que todo aumento de capital trae consigo.

El segundo, fortalecer y ampliar la capacidad de acción estratégica del directorio dado que, con la incorporación y presencia de directores extrarregionales, se incorporan nuevos intereses y una nueva visión del rol y desempeño del Banco dentro del organismo de dirección despolitizándose y desregionalizándose la toma de decisiones.

Este proceso de apertura externa, tan crítico para el Banco, debe tener un directo impacto en la completa y rápida implementación del proceso de reformas.

La importancia de estas nuevas fuentes de recursos se refleja en el hecho de que, de un capital autorizado de 600 millones de dólares en 1990, se pasa a 2,000 millones en 1992 y se analiza la posibilidad de subirlo hasta 3,000 millones en un futuro próximo.

Hasta el momento, han suscrito convenio de aporte de capital la República de México con 122.5 millones de dólares, la República de China (Taiwán) con 150.0 millones de dólares, la República de Venezuela 122.5 millones. Finalmente Argentina ratificó la decisión política de incorporarse con 57.6 millones.

Si bien el proceso de formalización y desembolsos no es inmediato, esta contratación supone un fuerte respaldo al Banco y un sensible cambio en su posición externa. Al 21 de enero de 1993, se habían recibido los primeros aportes de 14.4 millones de México y 18.7 millones de China.

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D. REFORMAS EN EL ACTA CONSTITUTIVA DEL BANCO

Tan importantes cambios como los señalados deben tener su reflejo en el estatuto legal que rige y da contenido a la institución. Efectivamente, el acta constitutiva ha sufrido sustanciales reformas, que traducen con claridad la nueva filosofía institucional que guía el quehacer del Banco.

Se adjunta, como anexo 7, el texto comparado del acta anterior y la actual, cuya lectura completa es muy reveladora de la nueva institucionalidad. A efectos de este documento, sólo señalaremos los cambios más importantes que se refieren a las operaciones y capital.

Artículo 2

De especial importancia y revelador del cambio es la nueva redacción de este artículo, que se refiere a los objetivos del Banco. Se modifican los puntos a, b, c, d, e y f, eliminándose de la redacción todos los considerandos limitativos, que obligaban al Banco a financiar únicamente proyectos de carácter regional, en el sentido de efecto en la región, o proyectos que aumentaran el comercio intraregional, es decir, sustitución de importaciones.

En la nueva redacción el criterio es el fortalecimiento económico de los diferentes países, lo que traerá como consecuencia el de la región, y el fortalecimiento de la actividad económica productiva, no sólo para dentro de la región, sino hacia terceros países promoviendo las exportaciones.

Sin este cambio, cualquier proceso de modernización y crecimiento operativo del Banco, hubiera chocado con una realidad de mercado, totalmente divorciada de los mandatos constitutivos del Banco.

A este artículo se le incorporan dos funciones muy importantes y de gran vigencia, a saber; promover el desarrollo social y promover la conservación y protección de los recursos naturales y medio ambiente.

Artículo 4

Este artículo regula todo lo referente al capital. La nueva redacción incorpora los cambios necesarios para habilitar la presencia de socios extrarregionales, no contemplados originalmente, y aumenta el capital autorizado a 2,000 millones de dólares.

Resulta interesante señalar que una acelerada participación de socios extrarregionales tendrá como consecuencia que los socios regionales deban aumentar su capital, pues éstos tienen que poseer como mínimo el 51% del capital total.

Este artículo, inicialmente muy breve, tiene hoy 11 puntos (del a) hasta el k), en que se desarrolla un completo tratamiento del capital y su manejo.

Artículo 8

Finalmente es importante destacar a este artículo la incorporación de un segundo párrafo que dice: "Las operaciones del Banco se basarán exclusivamente en criterios técnicos, financieros y económicos; en consecuencia, criterios de carácter político relativos a cualquiera de los países miembros, no deberán influir en las mismas".

El hacer explícito y mandatorio el proceso de despolitización en la toma de decisiones, completa los elementos necesarios para un rápido y sano desarrollo del Banco.

E. EL BCIE Y LA SITUACION REGIONAL. COMENTARIOS FINALES.

La actual coyuntura por la que pasa la región, ofrece perspectivas positivas en lo social, político y económico, pero a su vez es extremadamente delicada al exteriorizarse los graves daños causados por la violencia y el deterioro económico que marcó la pasada década.

Hay clara conciencia, política y estratégica, tanto centroamericana como de otros países, de que el enfoque de atención debe ser integral y regional; y que las necesidades, retos y escenarios económico y político, tanto internos como externos, son esencialmente diferentes a los de los años sesenta y setenta.

En consecuencia, la necesidad y relevancia de contar con un intermediario financiero regional es ahora, sin duda, más crítica que hace dos décadas, y necesariamente la institución también deberá ser diferente y responder con flexibilidad y estrategias totalmente nuevas, al actual escenario regional.

Dentro de este contexto, los cambios que refleja el Banco apuntan en la dirección correcta, pero aún son un proceso, no una política consolidada. La dinámica del mercado a que sirve tiene de positivo que fuerza a la institución hacia el cambio, y de negativo que cualquier rezago del Banco en su capacidad de respuesta, puede afectar su vigencia como factor clave de apoyo e integración financiera de la región. La posición del Banco frente a la región debe ser activa y no reactiva, como ha sido lo común en periodos pasados.

Ante este escenario, cualquier operación financiera o crédito debe enfocarse en la búsqueda de un doble efecto, el correspondiente a la operación en sí, y el inducido de fortalecimiento de los cambios en el Banco para un mejor servicio a su crítico rol actual en la región.

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III. PROGRAMA H.G. DE MEJORAMIENTO URBANO CABEI/MUNICIPALIDADES

La propuesta de un nuevo H.G., para el BCIE, que vincule el desarrollo urbano a las municipalidades, destinatarias del programa, representa una especial oportunidad para implementar una área nueva de actividad en el campo de lo social y ampliar la participación del Banco en la región.

Existe clara conciencia de que este programa difiere, en forma sustancial de los programas tradicionales de vivienda, ya que su producto u objetivo no es un proyecto, sino el desarrollo de una capacidad en los municipios, y la implantación de un proceso de trabajo con los mismos, que permita la replicabilidad del programa.

Como consecuencia de lo anterior, y al objeto de lograr una aproximación a la viabilidad del programa, se considerarán a continuación la política del Banco frente al sector municipal, la posición del fondo financiero de vivienda como responsable del programa en el Banco, y la configuración tentativa de la operación y áreas a implementar.

Para un mejor análisis, se tratará de resumir primero el perfil básico del nuevo H.G. propuesto.

A. PERFIL BASICO DEL NUEVO H.G.

1. Finalidad del Programa.

Fortalecer los gobiernos locales complementando y apoyando las metas del proyecto LOGROS, que son entre otras:

- a. Promover el fortalecimiento de los gobiernos locales, apoyando su capacidad de respuesta a las prioridades locales y de entrega de servicios básicos.
- b. Ayudar a los centroamericanos en los procesos de fortalecimiento de las capacidades decisorias de los gobiernos locales; estimular la descentralización administrativa y financiera; fortalecer la provisión de servicios con carácter local y la capacidad de mantenimiento; y aumentar la creación de ingresos a nivel local y las capacidades de recuperación de costos.

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2. Mecanismo Operativo General

El programa tendrá como objeto el financiamiento de proyectos municipales de desarrollo y mejoramiento urbano. Estos proyectos deberán cumplir con las siguientes características:

- a. Ser municipales. Esto es, promovidos por el correspondiente municipio y de responsabilidad financiera del mismo.
- b. Beneficiar y ser accesibles a las familias que se encuentran hasta la mediana de ingresos.
- c. Ser ejecutados por la iniciativa privada.
- d. Que promuevan la participación de los habitantes en el quehacer municipal y la responsabilidad financiera de los beneficiarios finales en el repago de la obra recibida.
- e. Que consideren el mantenimiento del medio ambiente.

3. Mecanismo Financiero Básico.

Dada la especialidad del programa, y la diferente posición de intermediarios y municipalidades en los países, debe procurarse en forma muy cuidadosa diseñar las estructuras de movilización de recursos a través de mecanismos muy realistas acordes con las condiciones locales, en todo caso deberán examinarse los siguientes aspectos.

a. Garantías.

i. BCIE.

La garantía del BCIE, dependerá directamente de la calidad del intermediario local y de la figura elegida para colocar los recursos.

Indirectamente de las garantías de repago que tenga el intermediario.

ii. Intermediario local.

La garantía del intermediario inmediata será la identificación y disponibilidad de mecanismos de repago, sean institucionales (Municipios), o individuales (beneficiarios).

La garantía mediata, será la disponibilidad de un aval a la operación que puede tomar la figura de garantías del Estado o instituciones públicas, reserva de fondos, etc.

b. Colocación de los recursos.

Las modalidades de colocación y diferenciales a aplicar pueden presentar diferentes esquemas.

El principio general es que siendo operaciones de mercado, las condiciones deberán ser compatibles con el mismo.

i. BCIE/Intermediario.

La base de fijación de la intermediación dependerá del tipo de riesgo de repago que asuma el intermediario, de la modalidad de colocación de los recursos, y de la existencia o no de riesgo cambiario.

ii. Intermediario.

El intermediario aplicará el margen usual en plaza, de acuerdo a la figura operacional en el punto b.1. Se estima un rango del 3% a 6%.

En caso de asumir riesgo cambiario, o existir seguro de garantía, ambos costos representarán un costo adicional.

iii. Municipalidad.

Los recursos pasan del intermediario al ejecutor de la obra, con conocimiento del Municipio. La tarea básica de este será identificar e instrumentar las fuentes institucionales e individuales de repago y controlarlas.

c. Identificación de proyectos y Municipalidades.

La tarea clave para agilizar en una primera etapa el programa es levantar un inventario de Municipios y Proyectos elegibles, aptos para desarrollo.

Es importante tratar de facilitar todo lo posible las primeras operaciones, pues el efecto demostración es clave en estos casos, para replicar y multiplicar las operaciones.

Identificar estrategias nacionales en este sentido es una tarea muy importante. En esta planificación inicial debe tenerse en cuenta, que los fondos son recibidos por BCIE, en base a la identificación de canales y procedimientos apropiados a los lineamientos de política sectorial, y deberán colocarse dentro del periodo de un año.

4. Mecanismo Institucional

El intermediario financiero y prestatario de los recursos del programa será el BCIE, quien los canalizará, a través de intermediarios locales, actuando como Banco de segundo piso.

En su intermediación, el Banco procurará promover la participación de intermediarios financieros de mercado y buscará agilizar la entrega de los recursos, eliminando, en lo posible, los lentos trámites públicos referentes a riesgo cambiario, contratación de deuda externa, etc.

Desde el punto de vista financiero, y de acuerdo con la naturaleza y condiciones de los recursos, el programa se regirá por condiciones de mercado.

5. Obligaciones Institucionales

De acuerdo con su diferente posición en el programa, las obligaciones de las instituciones involucradas serán, en términos generales, las siguientes:

- a. Banco Centroamericano de Integración Económica (BCIE).
 - i. Contratar y repagar los recursos externos.
 - ii. Identificar los más adecuados procedimientos de canalización a cada país participante.
 - iii. Calificar y seleccionar a los intermediarios locales.
 - iv. Establecer las condiciones de contratación de recursos con los intermediarios locales.
 - v. Definir las condiciones generales de elegibilidad de proyectos.

- vi. Realizar una supervisión general del programa.
- vii. Recuperar la cartera local.

b. Intermediario Local

- i. Contratar los recursos locales y canalizarlos a los proyectos.
- ii. Calificar la elegibilidad de los municipios y de los proyectos, de acuerdo con los lineamientos recibidos del BCIE y los propósitos del programa, en lo financiero y en lo social.
- iii. Contratar con las municipalidades y efectuar la supervisión financiera de los desembolsos y de terminación del proyecto.
- iv. Instrumentar y realizar las recuperaciones del programa.
- v. Repagar el crédito al BCIE.

c. Municipalidades

- i. Identificar los proyectos, la población beneficiaria y los mecanismos de pago.
- ii. Solicitar y contratar el crédito.
- iii. Implementar internamente las capacidades necesarias que garanticen razonablemente el apropiado manejo del programa.
- iv. Contratar con empresas privadas idóneas la ejecución y supervisión del proyecto.
- v. Desarrollar los mecanismos de participación comunitaria en el programa y los correspondientes compromisos de pago.
- vi. Velar por que el proyecto beneficie a la población neta.
- vii. Responsabilizarse por la recuperación y repago del crédito.

Con estos antecedentes en cuenta se analizarán a continuación los puntos inicialmente señalados.

B. POLITICA DEL BANCO FRENTE AL SECTOR MUNICIPAL.

El estatuto orgánico del Banco señala expresamente a las municipalidades como una de las instituciones, naturalmente beneficiarias de sus operaciones. Anteriormente se han realizado diversas operaciones con municipalidades, pero dentro de una modalidad diferente a la propuesta.

En la actual coyuntura del Banco y de la región, el apoyo a las municipalidades es de la más alta prioridad. Esto porque, según el criterio expresado por las autoridades del Banco, la estabilización y progresiva integración regional, exige gobiernos homogéneos, y para lograrlo la base es la capacidad y calidad de los gobiernos locales.

El tema de la gobernabilidad y su relación con la asistencia social, tan enfatizado por el Banco Mundial, BID, PNUD, etc., en los últimos foros, necesariamente pasa por la calidad de los gobiernos locales. Un programa hacia las municipalidades, claramente cumple con los requisitos de complementariedad y adicionalidad que el BCIE busca en todas sus operaciones.

Pese a lo claro de la prioridad insitucional, hasta el momento no ha habido del Banco una respuesta más activa hacia el sector por tres razones principales.

1. La mayor parte de los recursos de crédito obtenidos por el BCIE, han venido, operacionalmente vinculados, en especial, a la promoción de exportaciones.
2. Los fondos disponibles para programas sociales en el Banco, son muy reducidos, o vienen también con propósito predeterminado.
3. La mayor parte de las municipalidades de la región sufren serias debilidades en lo organizacional y financiero, que las ha marginado como sujetos de crédito.

El Banco ve en el nuevo proyecto, una herramienta poderosa de apalancamiento para lograr un fortalecimiento de los gobiernos locales, y de la posición y función del Banco en el área del desarrollo socioeconómico regional.

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Desde esta perspectiva, el Banco quiere comprometerse con el proyecto a la mayor brevedad, pero también reconoce que necesita desarrollar una nueva estrategia operacional interna y ve con inquietud, la necesidad de fortalecer la capacidad institucional de muchas municipalidades, potenciales sujetos de crédito, aspecto éste que excede de sus posibilidades.

C. EL FONDO FINANCIERO DE VIVIENDA Y MEJORAMIENTO URBANO

La unidad operativa a la que inicialmente se ha asignado este programa es el Fondo Financiero de Vivienda y Mejoramiento Urbano, que opera en el Banco desde sus inicios.

Esta asignación es inicialmente lógica, habida cuenta de la experiencia del Fondo en este campo y su trabajo en todos los países de la región. En sus 27 años de actividad ha financiado más de 57,000 soluciones habitacionales, con una cartera actual superior a 24,000.

Su importancia dentro de la estructura del Banco es clara, como se aprecia en el balance combinado que se acompaña como anexo 8, y que forma parte de los estados financieros auditados al 30 de junio de 1992. Con sus 273 millones de dólares de activos y un patrimonio de 32 millones es, junto al fondo ordinario y el fondo de integración, la base operativa de la institución.

Tiene además como elemento positivo esta designación, el hecho de que, tradicionalmente han trabajado con intermediarios financieros locales, públicos y privados, al igual que hace el Banco actualmente en otras áreas y actividades. Se acompaña como anexo 9 una lista de estas entidades autorizadas por país.

Sin embargo, existen también ciertos aspectos limitativos, que es necesario evaluar y, en su caso, corregir.

La concepción predominante en el departamento, es de sector público y de ejecución de proyectos. Aún se ve las figuras del banco central y ministerio de hacienda como la más "segura" colocación.

El reglamento de este departamento que data de 1982, si bien permite una operación como la propuesta, mantiene una filosofía operacional que está claramente desfasada en relación con la actual filosofía del Banco.

Lo característico del nuevo programa, es la operación financiera y los roles de las instituciones participantes, por encima del proyecto en sí. Esta modalidad va a requerir que el Fondo de

Vivienda trabaje y se relacione con otros departamentos del Banco y maneje todo el proceso, con criterios nuevos.

Existe ya conciencia sobre este punto, y sobre la necesidad de formar un equipo interdepartamental para desarrollar adecuadamente el plan de acción.

D. PLAN DE TRABAJO INSTITUCIONAL

1. Finalidad del Programa

El programa tiene como finalidad, apoyar la ejecución de las políticas de fortalecimiento municipal que se desarrollan en los diferentes países del área, mediante la canalización, a través de CABEI, de recursos masivos de crédito H.G. para mejoramiento urbano, que complementen y multipliquen la movilización de recursos locales para inversión hacia las municipalidades.

En su conceptualización y diseño, se trata de un programa sectorial en el que los recursos H.G., son complementarios de los objetivos sectoriales desarrollados e identificados en el programa LOGROS, y en los propios del préstamo.

Por su operación e implementación hay que señalar que se trata de una operación financiera de canalización de recursos, no de ejecución de proyectos, los que serán responsabilidad de las correspondientes entidades locales.

En tal sentido, se vincularán los desembolsos al establecimiento de los específicos mecanismos nacionales, que permitan la canalización y utilización de los recursos de conformidad con la finalidad del programa.

Como efecto indirecto se busca también el fortalecimiento del BCIE como intermediario financiero regional y elemento acelerador de los programas de integración económico/financiera y de desarrollo social.

2. Análisis y Tareas Preliminares a ser Desarrolladas por el BCIE.

2.1 Situación Municipal (área político/social)

a. Análisis

La valoración del sector parte del análisis de la situación municipal en sentido macro, ésto es:

- i. La política del gobierno con respecto a las municipalidades, la autonomía municipal y recursos locales.
- ii. El marco jurídico en que operan los municipios, para evaluar su consistencia con los propósitos del programa. Considerando los procesos de cambios si fuere necesario.

b. Acciones del BCIE.

- i. Conocer y evaluar la situación existente, aprovechando para ello los estudios hechos por AID entre otros.
- ii. Identificar puntos fuertes y débiles en cada lugar, a fin de establecer los cronogramas y prioridades correspondientes; así como las correspondientes estrategias.
- iii. Identificar e iniciar el diálogo con las instituciones públicas y privadas que pudieran servir de contraparte e intermediarios en la canalización de recursos.

2.2. Mobilización de los Recursos BCIE/Pais.

a. Análisis

El BCIE, como prestatario del H.G., debe canalizar los fondos del mismo hacia los diferentes países, y tiene la responsabilidad de situar los recursos que requieran las operaciones elegibles de cada país. Dos elementos hay que considerar en la movilización; el riesgo cambiario y la rapidez en la operación de traslado.

i. Riesgo Cambiario.

Contempla la necesidad del Banco de garantizarse, en forma razonable, que la recuperación proveniente del uso de los recursos le permita repagar el crédito en dólares.

La vía tradicional ha sido la canalización de los fondos a los bancos centrales; sin embargo, dos nuevos aspectos hay que considerar al respecto:

- La renuencia de los bancos centrales a cubrir los riesgos cambiarios.
- Las aperturas de los mercados para la contratación en dólares, la libre convertibilidad y la asunción del riesgo cambiario por las entidades de mercado.

ii. Rapidez en la Operación

La eficiente implementación del programa requiere que no se produzcan dilatados tiempos de espera para que los recursos lleguen al mercado local. Para ello todo lo que pueda lograrse en evitar o agilizar procesos burocráticos, es de esencial importancia.

b. Acciones del BCIE

- i. Identificar mecanismos propios que permitan trasladar los recursos y atender el riesgo cambiario mediante canales tradicionales o nuevos (intermediarios de mercado u otros).
- ii. Identificar mecanismos alternos de provisión de recursos, como uso de moneda local.
- iii. Valorar y seleccionar los diferentes mecanismos en función de la rapidez y flexibilidad para su uso.

2.3 **Institucionalidad Nacional**

a. Análisis

Al hablar de institucionalidad nacional en sentido amplio, se quiere destacar que es probable que exista más de una institución contraparte del programa. Partiendo del hecho de que el proceso de fortalecimiento e independencia municipal no está consolidado, sino iniciándose en el área, el BCIE necesita entrar en contacto con las instituciones e instancias públicas, con las que tiene que llevar a cabo el acuerdo de las metas de política que se busca alcanzar con el proyecto.

Además de esta importante tarea, el BCIE necesita un intermediario para los recursos que sirva de canal idóneo de desembolsos y recuperación. Esta institución puede ser la misma del diálogo político u otra, puede ser pública o privada, y de acuerdo con el tamaño del proyecto puede ser una o varias.

b. Acción de CABEI

- i. Identificar la o las instituciones más pertinentes para el diálogo sobre el programa.
- ii. Preparar la agenda de trabajo con cada uno de los países.
- iii. Identificar la o las instituciones intermediarias y las funciones en cada caso.

2.4. Operación del Programa

a. Análisis

Todas las acciones anteriores terminan en una operación de crédito que el intermediario local hace a la municipalidad, siguiendo los pasos y características señaladas anteriormente al hablar del perfil básico del programa.

b. Acciones del BCIE

Preparar los antecedentes necesarios de selección de las instituciones y los alcances de la operación que deberá ser la guía de la acción local.

Todo ello dentro de un marco de flexibilidad, teniendo en cuenta que no se financia la ejecución de proyectos, sino que se compra o redescuenta un crédito utilizado o utilizable en un programa elegible.

3. Instrumentación del Contrato de Préstamo H.G.

Habiendo concordancia entre RHUDO/CA y BCIE, sobre el diseño general del programa, no deberá existir obstáculo para la firma pronta de un convenio.

En relación con el convenio y otros aspectos sensibles del programa, conviene señalar lo siguiente:

a. Condiciones de contratación de recursos.

Por tratarse de un programa sectorial que busca se implementen políticas de tal carácter, los primeros desembolsos deberán vincularse a la puesta en marcha de los mecanismos pertinentes, en alguno de los países, buscando progresivamente la cobertura regional total. Posteriormente, se vincularían los desembolsos a la identificación de programas elegibles.

b. Características de los recursos.

En este punto se requiere enfatizar la necesaria masividad que debe tener este programa. Si se pretende inducir cambios o implantación de políticas, el BCIE debe de tener acceso a suficientes recursos para que sus acciones sean representativas, a nivel nacional y regional. Es probable que se necesite un programa de alrededor de 100 millones de dólares.

c. Coordinación interinstitucional.

El BCIE inicia con este préstamo, su acción directa hacia las municipalidades, pero RHUDO/CA, ya lleva años analizando y apoyando los cambios en este sector y tiene claras las metas de política generales. Por ello en todo el proceso de diseño e implementación del programa debe mantenerse un estrecho diálogo interinstitucional, en forma de que BCIE reciba todos los antecedentes necesarios que agilicen la debida puesta en marcha del programa.

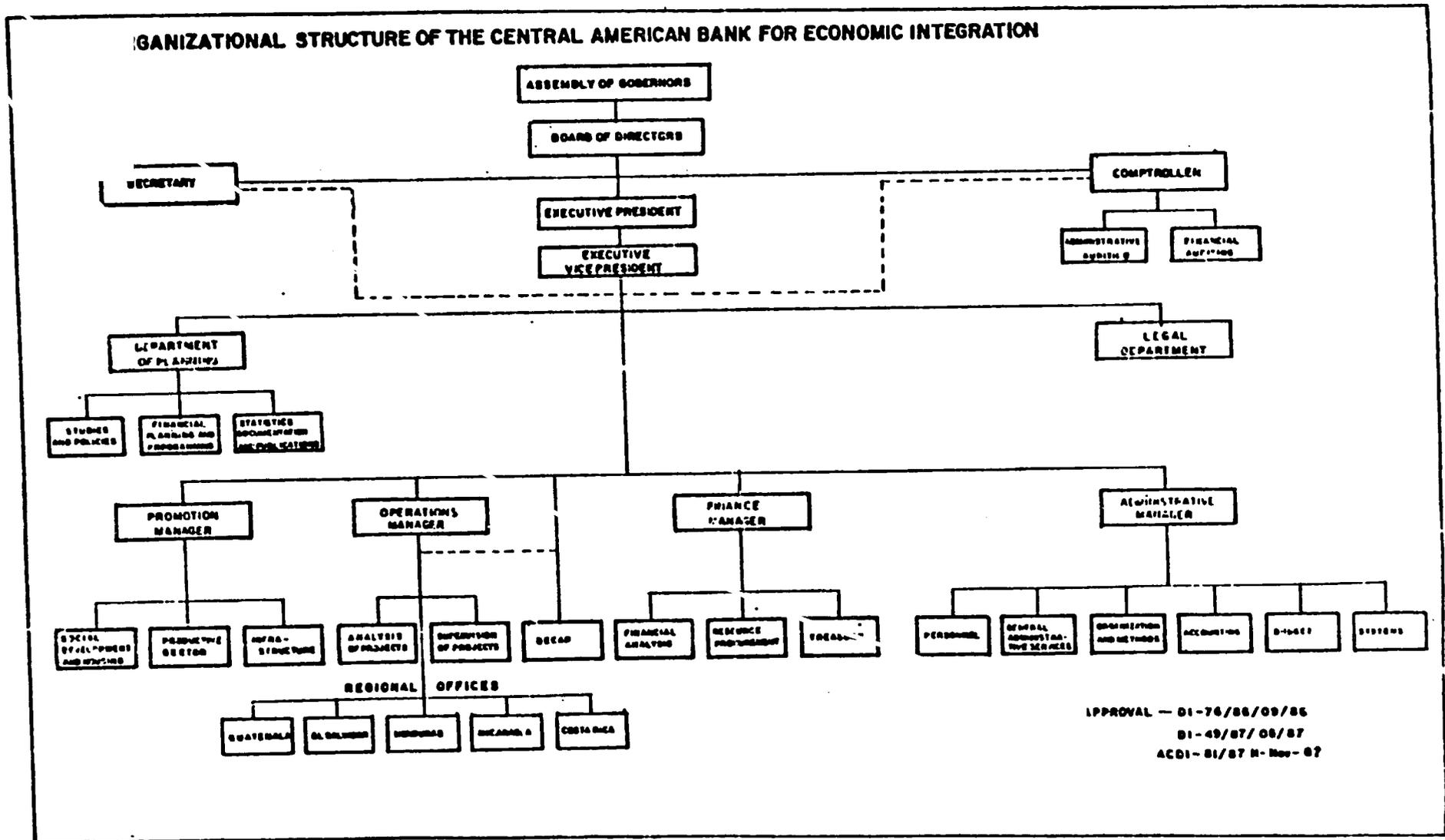
d. Estudios y asistencia técnica.

Al igual que en el punto anterior, deberá organizarse una apropiada transferencia de información hacia el BCIE, que elimine innecesarias duplicidades. Puede ser también crítico coordinar una apropiada asistencia técnica a aquellos municipios que se incorporen al programa. Esta será un área de coordinación RHUDO/CA/BCIE.

e. Nombramiento del grupo de trabajo.

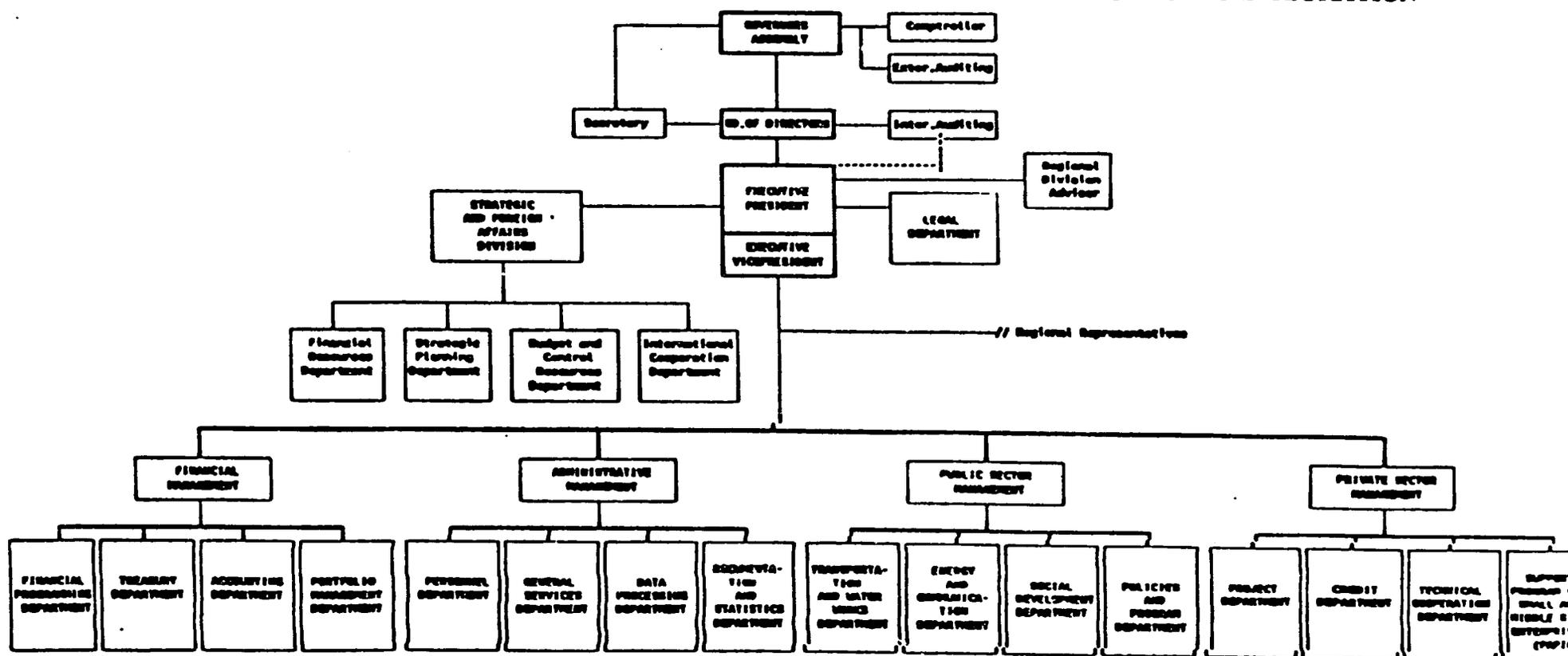
A la mayor brevedad el BCIE deberá integrar el grupo interdepartamental de trabajo, que inicie la preparación interna de este proyecto.

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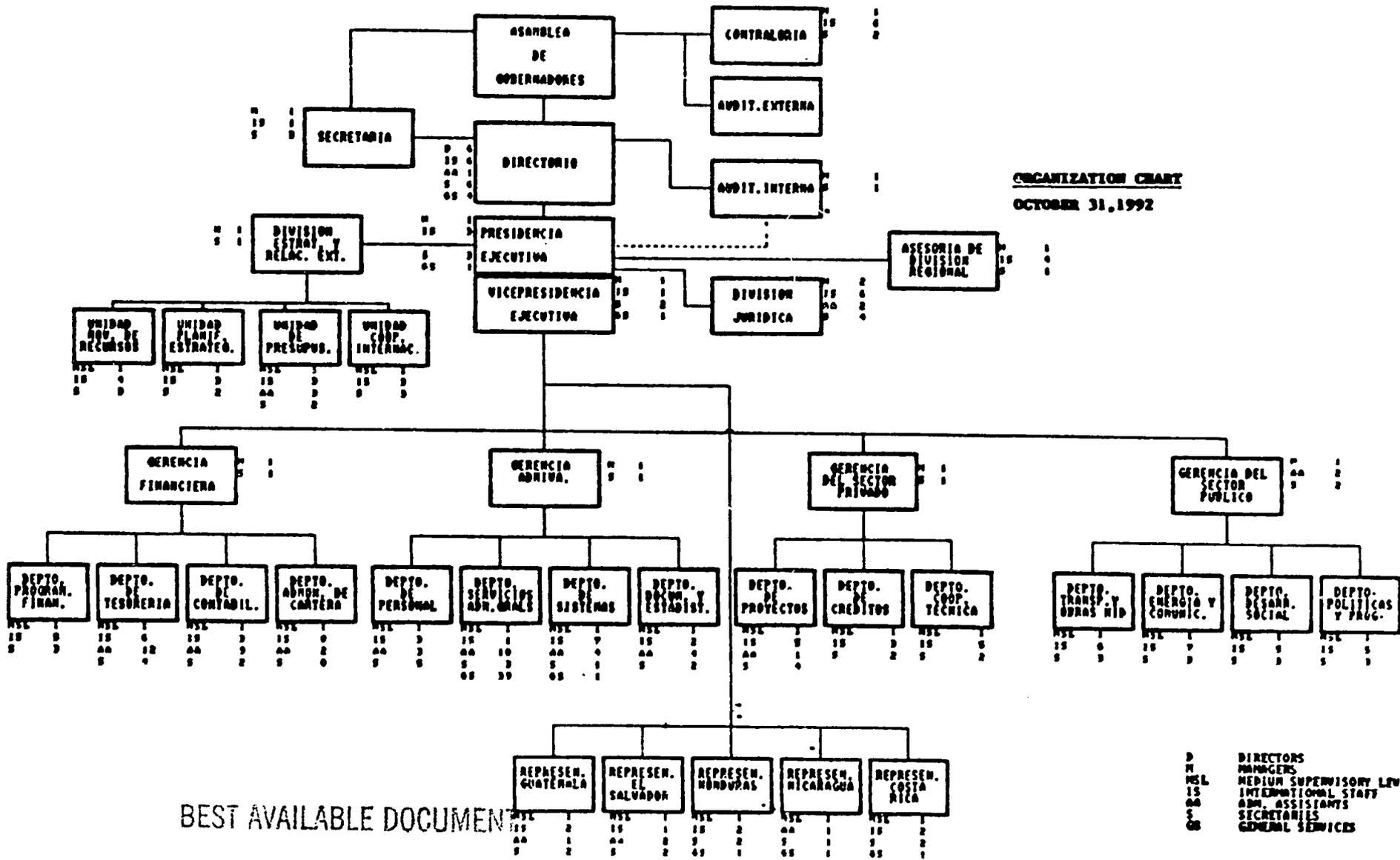
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NUEVAS POLITICAS DE APOYO AL SECTOR PRIVADO^{1/}

En correspondencia con la nuevas disposiciones del Convenio Constitutivo, la Asamblea de Gobernadores ha autorizado al Banco operar sus créditos al Sector Privado principalmente como mecanismo de segundo piso, utilizando para ello la banca comercial y las instituciones financieras aceptables en la región centroamericana.

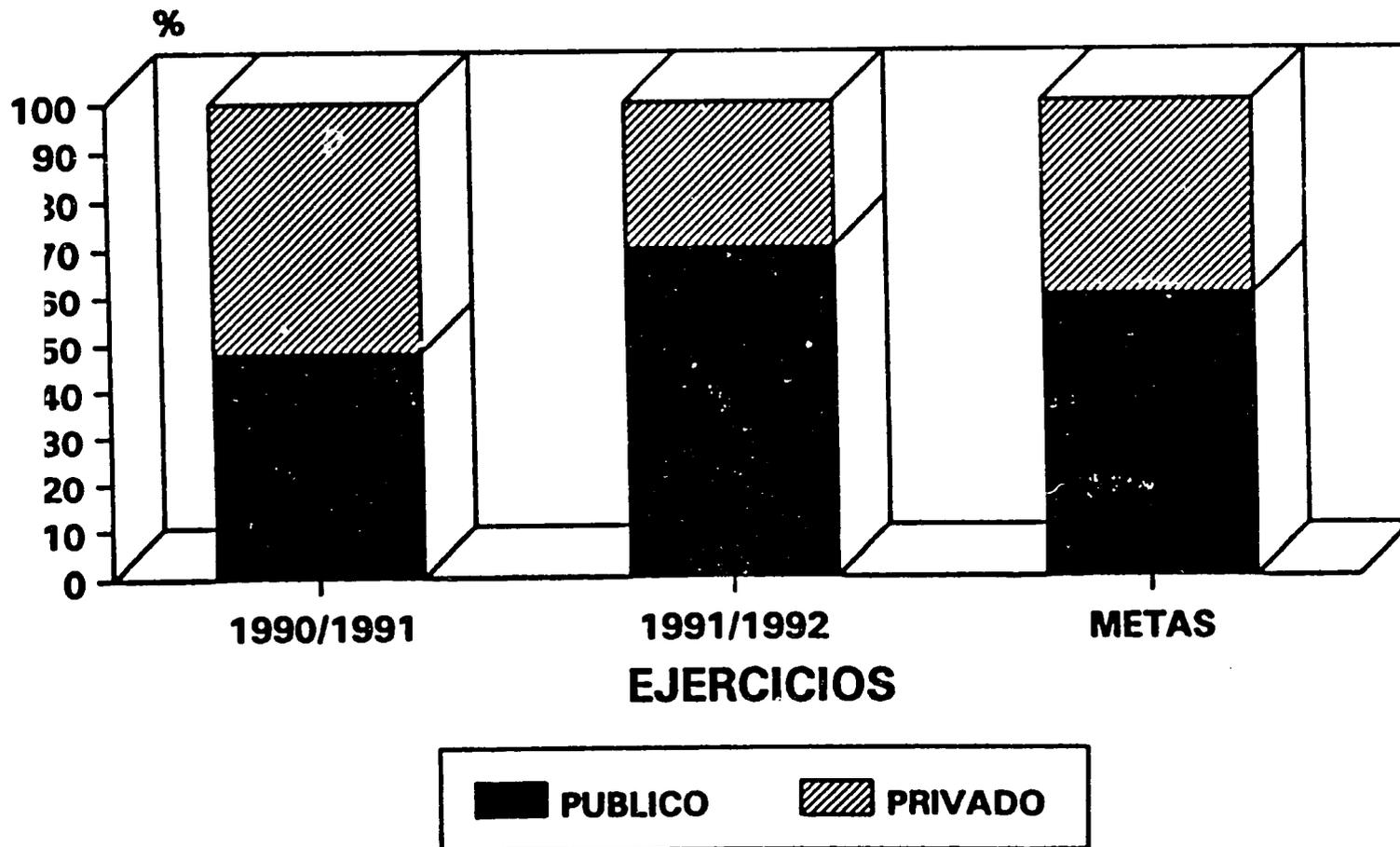
Asimismo, cuando el Banco Intermediario no tenga la suficiente capacidad de endeudamiento y el proyecto sea mayor de US\$500.000.00, el BCIE podrá orientar su financiamiento así: no menos de 25% por medio del Banco Intermediario y hasta un 50% como cofinanciamiento directo. No obstante, la totalidad del préstamo será administrado por el Banco Intermediario. De esta forma el BCIE fortalece al Banco Intermediario porque, por una parte descansa en él para la administración del proyecto total, y por otra, porque al no competir con el Banco Intermediario en los negocios colaterales, éste último enriquece la relación con su cliente, la acción de supervisión y financiamiento del BCIE se centrará más en la institución que el proyecto mismo.

Además, la Asamblea de Gobernadores ha autorizado operaciones de corto plazo para el financiamiento tanto de exportaciones (pre y post embarque) como de reposición de inventarios y requerimientos de capital de trabajo. Dentro de este nuevo rubro, una de las prioridades del Banco es el apoyo al comercio regional. De esta manera, el Banco complementará los programas de financiamiento a la inversión que ha venido desarrollando, con otras modalidades de atención al productor, utilizando fuentes de recursos como el Fondo Especial para la Promoción de las Exportaciones (FEPEX), creado con el respaldo de la Comunidad Económica Europea y recursos obtenidos de la Banca Privada Internacional.

1/ Fuente: Informe BCIE "Situación Actual del BCIE. Aspectos Financieros y Operativos al 30 de junio de 1992. (Con addendum al 21/01/93)".

La diversificación de la cartera de la Institución no sólo tendrá un efecto significativo sobre la producción y el comercio de Centroamérica, sino que, además, financieramente tiene un efecto positivo sobre la capacidad de recuperación de las inversiones y la desconcentración del riesgo.

APROBACIONES POR SECTOR (Porcentaje)



Enero 21, 1993

**SUMARIO SOBRE LOS ACUERDOS DE PAGO FIRMADOS POR EL BCIE
CON LOS PAISES MIEMBROS ^{1/}**

I. El Gobierno y Banco Central de Honduras

Al 31 de diciembre de 1992 el Gobierno y Banco Central de Honduras han cumplido con el arreglo de pago vigente de la siguiente manera:

Pagaron el 100% de los adeudos vencidos del 1 de marzo al 31 de diciembre de 1992 en divisas por US\$43.4 incluyendo un pago de US\$3.9 millones, recibido de la ENEE en diciembre de 1992 y aplicado contablemente en enero de 1993.

- *Pagaron la mora en moneda local así como los vencimientos del 1 de marzo al 31 de diciembre de 1992 por US\$14.8 millones.*
- *Sobre la presa de mora en divisas al 29 de febrero de 1992 por US\$40.3 millones, ha pagado el 80% de la misma; la diferencia, \$CA8.0 millones, no se ha pagado debido a que no se ha iniciado la ejecución del proyecto "Anillo Periférico de Tegucigalpa".*

^{1/}Fuente: Informe BCIE "Situación Actual del BCIE. Aspectos Financieros y Operativos al 30 de junio de 1992. (Con addendum al 21/01/93)".

II. Gobierno de Costa Rica

Del arreglo firmado entre el BCIE y el Gobierno de Costa Rica, el BCIE recibió un pago de US\$8.0 millones en noviembre de 1992 y en el mes de enero de 1993 se recibió un pago adicional de US\$6.0 millones, con lo cual el acuerdo tendrá un cumplimiento del 19% sobre el monto negociado.

El 81% restante de dichos adeudos el Ministerio de Finanzas de Costa Rica espera pagarlos en los meses de marzo a junio de 1993, debido a que el pago de los mismos requiere aprobación de la Asamblea Legislativa de Costa Rica en el momento en que se apruebe el presupuesto extraordinario para dicho país.

III. Gobierno y Banco Central de El Salvador

Al 31 de diciembre de 1992, el Sector Público de El Salvador no tiene adeudos vencidos debido al cumplimiento en un 100% de los acuerdos de pago suscritos con el BCIE. El único compromiso importante que no ha pagado son las cuotas del último llamamiento de capital por US\$7.0 millones, debido a que está esperando autorización del Congreso Legislativo de dicho país para que el Banco Central pueda pagar por cuenta del Gobierno dicho compromiso; no obstante tiene un certificado de depósito en el BCIE por US\$7.1 millones destinados a ese fin.

del Gobierno dicho compromiso; no obstante tiene un certificado de depósito en el BCIE por US\$7.1 millones destinados a ese fin.

IV. Gobierno y Banco de Guatemala

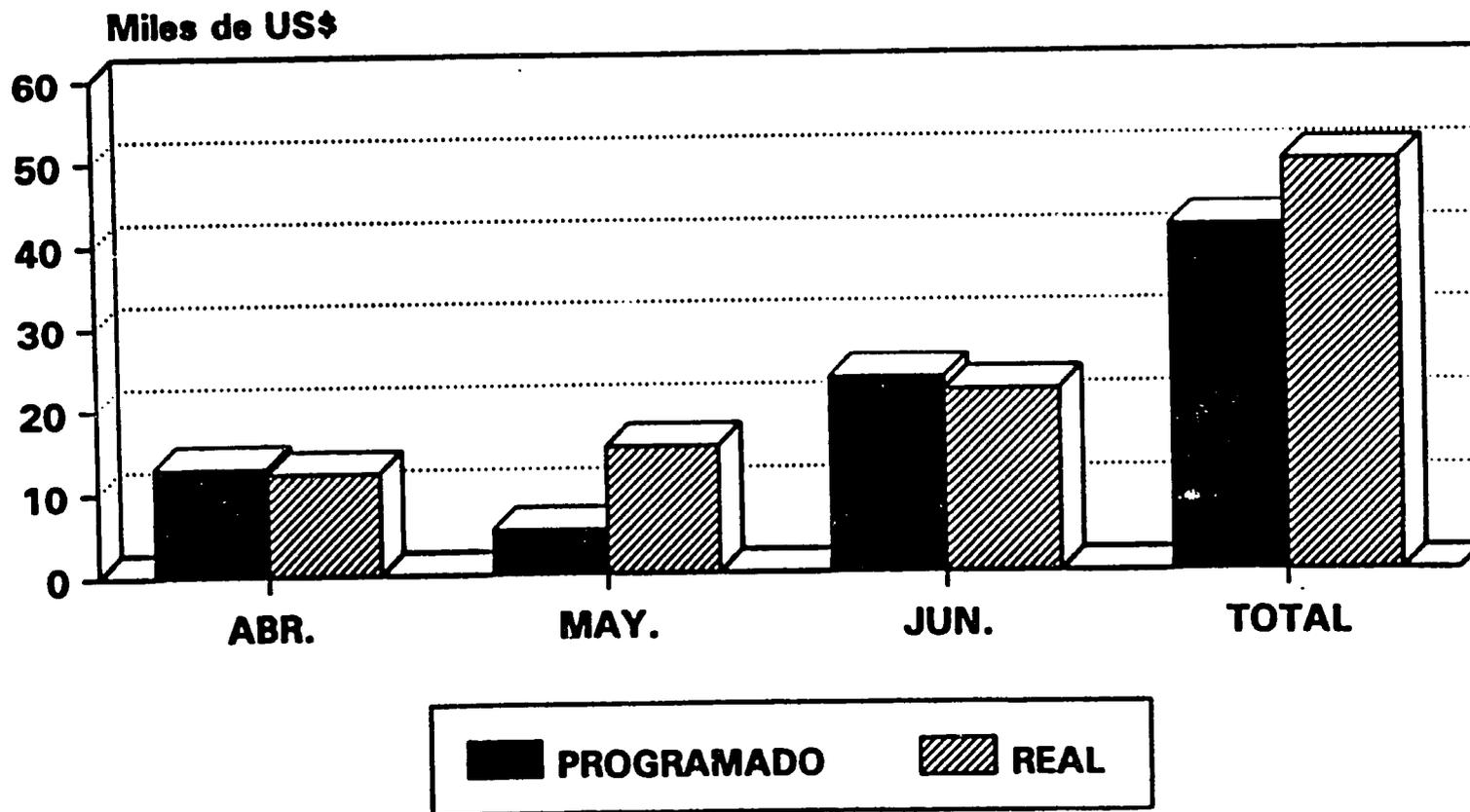
El Gobierno y Banco de Guatemala están al día ya que cumplieron con el pago de los adeudos vencidos por préstamos directos del Gobierno e INDECA y por los adeudos del Banco de Guatemala, incluyendo US\$3.1 millones sobre depósitos condicionados.

Con dicho país el 19 de enero de 1993 culminó el proceso de negociación para el pago de los adeudos vencidos del Instituto Nacional de Electrificación (INDE), por US\$21.3 millones, y los adeudos vencidos del Banco Nacional de la Vivienda (BANVI) por US\$22.0 millones, adeudos que representan el 95.3% de la mora del Sector Público de Guatemala y el 34% de la mora global de la cartera de préstamos por cobrar, habiéndose suscrito el convenio correspondiente.

Los pagos derivados del acuerdo de pago negociado se harán efectivos en el transcurso del mes de febrero del presente año.

COMPROMISO DE ANTIGUA

Comparación de Pagos Programado vs. Real



Abri1 a Junio 1992

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FEDERAL RESERVE BANK OF ATLANTA

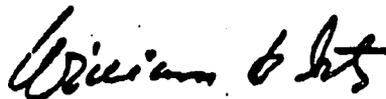
William B. Estes III
ASSISTANT VICE PRESIDENT

June 10, 1992

In your letter of June 3, 1992, you requested our advice on the country risk classification for Banco Centroamericano de Integracion Economica (BCIE), Tegucigalpa, Honduras. We have reviewed the material you provided and made our determination for BCIE based on following (1) its record of repayment, (2) the countries for its source of repayment and general liquidity, (3) the countries where its capital resides, (4) the countries where the members of its board of directors and management reside, (5) its chartering country and the nature of its charter, and (6) the countries where its assets reside. In the case of BCIE, we have concluded that it is not Honduran risk. Rather, for the purposes of the Country Exposure Report, FFIEC 009, BCIE is considered a "Latin American Regional Agency."

If you require anything further regarding this matter, please call Patricia G. Soriano at 404/589-7282.

Very truly yours,



William B. Estes III

* THE ADDRESSEE OF THE ORIGINAL LETTER HAS BEEN OMITTED FROM THIS COPY.

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NEGOCIACION Y/O CONTRATACION DE RECURSOS EXTERNOS
PERIODO DEL 1° DE JULIO DE 1992 AL 30 DE JUNIO DE 1993
(Miles de US\$)

| FUENTE DE RECURSOS E IDENTIFICACION | MONTO | DESTINO |
|--------------------------------------|------------------|--|
| A. LINEAS DE CREDITO 1/ | | |
| FEPEX II - CEE | 68,800.0 | Fomento de Exportaciones |
| PAPIC Renovado - CEE | 35,000.0 | Pequeña y Mediana Industria |
| Gobierno de España (ICO) | 24,000.0 | Red Regional Telecomunicaciones |
| Banca Commerciale Italiana - Italia | 30,000.0 | Proyectos del Sector Privado y Público |
| Mediocredito Centrale - Italia | 30,000.0 | Proyectos del Sector Privado y Público |
| KFW - Alemania | 12,500.0 | Proyectos del Sector Privado y Público |
| Eximbank USA - Estados Unidos | 15,000.0 | Proyectos del Sector Privado y Público |
| Bancomext II - México | 30,000.0 | Proyectos del Sector Privado y Público |
| Convenio III Gob. México/BCIE | 80,000.0 | Proyectos del Sector Privado y Público |
| Bco. Gubern. P. Rico (Fondos 936) | 10,000.0 | Proyectos del Sector Privado y Público |
| BID (Linea Global) | 60,000.0 | Proyectos del Sector Privado |
| Eximbank Japón N°6 | 60,000.0 | Proyectos del Sector Privado y Público |
| Eximbank - Corea | 50,000.0 | Proyectos del Sector Privado y Público |
| IECDE - Rep. de China | 10,000.0 | Pequeña Industria |
| B. COLOCACION DE VALORES | | |
| Inst. Financ. P.Rico (Fondos 936) 2/ | 20,000.0 | Proyectos Priv. y Públi. elegibles |
| Certificados de Depósito BCIE | 30,000.0 | Comercio Internacional |
| Bonos BCIE (Mercados Locales) | 15,000.0 | Proyectos del Sector Privado |
| C. FIDEICOMISOS | | |
| Fidelcomiso UNICEF | 10,000.0 | Proyectos de Carácter Social |
| Fidelcomiso FIV - Venezuela | 20,000.0 | Proyectos del Sector Privado y Público |
| D. DONACIONES | | |
| DANIDA - Dinamarca 3/ | 2,700.0 | Peq. Emp. (entre Microemp. y PAPIC). |
| ASDI - Suecia | 7,000.0 | Microproyectos |
| TOTAL | 620,000.0 | |

- 1/ Líneas de Crédito para la importación de bienes o servicios a los países que otorga el crédito y/o líneas de crédito libres o sujetas a ciertas condiciones.
- 2/ Proyectos de Infraestructura y del Sector Privado que sean calificados de importancia para el desarrollo económico de los países elegibles para los fondos 936.
- 3/ Representa el financiamiento de la fase piloto de 18 meses de duración. Todo el programa asciende aproximadamente a US\$23.0 millones a ser utilizados en un período de 7.5 años.

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| RECURSOS EXTERNOS OBTENIDOS EN ETAPA DE UTILIZACION | | | | | |
|---|----------------|------------------|------------------|------------------|--|
| (Millones de US\$) | | | | | |
| Al 30 de Junio de 1992 | | | | | |
| FUENTE DE RECURSOS E IDENTIFICACION | FECHA DE FIRMA | SITUACION ACTUAL | | | DESTINO |
| | | MONTO CONTRATO | COMPRO-METIDO | DISPO-NIBLE | |
| A. LINEAS DE CREDITO | | | | | |
| 1) CREDITO DE PROVEEDORES | | | | | |
| Edmbank - Japón N°4 (JPY.600 MM) | Febrero 88 | 47,732.7 | 47,732.7 | 0.0 | Infraestructura y Sectores Productivos |
| Convenio I Gob.México/BCIE | Marzo 88 | 107,600.0 | 107,600.0 | 0.0 | Proyectos del Sector Privado y Público |
| Bancomext - México | Abril 90 | 15,000.0 | 15,000.0 | 0.0 | Proyectos del Sector Privado y Público |
| Edmbank - Japón N°8 (JPY.9000 MM) | Abril 90 | 71,599.0 | 71,599.0 | 0.0 | Infraestructura y Sectores Productivos |
| Convenio II Gob.México/BCIE 1/ | Octubre 91 | 26,672.0 | 0.0 | 26,672.0 | Proyectos y Estudios Privados y Públicos |
| BANCOMEXT | Febrero 92 | 8,500.0 | 8,500.0 | 0.0 | Compra autobuses Costa Rica |
| EXIMBANK Corea | Febrero 92 | 5,000.0 | 5,000.0 | 0.0 | Adquisición bienes de origen coreano |
| Generale Bank Bruselas (BEC300.0MM) | Febrero 92 | 9,463.7 | 0.0 | 9,463.7 | Adquisición bienes de origen belga |
| Société Generale - Francia | Mayo 92 | 57,631.3 | 0.0 | 57,631.3 | Adquisición bienes de origen francés |
| Generale Bank - Bélgica | Mayo 92 | 50,000.0 | 0.0 | 50,000.0 | Adquisición bienes de origen belga |
| Banco Arabe Español - España | Mayo 92 | 10,000.0 | 0.0 | 10,000.0 | Adquisición bienes de origen español |
| Banco de Santander - España | Mayo 92 | 10,000.0 | 0.0 | 10,000.0 | Adquisición bienes de origen español |
| 2) OTROS CREDITOS | | | | | |
| KFW - Alemania N°5 (DM20.0 MM) | Sept. 82 | 12,961.8 | 4,519.8 | 8,442.0 | Infraestructura |
| BID 761/SF-CA | Nov. 84 | 10,595.0 | 10,595.0 | 0.0 | Preinversión |
| KFW - Alemania N°6 (DM20.0 MM) | Julio 86 | 12,961.8 | 12,961.8 | 0.0 | Infraestructura y Sectores Productivos |
| BID 561/OC-CA | Marzo 89 | 22,600.0 | 22,600.0 | 0.0 | Rehabilitación de Carreteras |
| Edmbank CNA - Japón (JPY .15000 MM) | Nov. 89 | 67,000.0 | 64,400.0 | 2,600.0 | Sectores Productivos |
| B. COLOCACION DE VALORES | | | | | |
| AID 596-HG-006 (006) | Agosto 87 | 45,000.0 | 34,555.8 | 10,444.4 | Vivienda |
| C. SOCIOS EXTRARRREGIONALES | | | | | |
| México | Sept.88 | 14,400.0 | 8,500.0 | 5,900.0 | Proyectos del Sector Privado y Público |
| República de China | Junio 91 | 37,500.0 | 0.0 | 37,500.0 | Proyectos del Sector Privado y Público |
| Venezuela | Julio 91 | 30,625.0 | 0.0 | 30,625.0 | Proyectos del Sector Privado y Público |
| D. FIDEICOMISOS | | | | | |
| FIV Venezuela | Nov. 90 | 20,000.0 | 17,700.0 | 2,300.0 | Programas de Desarrollo |
| CEE ALA 90/8 (ECU 32.0 MM) | Marzo 91 | 42,464.0 | 0.0 | 42,464.0 | Crédito de Exportaciones |
| E. DONACIONES | | | | | |
| Gob.de Suecia (SEK 62.0 MM) | Dic. 89 | 11,133.1 | 9,252.2 | 1,880.9 | Peq. y Med. Industria/Otros Sectores |
| CEE-ALA 89/9 (ECU 7.0 MM) | Enero 90 | 9,289.0 | 9,289.0 | 0.0 | Peq. y Med. Industria/Asist. Técnica |
| Gob. Noruega (NDK 15.0 MM) | Nov.90 | 2,487.8 | 2,487.8 | 0.0 | Peq. y Med. Industria/Otros Sectores |
| Gob. Dinamarca (DKK 18.0 MM) | Dic.90 | 3,039.3 | 3,039.3 | 0.0 | Peq. y Med. Industria/Otros Sectores |
| Diferencial Intereses Alemania | | 3,775.6 | 0.0 | 3,775.6 | Estudios campo desarrollo social |
| TOTALES | | 785,230.8 | 475,332.0 | 309,895.8 | |

1/ Monto estimado y notificado por la Secretaría de Hacienda y Crédito Público de México

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COMPARATIVE TABLE
CONSTITUTIVE AGREEMENT
OF THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

| OLD CONSTITUTIVE AGREEMENT | MODIFIED CONSTITUTIVE AGREEMENT |
|--|--|
| <p style="text-align: center;">CHAPTER I</p> <p style="text-align: center;">NATURE, PURPOSE AND HEADQUARTERS</p> <p>Article 1. The Central American Bank for Economic Integration is an international juridical person which shall exercise its functions in accordance with this Constitutive Agreement and its bylaws.</p> <p>Article 2. The purpose of the Bank shall be to promote the economic integration and the balanced economic development of the member countries. To implement its purpose, the Bank shall concentrate mainly on the following investment sectors:</p> <ul style="list-style-type: none"> a) Infrastructure projects for completion of existing regional systems or which compensate for disparities in basic sectors which hinder the balanced development of Central America. Thus, the Bank shall not finance infrastructure projects of purely local or national scope which do not contribute to the completion of such systems or to the compensation of significant imbalances among the member countries. b) Long-term investment projects in industries of a regional nature or of interest to the Central American market, which will contribute to increase the goods available for Central American trade, or for the latter and the export sector. The activities of the Bank shall not include investment in industries of an essentially local nature; c) Coordinated projects of agricultural specialization tending to improve, expand or substitute enterprises that lead to regional Central American supply; d) Projects to finance enterprises requiring expansion, modernization of their processes or modifications in the structure of their production in order to improve their efficiency and competitive capacity within the common market, so as to facilitate free Central American trade; e) Projects to finance services essential in the operation of the common market; f) Other productive projects which shall make the economies among the member countries more complementary and that increase the Central American trade. | <p style="text-align: center;">CHAPTER I</p> <p style="text-align: center;">NATURE, PURPOSE AND HEADQUARTERS</p> <p>Article 1. (Remains the same)</p> <p>Article 2. The purpose of the Bank shall be to promote the economic integration and the balanced economic development of the central american countries. To implement its purpose, the Bank shall concentrate mainly on the following programs or projects:</p> <ul style="list-style-type: none"> a) Infrastructure projects for the completion of existing regional systems or which compensate for disparities in basic sectors which hinder the balanced development of Central America; b) Long term investment projects in industries of a regional nature or of interest to the Central American market, which will contribute to increase the goods available for Central American trade, or for the latter and the export sector; c) Investment in the agropecuarian sector for the purpose of improving, expanding or substituting exploitations; d) Projects to finance enterprises requiring expansion or rehabilitation of their operations, modernization of their processes or modification in the structure of their production in order to improve their efficiency and competitive capacity; e) Financing of services required for the region's development; f) Economic complimenting among the central american countries which would tend to increase central american intra-regional trade as well as with third countries; g) Social development of the central american countries; h) Conservation and protection of natural resources and the environment; and, i) Financing of studies relating to those aspects mentioned in this Article and of these other programs or projects authorized by the Board of Governors. |

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OLD CONSTITUTIVE AGREEMENT

Article 3. The Bank shall have its headquarters and principal office in the city of Tegucigalpa, Republic of Honduras, and may establish branch offices, agencies and correspondents.

CHAPTER II

CAPITAL, RESERVES AND RESOURCES

Article 4. The initial authorized capital of the Bank shall be an amount equivalent to sixteen million U.S. dollars, each of the member states subscribing up to four million dollars, payable in its respective national currency.

One-half of the capital subscribed to by each member state shall be paid capital as follows: the equivalent of one million dollars within sixty days from date of entry into force of this Agreement and the equivalent of one million dollars within fourteen month from such date.

The remainder of subscribed capital shall be payable on call, at the decision of the Board of Governors, with the concurrent vote of at least one Governor from each member country.

The Bank may increase its capital by the unanimous decision of all members of the Board of Governors.

MODIFIED CONSTITUTIVE AGREEMENT

Article 3. (Remains the same)

CHAPTER II

MEMBER COUNTRIES, CAPITAL, RESERVES AND RESOURCES

Article 4.

- a) The Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica are founding countries of the Bank.

Non-regional countries may be accepted as members of the Bank, in accordance with the general norms established by the Board of Governors, prior to the incorporation of the first of said countries.

Said norms can only be modified by a resolution of the Board of Governors, adopted by a two-thirds majority of the total number of Governors that include three Governors of the founding countries, and these two-thirds representing, at least, three fourths of the total votes of the member countries;

- b) The participation of the member Countries in the Bank's capital shall be represented by shares issued to the respective Countries. Each subscribed share shall have one vote;
- c) The Bank's authorized capital shall be two billion United States of America Dollars (US\$2,000,000,000.00), divided into two hundred thousand (200,000) shares with a nominal value of ten thousand Dollars (US\$10,000.00) each. Of said capital, one billion twenty million Dollars (US\$1,020,000,000.00) shall be subscribed by the founding countries, in equal portions, and nine hundred eighty million dollars (US\$980,000,000.00) shall be available to non-regional countries;
- d) The authorized capital shall be divided into capital shares payable in cash and called capital shares. The equivalent of five hundred million dollars (US\$500,000,000.00) shall be capital payable in cash, and the equivalent of one billion five hundred million Dollars (US\$1,500,000,000.00) shall be called capital;
- e) The authorized capital may be increased at the time and in the manner considered convenient by the Board of Governors and by a resolution adopted by three-fourths of the total votes of the member countries, which shall include the favorable vote of each of the founding countries;
- f) The number of shares each non-regional country may subscribe shall be determined by the Board of Governors;
- g) In the case of an increase in capital, all the members shall have the right, subject to the terms established by the Board of Governors, to a portion of the increase, in shares, equivalent to the proportion represented by their shares of the Bank's total capital.

In any capital increase, the founding countries shall always have a percentage equivalent to fifty one percent (51%) of the increase, which should be subscribed by said countries in equal portions.

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OLD CONSTITUTIVE AGREEMENT

MODIFIED CONSTITUTIVE AGREEMENT

No non-regional member is obligated to subscribe capital increases. Should any of them not subscribe the portion on which it holds an option, another non-regional member or members may do so.

Notwithstanding the preceding paragraph, all non-regional members should subscribe the capital increases in an amount equivalent to the proportion their shares represent in relation to the Bank's total capital, when the Board of Governors decides these increases because it considers that the Dollar's purchasing power has deteriorated to such an extent that the value of the Bank's capital has been substantially modified in relation to the value it had at the time the first non-regional contribution to capital was made;

- h) The payment of the capital shares referred to in letter c) of this Article shall be made in the following manner:
- i) The portion payable in cash shall be paid in four annual, equal and consecutive instalments.

The founding countries shall pay in their respective national currencies. The non-regional countries shall pay in United States of America Dollars.
 - ii) The portion of the capital corresponding to called capital shall be subject to payment requests when needed to satisfy obligations acquired by the Bank in the capital markets or which correspond to loans obtained for the purpose of forming a part of the Bank's resources, or which result from guarantees that compromise said resources.

Payment requests for called capital shall be proportionately uniform for all shares.
- i) The payments by each founding country in its own currency shall be made in an amount equivalent to the respective value in United States of America Dollars, calculated at the rate of exchange referred to in letter j) of this Article.
- j) For the effects of this Agreement, with respect to the payments of each founding country in its own currency, the guarantee of free convertibility of said currency, and the maintenance of the United States of America Dollar value of the Bank's holdings in the national currency of the founding countries, provided for in letter i) of this Article and in Article 5, respectively, the rate of exchange to be utilized will be the legal rate of exchange or, in its absence, the lawful rate of exchange most favorable to the Bank.

Legal rate of exchange is understood as that established by the competent authority of the respective founding country.

If a rate of exchange established by the competent authority does not exist in a founding country, the rate of exchange most favorable to the Bank, lawfully used in that country, shall be applicable.

The most favorable legal rate of exchange or, as the case may be, the lawful rate of exchange most favorable to the Bank, is that which produces more units of local currency for each United States of America Dollar.

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OLD CONSTITUTIVE AGREEMENT

Article 5. Participation of the member states in the capital of the Bank shall be represented by stock certificates issued in favor of the respective states. These certificates shall grant their holders equal rights and obligations, shall not bear interest or dividends, and shall not be subjected to lien or transfer.

Liquid profits accruing to the Bank in the exercise of its operations shall be carried in a capital reserve fund.

The liability of the members of the Bank, as such, shall be limited to the amount of their capital subscriptions.

Contributions of capital in the national currency of each of the member states shall enjoy guaranteed free convertibility at the official exchange rate most favorable to the Bank.

Each of the member states binds itself to maintain the value in U.S. dollars of that portion of capital paid in to the Bank. Should the official foreign exchange rate of any of the national currencies be modified, the resources of the Bank in that currency shall be adjusted in the exact proportion required to maintain the same value in U.S. dollars.

Article 6. In addition to its own capital and reserves the resources of the Bank shall include the product of loans and credits obtained on capital markets and any other funds acquired, regardless of legal title thereto.

CHAPTER III
OPERATIONS

Article 7. The capital, capital reserves and other resources of the Bank shall be used exclusively for achieving the objectives set forth in Article 2 of this Agreement. Toward this end the Bank may:

- a) Study and promote investment opportunities resulting from the economic integration of the member states, establishing proper programming of its activities and the necessary priorities for financing purposes;
- b) Make or participate in long and medium term loans;
- c) Issue its own obligations, which may or may not be guaranteed by bonds, securities or mortgages;

MODIFIED CONSTITUTIVE AGREEMENT

- k) The Bank will accept from any founding country, up to a fifty percent, in promissory notes or similar debentures issued by the government of the member country or entity designated by said government, in lieu of the national currency said member should pay as capital, provided however that the Bank does not need said currency for the development of its operations.

Article 5. The Bank's shares shall not accrue interest or dividends and may not be given in guarantee, nor encumbered, nor in any way alienated and shall be transferable only to the Bank.

The net profits obtained by the Bank in the exercise of its operations shall be carried over to a capital reserve.

(Remains the same)

(Deleted)

Each founding country binds itself to maintain the value in United States of America dollars of the holdings of its national currency in the possession of the Bank, derived, from, or originated by, its contributions to capital. If the rate of exchange of any of the national currencies of the founding countries is modified, the above referred resources of the Bank in this currency should be adjusted in the exact proportion required to maintain the same value in United States of America dollars, without the adjustment due to said exchange rate modification causing any profit or loss for the Bank.

Article 6. In addition to its own capital and reserves, the resources of the Bank shall include the product of loans and credits obtained on capital markets and other resources received under any legal title.

The Bank will not accept from the financial sources, any conditioning of a political character or those which infringe on the purpose of the Bank.

CHAPTER III
OPERATIONS

Article 7. The capital, capital reserves and other resources of the Bank, or those administered by it, shall be used exclusively for achieving the objectives set forth in Article 2 of this Agreement. Toward this end the Bank may:

- a) Study and promote investment opportunities in the central american countries, establishing proper programming of its activities and the necessary priorities for financing purposes;
- b) Make or participate in short, medium and long term loans;
- c) Issue debentures;

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OLD CONSTITUTIVE AGREEMENT

- d) Participate in the issuance and placement of all types of credit instruments related to the implementation of its purpose;
- e) Obtain loans, credits and guarantees from Central America, international and foreign finance institutions;
- f) Act as intermediary in the granting of loans and credits to governments, public institutions, and private concerns established in the member states. Toward this end it shall collaborate, as advisable, with other Central American, international or foreign institutions, and may participate in the preparation of specific projects in this connection;
- g) Guarantee obligations of public institutions or private concerns, up to such amounts and under such terms as determined by the Board of Governors;
- h) Obtain the guarantee of the member states for the contracting of loans and credits from other finance institutions;
- i) Provide, from its own resources or from others for such purpose, executive, administrative or technical advisory assistance to loan applicant;
- j) Carry out such additional operations as necessary in accordance with this Agreement and its Regulations for the furtherance of its objectives and operations.

Article 8. The bank shall finance exclusively those projects which are economically sound and technically feasible, and shall refrain from making loans or assuming responsibility whatsoever for the payment or refinancing of previous obligations.

CHAPTER IV**ORGANIZATION AND ADMINISTRATION**

Article 9. The Bank shall have a Board of Governors, a Board of Directors, a President and such other officials and employees as deemed necessary.

Article 10. All powers of the Bank shall be vested in the Board of Governors. Each member country shall have two Governors who shall exercise their functions in absolute independence and shall vote separately. One shall be the Minister of Economy or his alternate, and the other shall be the President or Manager, or alternate thereof, of the Central Bank of each country. The Board shall elect one of the Governors, as Chairman, who shall hold office until the next ordinary meeting of the Board.

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- d) Mediate in the issuance and placement of all types of credit instruments;
- e) Obtain loans, credits and guarantees from governments and financial institutions;
- f) Act as financing agent or as an intermediary in the granting of loans and credits to governments, public institutions and enterprises established in the central American countries. For this purpose it will establish the advisable relationship with other institutions, and may participate in the preparation of the corresponding definite projects;
- g) Act as trustee;
- h) Guarantee the obligations of public or private institutions and corporations, up to such amounts and terms as determined by the Board of Governors;
- i) Obtain the guarantee of the member Countries for the contracting of loans and credits from other financial institutions;
- j) Provide counselling to those requesting credits; and,
- k) Carry out all other operations which, in accordance with this Agreement and its regulations, shall be necessary for its purpose and functioning.

Article 8. The Bank shall finance exclusively economically healthy and technically feasible programs or projects and shall abstain from making loans or acquiring any responsibility for the payment or refinancing of previous obligations.

The Bank's operations should be based exclusively on technical, financial and economic criteria; consequently, criteria of a political character relating to any member country should not influence same.

CHAPTER IV**ORGANIZATION AND ADMINISTRATION**

Article 9. The Bank shall have a Board of Governors, a Board of Directors, an Executive President, an Executive Vice President and such other officials and employees as deemed necessary.

Article 10. The Board of Governors is the highest authority of the Bank. Each founding country shall have a seat holding Governor and a Deputy, which will be, indistinctly, the Minister of Economy or the President of the Central Bank, or those who fill in for them, or those to whom said representation belongs according the internal law of the respective country.

Each non-regional country shall name a seat holding governor and a deputy. The deputies will participate in Board of Governors meetings, with voice but without the right to vote, except in the absence of the seat holder.

Among the seat holding governors, the Board of Governors shall elect a President, who shall remain in that position until the following ordinary meeting of the Board.

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| OLD CONSTITUTIVE AGREEMENT | MODIFIED CONSTITUTIVE AGREEMENT |
|---|--|
| <p>Article 11. The Board of Governors may delegate to the Board of Directors, all its powers, except power to:</p> <ul style="list-style-type: none"> a) Make capital calls; b) Increase the authorized capital; c) Determine the capital reserves at the request of the Board of Directors; d) Elect the President and determine his remuneration; e) Determine the remuneration of the Directors; f) Hear and decide any appeals from interpretations of this Agreement, given by Directors; g) Authorize the conclusion of general agreements for cooperation with other organizations; h) Designate outside auditors to verify the financial status of the Bank; i) Approve and publish, after reviewing, the auditor's report, the general balance sheet and the statement of profit and loss of the Bank; j) Decide, if the operations of the Bank were terminated, to distribute its net assets. | <p>Article 11. All the Bank's powers are vested in the Board of Governors, which may delegate them to the Board of Directors, with the exception of the following:</p> <ul style="list-style-type: none"> a) Admit new members and determine the conditions of their admission; b) Increase the authorized capital; c) Determine the capital reserves, as requested by the Board of Directors; d) Elect the Executive President and determine his remuneration, as well as his removal; e) Name the Comptroller, by a committee of three, and approval his removal, all as proposed by the Board of Directors, as well as the determination of this remuneration; f) Determine the remuneration of the Directors and Deputy Directors; g) Approve and modify the Regulations for the Organization and administration of the Bank, the Board of Governors and for the election of Directors; h) Designate external auditors of the Bank in order for them to give an opinion of the annual financial statements which will be presented to the Board of Governors; i) Approve, with the prior opinion of the external auditors, the annual financial statements and authorize their publication; j) Consider and decide with respect to issues raised by the Board of Directors, by a Director, by the Executive President or by the Comptroller on decisions which, in their judgment, contradict dispositions of the Constitutive Agreement or resolutions of the Board of Governors; k) Consider and decide, on appeal, with respect to differences in the interpretation and application of this Agreement and of the Resolutions of the Board of Governors carried out by the Board of Directors; l) Propose amendments to this Agreement; and, m) Decide on the distribution of the Bank's net assets in the event it ceases operations. |

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Article 12. The Board of Governors shall retain full power to exercise authority over any matter delegated to the Board of Directors under Article 11 above.

Article 13. The Board of Governors shall hold ordinary meetings annually. In addition, extraordinary meetings may be held when called or determined by the Board of Directors. The Board of Directors shall call the Board of Governors whenever requested by a member state.

Article 14. A quorum for any meeting of the Board of Governors shall be a simple majority of the total number of Governors. In any case, a simple majority of the votes cast shall be required to adopt decisions, except as provided in Article 8 of this Agreement.

Article 15. The Board of Directors shall be responsible for the conduct of the operations of the Bank and for this purpose may exercise all the powers delegated thereto by the Board of Governors.

Article 16. There shall be one Director for each member state elected by the Board of Governors. The Directors shall be appointed for terms of five years and may be reelected for successive periods. They shall be citizens of the member states and persons of recognized competence and wide experience in economic, financial and banking matters.

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Article 12. The Board of Governors shall retain full power to exercise authority over any all powers matter delegated to the Board of Directors..

Article 13. The Board of Governors shall hold ordinary meetings once a year. In addition, extraordinary meetings may be held when called or determined by the Board of Directors. The Board of Directors shall call the Board of Governors whenever requested, at least, by two member Countries request it.

The Board of Directors may require a pronouncement from the Governors, without calling an extraordinary meeting of the Board of Governors, in accordance with the respective regulation.

Article 14. A quorum for any meetings of the Board of Governors shall be one-half plus one of the total number of Governors, which shall include, at least, three Governors from founding countries and which represents a minimum of two-thirds of the total number of votes of the member countries.

Except as set forth in Articles 8, 16 and 33 letter b), decisions shall be adopted with the concurring vote of one-half plus one of the total number of Governors, which shall include the majority of the Governors from the founding countries and which represents, at least, the majority of the total number of votes of the member countries.

Article 15. The Board of Directors is the organ responsible for the direction of the Bank. For this reason it shall exercise all the powers delegated thereto by the Board of Governors and the following:

To define the operational and administrative policies of the Bank; to approve the budget, as well as the short, medium and long term plans and the active and passive operations. Moreover, the Board of Directors shall determine the basic organization of the Bank, including the number and general responsibilities, managerial position and those of equivalent rank; it shall exercise the control of the administration's dealings; it shall propose to the Board of Governors the constitution of capital reserves and shall exercise all other powers established in this Agreement and in the regulations approved by the Board of Governors.

Article 16. The Board of Directors shall be composed of up to nine members. Upon the proposal of the respective founding countries, five shall be elected by the majority of Governors from said countries, with one directorship for each founding country. The remaining four Directors shall be elected by the Governors of non-regional members. The procedure for the election of Directors by non-regional members shall be determined by the Regulation for the Election of Directors which the Board of Directors shall adopt for said effect, prior to the incorporation of the first of said countries.

Any modification of the above referred Regulation shall require a majority of three-fourths of the member's votes, which shall include a majority of two-thirds of the Governors of non-regional members.

Directors of the founding countries shall be elected for periods of five years and directors of the non-regional members shall be elected for periods of two years. Said Directors may stand for reelection in both cases.

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Article 17. The Directors shall continue in office until their successors are appointed or elected. If the office of Director becomes vacant, a successor shall be elected by the Governors for the remainder of the term.

Article 18. The Directors shall work in the Bank on a full time basis and shall also perform such functions as delegated by the President.

Article 19. The Board of Directors shall function permanently in the headquarters of the Bank.

The Board of Directors shall determine the basic organization of the Bank including the number and general responsibilities of the chief administrative and professional positions of the staff, shall approve the budget and submit the composition of the reserves to the Board of Governors.

Directors can be removed by a majority of the Governors of the countries who elected them.

Directors should be citizens of the member countries, persons of recognized capacity and with broad experience in economic, financial and banking affairs.

Directors may not be deputy Governors nor representatives of the Governors.

Each seat holding Director of the non-regional members shall have a deputy, who shall act in his place, in the event of his absence. The Deputy Director shall be elected in accordance with the Regulation for the Election of Directors. Seat holding Directors and their deputies may not be citizens of the same country.

Deputies may participate in the meetings of the Board of Directors and shall only have the right to vote when acting in substitution of the seat holder.

Directors may attend meetings of the Board of Governors, in accordance with the respective Regulation.

Article 17. The Directors shall continue in office until their successors are elected. When the position of a Director for a founding country is vacant, the Governors of the founding countries shall proceed to elect a substitute for the remainder of the period, as proposed by the respective country.

In the event of justified temporary absence of a Director of any of the founding countries, said Director shall be substituted during his absence by the person who, complying with the requisites of the case, is designated by the Governor of the respective country.

When the position of Director for a non-regional country is vacant and there are more than one hundred and eighty (180) days until the expiration of his term, the Governors of the countries who elected him shall proceed to elect a new Director.

Article 18. The Directors shall work for the Bank on a full-time basis. The position of Director is incompatible with any other, except teaching positions, provided that said teaching position does not interfere with his obligations as Director.

Article 19. The Board of Directors shall function permanently and shall function normally at the Bank's headquarters, and may also meet in any central american country. Similarly, the Board of Directors may hold sessions in any other member country, in order to take advantage of meetings of the Board of Governors.

The quorum for Board of Directors meetings shall be the majority of the total number of Directors, which shall include, at least, three Directors in founding countries.

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All the decisions of the Board of Directors shall be adopted by the majority vote of its total members.

Article 20. The Board of Governors shall elect an Executive President of the Bank, the officer of highest hierarchy and the legal and official representative of the Bank. The Executive President is named for 5 years and can be reelected for successive periods, must be a citizen of the member countries of the Bank, and a person of recognized competence and wide experience in economic, financial and banking matters.

The President shall conduct the ordinary business of the Bank and direct the meetings of the Board of Directors, without the right to vote. The functions of the President are incompatible with those of a Director.

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Article 21. An Executive Vice-President shall be appointed by the Board of Directors from a list of three candidates proposed by the Executive President. The Executive Vice-President shall meet the same requirements demanded of the Executive President and will substitute the President during his temporal absences, with all the rights and attributions.

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The decisions of the Board of Directors shall be adopted by the majority vote of its total members, except in those cases determined by the Regulation for the Organization and Administration of the Bank, in which a qualified majority is required. The Directors should issue a judgment, either positively or negatively, on matters submitted to the vote.

Article 20. The Board of Governors shall elect an Executive President of the Bank, the officer of highest hierarchy and the legal and official representative of the Bank. The Executive President shall exercise his duties for five years, and can be reelected one time only, in which case the concurring vote of four of the founding countries should exist. He should be a citizen of one of the Bank's founding countries, it being here established that the exercise of said position, except in case of reelection, shall be distributed amongst citizens of the five founding countries on the basis of alternability.

The Executive President shall be a person of recognized capacity and broad experience in economic, financial and banking affairs. The position of Executive President is incompatible with any other, except teaching positions, provided said teaching positions do not interfere with his obligations as Executive President at the Bank.

The Executive President shall participate in meetings of the Board of Governors, with voice but without the right to vote.

The Executive President shall conduct the Bank's administration, preside over and direct Board of Directors meetings, with voice but without the right to vote; similarly, it is his responsibility to uphold and cause to be upheld the Constitutive Agreement, the Bank's Regulations and the decisions of the Board of Governors and Board of Directors.

If the position of Executive President becomes vacant before its term is completed, the Board of Governors shall proceed to elect the person who shall exercise said position for the remainder of said term.

If there are more than 180 days until the completion of said term, the Executive President so elected, in addition to complying with the requisites set forth in this article, should be of the same nationality as that of the former Executive President.

Should there be less than 180 days until the completion of the term, the Executive President so elected may be of the same nationality as that of the former Executive President or of the nationality which would correspond to the Executive President for the following term, based on the above mentioned principle of alternability by reason of nationality referred to in this article.

Article 21. An Executive Vice-President shall be elected by the Board of Directors from a list of three candidates proposed by the Executive President, and who shall meet the same requirements demanded for the Executive President and substitute for him during his temporary absences with his same powers and authority.

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The Board of Directors, at the proposal of the Executive President, shall determine the authority and functions of the Executive Vice-President in the administration of the Bank, when he is not substituting the Executive President.

The Vice-President shall have different nationality from that of the President of the Bank and will participate in the meetings of the Board of Directors in the manner determined by the President.

Article 22. The President, officers and employees of the Bank in the discharge of their offices owe their duty entirely to the Bank and shall recognize no other authority. The member states shall respect the international character of this duty.

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Article 23. The paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competence and integrity. Due regard shall be paid to the importance of recruiting the staff on an equitable geographical basis.

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The Executive Vice-President shall hold his position for five years and can be reelected one time only, in which case the concurring vote of four Directors representing founding countries shall be necessary. He should be a citizen of one of the Bank's founding countries, it being herein established that the exercise of said position shall be distributed, except in case of reelection, among citizens of the five founding countries on the basis of alternability. The term of Executive Vice President shall commence twelve months after the initiation of the Executive President's term.

The Board of Directors, at the proposal of the Executive President, shall determine the authority and functions to be performed by the Executive Vice-President when he is not substituting for the Executive President.

The Executive Vice-President shall have different nationality from that of the Executive President of the Bank and shall be empowered to participate in the Board of Directors meetings, with voice but without the right to vote.

If the position of Executive Vice President becomes vacant before the completion of his term, the Board of Directors shall proceed to elect the person who shall occupy said position for the remainder of said term.

If there are more than 180 days until the completion of said term, the Executive Vice President so elected, in addition of meeting the requisites set forth in this Article, should be of the same nationality as that of the former Executive Vice President.

If there are less than 180 days until the completion of said term, the Executive Vice President so elected may be of the same nationality as that of the former Executive Vice President or of the nationality which would correspond to the Executive Vice President for the following term, based on the above mentioned principle of alternability by reason of nationality referred to in this article.

Article 22. The Executive President, officers and employees of the Bank owe their duty entirely in the performance of their duties to the Bank and shall recognize no other authority. The member countries shall respect the international character of this duty.

The Directors, the Executive President, the Executive Vice President and the officers of the Bank who hold managerial or equivalent positions, shall be understood as bound to the Bank by a relationship of trust and should perform their duties with the good faith and diligence of a loyal and efficient administrator. The above referred to Directors and Officers shall answer to the Bank and to third parties for any damage caused due to their fault or negligence. In the event of fault or negligence, the ensuing responsibility shall be in solidum. The regulation in respect thereof, approved by the Board of Governors shall specify the elements of responsibility, both individual as well as solidary.

Article 23. The paramount consideration taken into account by the Bank in appointing its staff and determining the conditions for their services, shall be the necessity of reassuring their highest standards of efficiency, competence and integrity. Due regard shall be paid to the importance of recruiting the staff on an equitable geographic basis among the founding countries.

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Article 24. The Directors, officers and employees of the Bank with the exception of the Governors in their respective countries shall not be permitted to take active participation in political affairs.

CHAPTER V

INTERPRETATION AND ARBITRATION

Article 25. Any question or interpretation of the provisions of this Agreement, arising between any member and the Bank or among the member states, shall be submitted to the Board of Directors for decision.

Member states especially affected by the question under consideration shall be entitled to direct representation before the Board of Directors.

Any of the member states may demand that the resolution of the Board of Directors in accordance with the preceding paragraph be submitted to the Board of Governors, whose decision shall be final. Pending decision of the Board, the Bank may take such action as deemed necessary on the basis of the decision of the Board of Directors.

Article 26. If a disagreement should arise between the Bank and a state which has ceased to be a member, or between the Bank and any member after adoption of a decision to terminate the operations of the bank, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the Bank, and the other one by the state concerned. Both of them shall appoint the third arbitrator. If all efforts to reach a unanimous agreement fail, the third arbitrator shall be effected by the Presidents of the Supreme Court of Justice of the member countries except that of the state concerned.

The third arbitrator shall be empowered to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

CHAPTER VI

IMMUNITIES, EXEMPTIONS AND PRIVILEGES

Article 27. The Bank, in the exercise of its functions and in accordance with its purpose, shall be accorded in the member states the immunities, exemptions and privileges set forth in this chapter or otherwise granted.

Article 28. Legal actions may be brought against the Bank only in a court of competent jurisdiction in the territory of a member state in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities.

Article 29. Property and assets of the Bank shall wheresoever located and by whomsoever held, be immune from confiscation, seizure, attachment, detention, or any other form of apprehension or expropriation

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Article 24. (Remains the same)

CHAPTER V

INTERPRETATION AND ARBITRATION

Article 25. Any difference with respect to the interpretation or application of the provisions of this Agreement, arising between any member and the Bank or among the member countries, shall be submitted to the Board of Directors for decision.

Member countries especially affected by the difference under consideration shall be entitled to direct before the Board of Directors.

Any member country may demand that the resolution of the Board of Directors in accordance with the preceding paragraph, be submitted to the Board of Governors, whose decision shall be final. Pending decision of the Board of Governors, the Bank may take such action as deemed necessary, on the basis of the decision of the Board of Directors.

Article 26. If a disagreement should arise between the Bank and a country which has ceased to be a member or between the Bank and any member after adoption of a decision to terminate the operations of the Bank, such disagreement shall be submitted to arbitration by a tribunal composed of three arbitrators. One of the arbitrators shall be designated by the Bank and the other by the Country concerned. Both of them shall appoint the third arbitrator in discord. If all efforts to reach an unanimous agreement fail, the third arbitrator shall be designated by the General Secretary of the Organization of American States.

The third arbitrator shall be empowered to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

CHAPTER VI

IMMUNITIES, EXEMPTIONS AND PRIVILEGES

Article 27. (Remains the same)

Article 28. (Remains the same)

Article 29. (Remains the same)

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Property and other assets of the Bank shall be considered public international property and shall be immune from search, requisition, confiscation, expropriation, or any form of seizure or alienation by executive or legislative action.

All property and other assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature, except as may otherwise be provided in this Agreement.

Article 30. The archives of the Bank shall be inviolable and shall be absolutely immune.

Article 31. In the member states the communications of the Bank shall be accorded the same franchises granted to official communications.

Article 32. Personnel of the Bank, regardless of category, shall have the following privileges and immunities.

- a) Immunity from legal administrative or legislative process with respect to acts performed by them in their official capacity, except when the Bank waives this immunity; and
- b) When non-nationals of the member country, the immunities and privileges regarding immigration restrictions, alien registration requirements and military service obligations, and all other facilities as regards exchange provisions and travel regulations as are accorded by that state to personnel of comparable rank of the other member states.

Article 33.

- a) The Bank, its income, property and other assets as well as the operations and transactions it carries out pursuant to this Agreement shall be immune from all taxation and from all customs duties or other charges of a similar nature. The Bank shall also be immune from any obligation relating to the payment, withholding or collection of any tax, contributions or duty;
- b) No tax or lien of any kind shall be levied or any obligation or security issued or guaranteed by the Bank, including any dividend or interest thereon, by whomsoever held; and
- c) No tax shall be levied on salaries and emoluments paid by the Bank to its personnel, regardless of category.

CHAPTER VII

REQUIREMENTS FOR OBTAINING GUARANTEES OR LOANS

Article 34. It is hereby established that members of the Bank may not obtain guarantees of loans from said institution unless they have previously deposited the instrument of ratification of the following international agreements:

General Treaty for Central American Economic Integration, signed on the same date as this Agreement;

Multilateral Treaty for Free Trade and Central American Economic Integration, signed June 10, 1950;

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Article 30. (Remains the same)

Article 31. (Remains the same)

Article 32. (Remains the same)

Article 33. (Remains the same)

CHAPTER VII

REQUIREMENTS FOR OBTAINING GUARANTEES OR LOANS

Article 34. Only individual or juridical, public or private persons established in the central American countries may obtain guarantees or loans from the Bank.

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Article 38. This Agreement shall enter into force on the date of deposit of the third instrument of ratification with the General Secretariat of the Organization of Central American States. For those Central American countries adhering to same subsequently, it shall enter into force on date of deposit of the respective instrument with said Secretariat.

Article 39. In the event that a signatory state should cease to be a member of the Bank, it shall continue to be responsible for direct obligations with the Bank and for obligations with said Bank deriving from loans, credits or guarantees obtained prior to date on which the state ceases to be a member. However, it shall not be responsible for loans, credits or guarantees effected subsequent to the withdrawal as a member.

The rights and obligations of the state which ceases to be a member shall be determined in accordance with the Special Liquidation Balance Sheet which shall be prepared in this regard as of the date on which separation becomes effective.

Article 40. The Bank may offer its facilities for the organization and operation of a clearing house for the Central banks, at their request.

Article 41. The General Secretariat of the Organization of Central American States shall be the depositary of this Agreement and shall forward certified copies of same to the Foreign Office of each of the contracting states, who shall be immediately notified of the deposit of each of the instruments of ratification as well as of any denouncement which might occur. Upon entry into force of the Agreement, the Secretariat shall also forward certified copy thereof to the General Secretariat of the United Nations for purposes of registry set forth in Article 102 of the Charter of the United Nations.

Article 42. The Bank, constituted by virtue of this Agreement, is that institution referred to in Resolutions 84 and 101 of the Committee for Central American Economic Cooperation and, with its establishment, Guatemala, El Salvador and Honduras hereby comply with the provisions regarding the creation of the Fund for Development and Assistance adopted in the Treaty for Economic Association and in the Protocol executed by said countries on June 8, 1960.

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The Board of Governors shall have the responsibility of establishing the rules to be applied in the event of the withdrawal of member countries, with respect to the shares held by the withdrawing country.

In the case of withdrawal by a founding country, the rules should be adopted by the Board of Governors with the concurring vote of all the founding members continuing with the Bank, while forcibly maintaining. In any case, the principal of 51% of the capital in the hands of the founding countries and the same number of Board Members set forth by Article 16 of this Agreement for said founding countries.

Article 38. (Remains the same)

Article 39. (Remains the same)

Article 40. The Bank may offer its facilities for the organization and operation of a Clearing House for the Central Banks of the central american countries, at their request.

Article 41. (Remains the same)

Article 42. (Remains the same)

Article 43. The official language of the Bank is Spanish.

Article 44. The modification of resolutions AG-5/88 and AG-16/88 of the Board of Governors, relative to the order of alternability by nationality of the positions of Executive President and Executive Vice President, may only be made by the unanimous vote of all

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Article 45. That country failing to comply with the obligations set forth in articles 4 and 5 of this Agreement shall be subject to the sanctions, including suspension, stipulated in the regulation issued by the Board of Governors for said effect.

Any suspension shall be decided by the Board of Governors with a three-fourths majority of the total votes of the member countries, which shall include a two-thirds majority of the total number of Governors, which, in turn, in case of the suspension of a founding member country, should include the vote of at least three founding countries and, in the event of suspension of a non-regional member country, of a two-thirds majority of the Governors of non-regional members.

In the event of suspension and for as long as it shall remain in effect, the affected country may not exercise those rights conferred hereunder specified by the regulation referred to in this Article.

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATIONORDINARY CAPITALCOMBINED BALANCE SHEET

(Expressed in thousands of Central American pesos)

June 30, 1992

| <u>ASSETS</u> | Ordinary Fund | Central American Economic Integration Fund | Housing Fund | Social Develop- ment Fund | Central American Economic and Social Deve- lopment Fund | Combined Total |
|---|--------------------|--|--------------------|------------------------------------|---|----------------------|
| Cash | \$CA 1,563 | \$CA 1,977 | \$CA 710 | \$CA 795 | \$CA 5,119 | \$CA 10,164 |
| Time deposits and other investments | 15,844 | 148,997 | 101,631 | 912 | 13,285 | 280,669 |
| Central American Common Market Fund | 47,974 | | | | | 47,974 |
| Loans receivable: | | | | | | |
| Loans approved less amounts collected | 381,648 | 793,094 | 92,922 | 56,983 | 355 | 1,325,002 |
| Undisbursed balance | (64,759) | (191,317) | (28,555) | (17,558) | | (302,189) |
| | 316,889 | 601,777 | 64,367 | 39,425 | 355 | 1,022,813 |
| Allowance for loan losses | (24,560) | | | | | (24,560) |
| Net loans | 292,329 | 601,777 | 64,367 | 39,425 | 355 | 998,253 |
| Compensating loans | | | 90,360 | | | 90,360 |
| Accrued interest and other charges: | | | | | | |
| On loans | 8,112 | 20,969 | 8,771 | 312 | 7 | 38,171 |
| On investments | 2,999 | 2,259 | 2,160 | 30 | 53 | 7,501 |
| Inter fund accounts | (119,459) | 59,625 | 1,210 | 40,165 | 18,459 | |
| Fund receivable from members countries | 5,073 | 35,708 | 1,514 | 2,391 | | 44,686 |
| Property and office equipment - Net | 3,722 | 830 | | | 7 | 4,559 |
| Other assets | 23,821 | 663 | 2,280 | 28 | | 26,792 |
| | <u>\$CA281,978</u> | <u>\$CA872,805</u> | <u>\$CA273,003</u> | <u>\$CA84,058</u> | <u>\$CA37,285</u> | <u>\$CA1,549,129</u> |
| <u>LIABILITIES, CAPITAL AND RESERVES</u> | | | | | | |
| Debt and other obligations payable: | | | | | | |
| Loans payable | \$CA131,598 | \$CA468,423 | \$CA113,852 | \$CA17,123 | | \$CA 730,996 |
| Bonds | 30 | 4,099 | | | | 4,129 |
| Certificates of investment | | | 13,652 | | | 13,652 |
| Certificates of deposit | 11,792 | 38,579 | 4,629 | | | 55,000 |
| | 143,420 | 511,101 | 132,133 | 17,123 | | 803,777 |
| Accrued interest on obligations | 1,297 | 6,609 | 8,921 | 100 | | 16,927 |
| Accounts payable and other liabilities | 8,121 | 6 | 442 | 2 | | 8,571 |
| Compensating loans | | | 98,883 | | | 98,883 |
| | 152,838 | 517,716 | 240,379 | 17,225 | | 928,158 |
| Reserve for loans in foreign currency to the public sector | 25,000 | 85,000 | | | | 110,000 |
| Capital and reserves: | | | | | | |
| Capital | | | | | | |
| Authorized | 2,000,000 | | | | | 2,000,000 |
| Not subscribed | (980,000) | | | | | (980,000) |
| Not called | (745,000) | | | | | (745,000) |
| Called and not received | (22,333) | | | | | (22,333) |
| Interfund capital | (175,750) | 139,750 | 20,000 | 16,000 | | |
| Paid-in capital | 76,917 | 139,750 | 20,000 | 16,000 | | 252,667 |
| Special contribution of capital | 1,835 | | | | 33,150 | 34,985 |
| Donations | 33,819 | 31,737 | | 17,637 | | 83,193 |
| General reserve | (16,232) | 86,039 | 11,311 | 30,025 | 2,960 | 114,103 |
| Retained earnings | 7,801 | 12,563 | 1,313 | 3,171 | 1,175 | 26,023 |
| | 104,140 | 270,089 | 32,624 | 66,833 | 37,285 | 510,971 |
| | <u>\$CA281,978</u> | <u>\$CA872,805</u> | <u>\$CA273,003</u> | <u>\$CA84,058</u> | <u>\$CA37,285</u> | <u>\$CA1,549,129</u> |

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA
AREA DE DESARROLLO SOCIAL Y VIVIENDA
PROGRAMA HABITACIONAL Y MEJORAMIENTO URBANO

INSTITUCIONES PARTICIPANTES ELEGIBLES

| No. | Institución | Dirección | Elegibilidad | |
|------------------|---|--|--------------|----------|
| | | | No. | Fecha |
| GUATEMALA | | | | |
| 1 | Crédito Hipotecario Nacional | 7a. Ave. No.10-35, Zona 1 | DI-106/64 | 13/11/64 |
| 2 | Banco de Occidente, S. A. | Apdo. Postal 223 | DI-107/64 | 13/11/64 |
| 3 | Banco Granaí & Townson, S. A. | Apdo. Postal 654 | DI-108/64 | 13/11/64 |
| 4 | Cfa de Seguros Cruz Azul | Apdo. Postal 207 C.G. | DI-51/65 | 01/04/65 |
| 5 | Comp.Aseguradora Suizo Am. S.A. | Ciudad Guatemala | DI-114/65 | 20/10/65 |
| 6 | Banco de los Trabajadores | 8a.Ave. No.9-41, Zona 1CG | DI-12/70 | 10/03/70 |
| 7 | Banco Inmobiliario, S. A. | 8a.Ave. No.10-57, Zona 1CG | DI-108/70 | 03/09/70 |
| 8 | Banco del Agro, S. A. | Apdo. Postal 1443, CG | DI-109/70 | 01/09/70 |
| 9 | Banco Nac.de la Vivienda (BANVI) | 6a.Ave. No.1-22, Zona 4CG | DI-29/76 | 11/03/76 |
| 10 | Federación Nacional de Cooperativas (FENACOVI) | Edificio Tikal 3er. nivel 6a. Calle No.4-17, Zona 1CG Teléfono 53-3171 | DI-136/79 | 26/09/79 |
| 11 | Banco del Quetzal, S. A. | 7a.Ave. No.6-16, Zona 9 Edificio Plaza, 6-26 Teléfono 31-8333 | IP-01/88 | 03/11/88 |
| 12 | Instituto de Fomento de Hipotecas Aseguradas (FHA) | 6a. Ave. 0-60, Zona 4 Gran Centro Comercial Teléfono 51-6555 y 51-5128 | IP-04/89 | 21/08/89 |
| 13 | Banco de Exportación, S. A. (BANEX) | Ave. Reforma 11-49, Zona 10 Teléfono 37-3861 y 34-6919 | -o- | 09/05/90 |
| 14 | Cooperativa de Ahorro y Crédito Integral, San José Obrero (COOAJJO) | 4a.Ave. 9-01, Zona 1 Esquipulas, Chiquimula. Tel. 0-431185 y 0-431302 | -o- | 11/01/91 |
| 15 | Banco de la Construcción, S.A. (CONSTRUBANCO) | 12 Calle 4-17, Zona 1 Teléfono 53-9827 | -o- | 21/06/91 |

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AREA DE DESARROLLO SOCIAL Y VIVIENDA
PROGRAMA HABITACIONAL Y MEJORAMIENTO URBANO**

INSTITUCIONES PARTICIPANTES ELEGIBLES

| No. | Institución | Dirección | Elegibilidad | |
|--------------------|--|--|--------------|----------|
| | | | No. | Fecha |
| EL SALVADOR | | | | |
| 1 | Banco Hipotecario | San Salvador | DI-96/64 | 06/10/64 |
| 2 | Cía de Seguros e Inversiones | San Salvador | DI-52/65 | 01/04/65 |
| 3 | Financiera Nac. de la Vivienda | 49 Ave. Sur No. 820 S.S. | DI-74/65 | 03/06/65 |
| 4 | ATLACATL, S. A. | Apdo. Postal No.1100 S.S. | DI-2/71 | 14/01/71 |
| 5 | Construc. Ahorro, S.A. (CASA) | 75 Ave. Sur No. 126 Teléfono 78-9121 | DI-34/71 | 19/03/71 |
| 6 | Crédito Inmobiliario, S. A. (CREDISA) | Alameda Juan Pablo II Teléfono 23-4111 | DI-51/71 | 20/04/71 |
| 7 | Fondo Social para la Vivienda (FSV) | 25a.Ave. Norte y Diagonal Principal No. 1338 Apdo. Postal No.2179 S.S. Teléfono 26-3011 | DI-169/79 | 11/12/79 |

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AREA DE DESARROLLO SOCIAL Y VIVIENDA
PROGRAMA HABITACIONAL Y MEJORAMIENTO URBANO**

INSTITUCIONES PARTICIPANTES ELEGIBLES

| No. | Institución | Dirección | Elegibilidad | |
|-----------------|---|---|-----------------------|----------------------|
| | | | No. | Fecha |
| HONDURAS | | | | |
| 1 | El Ahorro Hondureño Compañía de Seguros, S. A. | 5a. Calle, 7-8a. Ave. Colón No.711, Tegucigalpa. | DI-68/64 | 30/06/64 |
| 2 | Banco Atlántida, S. A. | 7a. Ave., 5ta. Calle, Teg. | DI-69/64 DI-210/74 | 30/06/64 20/12/74 |
| 3 | Instituto de la Vivienda (INVA) | Apdo. Postal No.667, Teg. | DI-7/66 | 18/01/66 |
| 4 | Banco Sogerín, S. A. | Apdo. Postal No.320, Teg. | DI-58/72 | 21/12/72 |
| 5 | Federación Hondureña de Coop. de Vivienda (FEHCOVIL) | Apdo. Postal No.853, Teg. | DI-13/70 | 10/03/70 |
| 6 | La Vivienda, S.A. A.P. | Apdo. Postal No.90-C, Teg. | DI-110/70 | 03/09/70 |
| 7 | Banco de los Trabajadores | Apdo. Postal No.139-C, Teg. | DI-111/70 | 03/09/70 |
| 8 | La Vivienda de Sula, S. A. | Apdo. Postal No.614, S.P.S. | DI-2/72 | 13/01/72 |
| 9 | FINAVI | (Cerró operaciones) | DI-90/78 | 28/06/78 |
| 10 | La Constancia, S. A. | Apdo. Postal No.1281, S.P.S. | DI-91/78 | 28/06/78 |
| 11 | Compañía de Seguros Interamericana, S. A. | Apdo. Postal No.593, Teg. | DI-12/66 | 18/01/66 |
| 12 | Casa Propia, S. A. | Apdo. Postal No.1129, Teg. | DI-28/72 | 10/03/72 |
| 13 | FUNDVIMINH | (Cerró operaciones) | DI-125/81 | 21/11/81 |
| 14 | Banco Central de Honduras | Apdo. Postal No.3165 | IP-03/89 | 13/02/89 |

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 AREA DE DESARROLLO SOCIAL Y VIVIENDA
 PROGRAMA HABITACIONAL Y MEJORAMIENTO URBANO**

INSTITUCIONES PARTICIPANTES ELEGIBLES

| No. | Institución | Dirección | Elegibilidad | |
|------------------|--|---|--------------|----------|
| | | | No. | Fecha |
| NICARAGUA | | | | |
| 1 | Instituto Nicaragüense de la Vivienda (INVI) | (Cerró operaciones) | DI-95/65 | 26/08/65 |
| 2 | Inmobiliaria de A.P., S.A. | (Absorbida por Bco. Inmob.) | DI-125/80 | 10/02/81 |
| 3 | Banco Inmobiliario de Nic. S.A. | | DI-11/81 | 10/02/81 |
| 4 | Banco Central de Nicaragua | Centro Financiero del Banco Central de Nicaragua en el Siete Sur Tel. 50-460 y 52-051 Telefax 52-272 | | 28/02/91 |

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AREA DE DESARROLLO SOCIAL Y VIVIENDA
PROGRAMA HABITACIONAL Y MEJORAMIENTO URBANO**

INSTITUCIONES PARTICIPANTES ELEGIBLES

| No. | Institución | Dirección | Elegibilidad | |
|-------------------|---|--|--------------|----------|
| | | | No. | Fecha |
| COSTA RICA | | | | |
| 1 | Banco Nacional de Costa Rica | San José | DI-78/65 | 29/06/65 |
| 2 | Banco Anglo Costarricense | Apdo. No. 10038 S. J. | DI-86/65 | 16/07/65 |
| 3 | Bco. Crédito Agrícola Cartago | Apdo. Postal No. 297 Cartago | DI-5/66 | 06/01/66 |
| 4 | Instituto de la Vivienda (INVU) | Apdo. Postal No. 2534, S.J. | DI-30/65 | 26/02/65 |
| 5 | La Vivienda Mutua, A. P. | Apdo. Postal 7-3420, S.J. | DI-64/79 | 25/04/79 |
| 6 | Banco Popular y Desarrollo Comunal | Apdo. Postal 10190, S.J. Teléfono 22-8122 | DI-124/81 | 22/10/81 |
| 7 | Banco Hipotecario de la Vivienda (BANHVI) | Apdo. Postal 160-1002 San José | IP-02/89 | 27/01/89 |

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Annex D

Financial Analysis of CABEI

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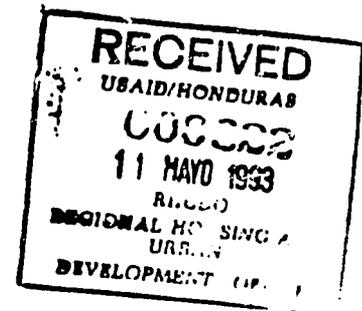
Sr. Ronald Carlson, Sub-Director
RHUDO/CA
USAID/Guatemala

Estimado Ron:

Te acompaño un borrador revisado del informe sobre CABEI. Igualmente, encontraras los anexos a los que me refiero en el informe. Este informe contiene mucho material, lo comprendo, pero no encuentro otra forma de presentarlo. Creo que los anexos te ayudaran mucho. Cualquier comentario, te lo agradecere para incorporarlo y tener el informe final.

Saludos,


Eliecer Fernandez



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EXECUTIVE SUMMARY

Purpose of Evaluation (RHUDO/CA)

Objectives of technical assistance are:

- O To analyze financial condition of CABEI so AID may decide whether to authorize a new Housing Guaranty program.
- O To design mechanism(s) for delivering capital assistance to municipalities via CABEI in conjunction with the LOGROS project.

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- To prepare institutional analyses, if time permits, required to amend the LOGROS Project Paper to add the HG component.

TASKS

1.- Conduct financial analysis of CABEI, using existing audit reports and recommendations, other secondary sources and primary data collected at CABEI. The task should include assessment of AID's risk in guaranteeing the dollar loan to CABEI (current working level is US\$ 20 million) and recommendation of special loan conditions which could mitigate risk.

2.- Report on findings and recommend whether to proceed to further project development.

Summary of observations and conclusions

The Central American Bank of Economic Integration (CABEI) endured its most critical financial period during 1989 and 1990 when member countries (borrowers) refused to honor financial obligations due to the bank's policy of restricting disbursements unless all sub-borrowers in the country were current on debt service with the bank.

A new administration reversed position and agreed with each country to open disbursements if payment of arrears was scheduled which resulted in a reasonable positive cash flow for the country. CABEI's disbursements were directed to specific projects; countries' payments were applied to reduce arrears. This is explained in more detail in the body of the report; however, the new approach resulted in positive results for the bank and countries.

Recuperations have resulted in CABEI's compliance with its commitments while holding short- and medium-term investments of CA\$ 355 million as of February 28, 1993, sufficient to cover future disbursements against committed funds for projects in progress.

The bank's financial position as a Development bank, measured using Analysis of Financial Ratios, and CAMEL (introduced by AID and used to some extent at CABEI), has significantly improved. New Out-of-Region Members' capital contributions of \$ 51.9 million and \$ 256.3 million for five Region Members have contributed to expansion and improvement.

The bank's liquidity (perhaps excessive), escalation of profits due to recuperation of interest on non-accrual loans, and Allowance for Loan Losses conservatively maintained, compared with non-performing portfolio and total portfolio indicates positive performance.

These results, when evaluating CABEI, indicate the bank is in its best position since its establishment in 1960.

EximBank of Japan and IDB are satisfied with the bank's performance.

It appears the new administration has been able to reverse the bank's past difficult position.

Recommendations

Based on analysis of CABEI's financial condition indicating improvement, a favorable financial climate and introduction of new policies by its management, I recommend approval of new financing of \$ 10 million (existing authorization of \$ 20 million). As indicated in Observations, primary areas should be assessed from Bank/AID perspectives.

I.- Principal Observations

A.- Financial Statements Analysis

o Bank's Comparative Balance Sheet-6/30/92, 91, 90 & 89

Analysis of the Balance Sheet (Schedules 1/1, 1/3, 1/5) is simpler if Highlights of Financial Ratios (Schedule 2) are analyzed concurrently.

The bank's financial position improved significantly between 6/1990 and 6/1992; improvement is greater if comparison is extended to February 28, 1993.

Key Balance Sheet Indicators (millions of CA\$)

| | 2/28/93(1) | 6/30/92 | 6/30/90 |
|-------------------|------------|--------------|--------------|
| Total Assets CA\$ | 1,649.3 | CA\$ 1,549.1 | CA\$ 1,406.6 |
| Variance | 6% | 10% | |
| Loan Portfolio | 1,040.4 | 1,022.8 | 790.9 |
| Variance | 2% | 29% | |
| Investments | 342.5 | 280.7 | 287.2 |
| Variance | 22% | -2% | |
| Total Borrowings | 842.5 | 730.9 | 663.3 |
| Variance | 15% | 10% | |
| Net Worth | 585.2 | 510.9 | 419.0 |
| Variance | 15% | 22% | |

(1) 8 months (unaudited)

Primary reasons for improvement of financial condition include:

- Implementation of Bank's policy to disburse to member countries for approved projects based on work-in-progress status, provided member

country pays arrears on previous loans. A portion of payment in arrears may be in bearer bonds which may, for cash flow needs, be discounted in the market before maturity date.

- Recuperation of arrears resulting from opening of disbursements. Member countries discontinued debt service payments in 1990 resulting in high percentage of non-performing loans and non-accrual of interest (if in arrears over 180 days). Interest collected for previous financial years is considered present financial years' income, in accordance with generally accepted accounting practices. The bank expects recuperations and related profits to normalize by 1994 when all member countries would be current on debt service.

- Establishment of Allowance for Loan Losses at a level higher than required. However, if adjusted in 1994, ratio of Allowance for Loan Losses to Loan Portfolio will yield more accurate financial and profit position.

o Bank's Comparative Income Statement and Retained Earnings
2/93, 6/30/92, 91, 90 & 89 (Millions of CAS)

(Schedules 1/2, 1/4, 1/6 15)

Key Income Statement and Retained Earnings Indicators
 (3 periods selected)

| | 2/28/93(1) | 6/30/92 | 6/30/90 |
|-----------------|------------|---------|---------|
| Interest Earned | | | |
| Portfolio | 80.9 | 74.4 | 49.4 |
| Variance | 9% | 51% | |
| Investments | 18.0 | 24.8 | 32.0 |
| Variance | -27% | -23% | |

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|------------------------|------|------|------|
| Gross Financial | | | |
| Income | 98.9 | 99.6 | 83.2 |
| Variance | -1% | 20% | |
| Interest Paid | 40.1 | 59.3 | 64.7 |
| Variance | -32% | -8% | |
| Administrative | | | |
| Expenses | 9.4 | 12.9 | 16.3 |
| Variance | -27% | -21% | |
| Net Profit | 50.4 | 26.0 | -2.5 |
| Variance | 94% | 114% | |

(1) 8 months (unaudited)

Annualized 2/28/93

| | | | |
|------------------------|-------|------|------|
| Interest Earned | | | |
| Portfolio | 121.3 | 74.4 | 49.4 |
| Variance | 63% | 51% | |
| Investments | 27.0 | 24.8 | 32.0 |
| Variance | 9% | -23% | |
| Gross Financial | | | |
| Income | 148.2 | 99.6 | 83.2 |
| Variance | 49% | 20% | |
| Interest Paid | 60.1 | 59.3 | 64.7 |
| Variance | 1% | -8% | |
| Administrative | | | |
| Expenses | 14.1 | 12.9 | 16.3 |
| Variance | 9% | -21% | |
| Net Profit (2) | 75.6 | 26.0 | -2.5 |
| Variance | 191% | 114% | |

(2) The bank has projected CA\$ 33 Million for the year ending
June 30, 1993

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Primary reason for improvement of financial results is recuperation of arrears in 1991 and 1992 and subsequent reinvestment in portfolio and investments at short- and medium-term with minimal risk. The latter produces reasonable return and in certain instances gains with exchange fluctuations. (See Short- and Medium-Term Investments Section.)

As previously indicated this should normalize when member countries are current on debt service. The bank however, should modify as soon as practical, direction of present investment levels; otherwise, the objectives of the bank's creation will be in question.

o Capital Structure in CA\$

(Schedules 3, 4)

The Constitutive Agreement of CABEI dated December 13, 1960 modified by Protocol signed by Central American Member States in Managua, Nicaragua September 2, 1989, Chapter II, Article 4 c) establishes the bank's authorized capital shall be \$2,000,000,000 comprised of 200,000 shares each with nominal value of \$ 10,000.

Schedules 3 & 4 depict the present subscribed and paid-in capital structure. All member countries have complied with capital contribution exceeding CA\$ 1,333,333 to be adjusted by the bank next time additional capital contribution takes place.

Mexico, as an Outside-of-Region Member, was to contribute US\$ 30,625,000, or 25% of US\$ 122,500,000 to be contributed (49%) by outside-of-Region Members. However, Mexico has contributed only US\$ 14,400,000 resulting in a US\$ 16,225,000, or 13.25% still outstanding.

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The bank is evaluating increasing authorized capital to US\$ 3,000,000,000 to permit subscribing capital by other outside-of-Region Countries.

o Allowance for Loan Losses and Analysis of Non-performing loans

(Schedules 5 & 6)

The Board of Directors of CABEI, at its meeting November 10, 1987, resolved: (Schedule 5)

- 1.- Interest will not be accrued on loans in arrears 180 days or more and any accrued interest will be reversed and the Allowance for Loan Losses will be equally adjusted.
- 2.- Interest and fees will be registered as income when collected, regardless of due dates.

Schedule 6 depicts analysis of loan portfolio and interest receivable as of June 30, 1992, 1991, 1990 and 1989 (2/28/93 partially).

CABEI classifies States' Sovereign Debts as Public Debt; therefore, an Allowance for Loan Losses was established for CA\$ 110 million without regard to individual country. This is why Allowance for Loan Losses is not classified as reduction of Loans Receivable but as a special Liability.

CABEI's Board of Directors after thorough analysis resolved on June 13, 1992 an Allowance for Loan Losses (150% of guaranties appraised value less actual loan balances) for the Private Sector of CA\$ 24.5 million was reasonable and reflected an acceptable allowance based on status of each loan in arrears. In addition, a provision for decline in value to be applied to assets repossessed by CABEI due to non-payment of loans receivable (foreclosures) was established for CA\$ 12.7 million and deducted from other Assets.

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Since arrears decreased significantly, and Allowance for Loan Losses remained level, ratio of Allowance for Loan Losses over Portfolio (Public and Private Sectors) in arrears is elevated: (Schedule 6)

| | 2/28/93 | 6/30/92 | 6/30/91 | 6/30/90 | 6/30/89 |
|----------------|---------|---------|---------|---------|---------|
| Private Sector | 242% | 206% | 98% | 93% | 98% |
| Public Sector | 193% | 129%(a) | 157% | 214% | 170% |

(a) Schedule 6

Reversal of Allowance for Loan Losses is anticipated because CABEI conservatively and appropriately does not anticipate gains and prefers to wait until all countries are current on payments.

The trend of Loan Principal in arrears (30 days and more) in thousands of CA\$ follows: (Schedules 7, 8, 9, 10, 10/1, 10/2)

| | 2/28/93 | 1/31/93 | 12/31/92 | 6/30/92 |
|----------------|----------|----------|----------|----------|
| Public Sector | 57,007.7 | 81,146.9 | 78,240.5 | 84,982.1 |
| Variance | -30% | 4% | -8% | |
| Private Sector | 10,129.1 | 12,592.1 | 12,608.2 | 11,874.1 |
| Variance | -20% | -.10% | 6% | |
| Total | 67,136.8 | 93,739.0 | 90,848.7 | 96,856.2 |
| Variance | -28% | 3% | -6% | |

o Short and Medium Term Investments (Assets/Liabilities)

(Schedules 11 & 12)

CABEI's portfolio includes Short and Medium Term Investments of CA\$ 355 million as of February 28, 1993.

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A large percentage of these investments represent capital contribution tied to specific projects and recuperations of portfolio - current and in arrears - not re-invested in projects subject to program's cash requirements.

The status of bank's commitments follows: (2/28/93)

| | '000 |
|---|------------------|
| Total loan amount approved | CA\$ 2,412,563 |
| Total loan amount not contracted | <u>131,637</u> |
| | |
| Total loan amount contracted | 2,280,926 |
| Total disbursements | <u>1,845,235</u> |
| | |
| Total amount to be disbursed per disbursement calendar | CA\$ 435,691 |

The amount in Investments is justified to some extent, if we consider funds required for bank's commitments. Asset required liquidity depends on future cash needs versus market conditions and/or maturities.

Investments and Liabilities in varying currencies generate not only interest income and expense but increases or decreases due to currency exchange fluctuations. Schedule 12 depicts a net gain of CA\$ 453,434 in February 1993. Asset gains of CA\$11.0 million and liability losses of CA\$ 10.6 million. Gains are re-invested if sufficient cash is available to cover disbursement commitments; otherwise, these investment instruments may be redeemed at discount to generate cash resources.

o Highlights of Financial Ratios

(Schedule 2)

A financial ratio should be computed only if relationship between accounts or categories has significance. For a given year, it should be compared to results of prior years, industry norms and competing institutions.

In the case of CABEI, I compared the most recent year (1992) with the two previous years.

Schedule 2 depicts 16 financial ratios, all significant and inter-related; however, some could be disregarded to facilitate analysis. These ratios are grouped as Balance Sheet Ratios, Income Statement Ratios and Inter-Statement Ratios. This presentation is different than CAMEL to be covered in the next section.

All Balance Sheet ratios except indebtedness (#6) improved between 6/30/90 and 6/30/92. This ratio could be improved since the bank is in a strong position to increase its indebtedness if new financial resources (borrowings) are invested in appropriate financial activity as a Development Bank and recovered under acceptable terms.

To increase indebtedness, the bank must maintain an analysis of present asset and liability composition and terms; otherwise, mis-matching would result in financial distortions and eventually, serious financial difficulties.

All Income Statement ratios have improved and favorably impacted Balance Sheet ratios.

Regarding Inter-statement ratios, #11 has improved and reflects on the margin between ratios 11, 12 and 13. Note that ratio 11 considers only interest due and collected (any interest overdue 180 days and more is not considered); therefore, the margin will improve during 1993 and 1994 when most borrowers are expected to be current on debt service.

Analysis of these ratios (11, 12 & 13) would be more meaningful if interest were considered regardless of payment performance and an allowance for interest losses were adjusted for loans 180 days and more in arrears; however, this would be outside of industry and American Institute of Certified Public Accountants (AICPA) guidelines.(Industry Audit Guide-Audits of Banks

with conforming changes as of May 1, 1992, Chapter 7, Section 7.37)

o CAMEL- Rating System to analyze financial condition

(Schedule 13)

CAMEL stands for:

Capital Adequacy

Asset Quality

Management

Earnings (Profitability)

Liquidity

This rating system applies primarily to Commercial Banks; however, it can be applied to Development Banks if considered in conjunction with previous highlights of Financial ratios.

In 1978 the Office of the Comptroller of the Currency, the Federal Reserve and the Federal Deposit Insurance Corporation adopted the CAMEL method to rate banks. Of the five, only the Management rating is determined subjectively.

I have analyzed, using CAMEL methodology, CABEI's financial condition June 30, 1990, 1991 and 1992. The bank endured its most critical financial period during the year ended June 30, 1990 when member countries (borrowers) refused to honor financial obligations due to the bank's policy of restricting disbursements unless all sub-borrowers in the country were current on debt service with the bank.

CAMEL methodology requiring comparison of the bank's financial condition with other Development Banks in the region is not currently feasible. Given this caveat, following is analysis of the bank's condition employing the methodology:

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o Capital Adequacy

I consider this ratio favorable in 1992 and 1991 and if conditions remain favorable, it should substantially improve by 1994 when paid-in capital increases from CA\$ 252.7M to CA\$ 500M per Constitutive Agreement dated September 2, 1989.

The Capital Ratio under Capital Convergence measure to be implemented in year-end 1992 and to be applied to 1993, is not employed since at this time since risk factors for Development Banks have not yet been established.

o Asset Quality

The non-performing-loans condition (180 days and more) in 1990 was critical; however, this has significantly improved beginning 1991 through 1992 and for the 8 months ended February 28, 1993.

The bank's Allowance for Loan Losses is exceptionally conservative and will probably be adjusted by June 1994. The benchmark for Development Banks is 20%; any greater may indicate difficult financial position; however, this is not CABEI's case. This allowance will not be adjusted in 1993 due to profit increases in 1992, 2/93 and projected through 6/93; it will be adjusted when all countries are current on debt service.

o Management

It is difficult to determine a rating for Management as it is subjective. However, since it directly impacts results of the other four factors, I would rate this as Satisfactory. By 1993 or 1994 this factor would most likely rated Strong.

o Earnings (Profitability)

This factor improved in 1991 and 1992 due primarily to recuperation of arrears and financial returns on short and medium term investments. It will further improve when all arrears are collected and the Allowance for Loan Losses is adjusted to reflect a more appropriate allowance or provision. Net profit projected to June 30, 1993 should improve this ratio; however, CABEI remains under-leveraged. The leverage structure should be assessed by CABEI's officials considering potential 1993 and 1994 projects, capital contributions and additional borrowing.

o Liquidity

CABEI should analyze this factor to accommodate Portfolio and Investments since Liquidity Ratio alone does not indicate sufficiency of liquidity. Analysis indicates high liquidity should be assessed by the bank considering inflows from Portfolio and Investments, outflows for debt service and project funds requirements through 1998-1999.

In general, the bank's ratings using CAMEL factors appear acceptable; however, they should be carefully analyzed by CABEI's officials in light of financial statements as of February 28 1993. These statements indicate financial position has significantly changed (Schedules 14, 15 & 16) depicting a profit of CA\$ 50.4 million in eight months, CA\$ 36.1 of which corresponds to collected prior-year unaccrued interest and commissions. Note that the Financial Programming Section estimates only CA\$ 33 million net profit for year ending June 30, 1993; its manager does not consider it appropriate to revise projections.

Recuperations of principal and interest earned will alter the bank's position and financial ratios driving changes to financial structure.

o Bank's Housing Fund

o Comparative Balance Sheet-6/30/92, 91 & 90

(Schedules 17, 19, 21)

Housing Fund Loans Payable 004A01, B01 and 006A01 have not been recorded in the Housing Fund Balance Sheet since contracted in 1978 and 1979, respectively. The Accounting Division interpreted that use of funds by the Social Development Fund had to be accounted for as a liability of this Fund rather than the Housing Fund and, therefore, reflecting the Interfund account as an asset.

| Loan Number | Amount | Loan Balance as 6/30/92 |
|---------------|--------------|----------------------------|
| 596-HG-004A01 | \$ 4,000,000 | \$ 3,900,000 |
| 596-HG-004B01 | 2,000,000 | 1,950,000 |
| 596-HG-006A01 | 10,000,000 | 10,000,000 (1) |

(1) Portion not accounted is \$ 3,500,000 which was classified in the Social Development Fund

The adjustment to be made through the "Social Development Fund" Interfund account is \$ 9,500,000. Debt service and interest should be charged to the Social Development Fund resulting in an increase to the Housing Fund's liability of \$ 9,350,000.

Financing granted to Private Sector (Assets) through the Central Banks is accounted for in CA\$ when the loan is disbursed; the second entry, the sub-loan to the Private Sector is expressed in CA\$ and made in local currency. Since program inception, the Housing Fund Balance Sheet has depicted the loan in local currency expressed in CA\$ at historical value rather than adjusted value based on exchange rate at financial year closing.

This results in overstatement of assets and liabilities (Compensating Loans). This will be adjusted as of June 30, 1993. The balance sheet would not be affected since assets and liabilities are affected equally; however, it will be possible to reconcile Fund Resources with Liquid Assets and Portfolio.

o Comparative Income Statement and Retained Earnings .

6/30/92, 91 and 90

(Schedules 18, 20, 22)

Fund financial transactions are not generating sufficient income to the Bank.

Net financial income is minimal due to high cost of liabilities not fully recovered from income-generating assets in some instances and negative spread on Housing Guaranty Loan 008. Proceeds from 008 are deposited in escrow with Riggs National Bank at a weighted 3% interest rate while cost is approximately 6% resulting in a negative 3% (\$ 500,000 annual) spread. Total loss recorded by the bank on these proceeds, is approximately \$ 2.8 million as of 12/31/92.

In 1990, the bank adjusted Administrative Expenses CA\$ 3.9 million to reflect exchange fluctuations in compensating loans (Asset) to El Salvador and Guatemala. Fluctuations in local currency of capitalized interest earnings in excess of Borrowers' loan payable interest paid on each year and reported in the financial statements at historical exchange rate were adjusted.

Two HG loans were refinanced at 12/31/92 resulting in reduced negative impact of high interest rates. The effect will be more noticeable when loans which may be refinanced are refinanced during 1993 and 1994.

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o Highlights of Financial Ratios

(Schedule 23)

A review of the Housing Fund financial ratios indicates:

- Reduction in housing-related financing and investments - Ratios 1, 2, 4 & 5
- Debt-to-Equity Ratio (Ratio 6) would be acceptable except for results of ratios 7 through 12
- Ratios 13, 14 and 15 confirm the remaining ratios
- Fund transactions should be assessed by the bank and structured to improve the Fund's financial condition

Primary reasons for inadequate performance of the Housing Fund are:

- Non-investment of major resources (roll-over funds) in diversified housing financing-related activities
- High financial cost of certain liabilities not covered by income-generating assets, e.g., HG 008.

In addition, if results at February 28, 1993 are annualized, net profit may be CA\$ 1.1 million, CA\$ 200,000 less than at 6/30/92. On June 30, 1993 the bank will adjust Loans Receivable and Payable to local currency expressed in CA\$. Financial years 6/30/93 and 6/30/92 could then be properly compared.

B.- Bank's Financial Projections-6/30/93, 94,95,96 & 97

(Schedules 24, 24/1)

The Financial Programming Section periodically prepares financial projections for the bank and separately for the Housing Fund. At our request, the Bank provided financial projections to medium term (1992/1993 to 1996/1997). Three scenarios include

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- 1.- Best case (Not realistic)
- 2.- Satisfactory case (Most likely)
- 3.- Unsatisfactory case (Not currently realistic)

I have selected the second case since it reflects slight improvement in the bank's financial position. Assumptions (Schedule 24) appear reasonable and acceptable when evaluating projections based on 1990-1992 trends. Critical ratios assessed:

| | 6/30/93 | 6/30/94 | 6/30/95 | 6/30/96 | 6/30/97 |
|--------------------------|---------|---------|---------|---------|---------|
| Cash+Investments/ | | | | | |
| Total Assets | 28% | 27% | 22% | 20% | 18% |
| Portfolio/Total Assets | 67% | 67% | 74% | 76% | 78% |
| Debt/Equity | 182% | 180% | 189% | 194% | 199% |
| | 1.82:1 | 1.80:1 | 1.89:1 | 1.94:1 | 1.99:1 |
| Interest Paid/ | | | | | |
| Interest Earned | 52% | 52% | 54% | 56% | 58% |
| Return on Equity | 6% | 6% | 6% | 6% | 6% |
| Return on Assets | 2% | 2% | 2% | 2% | 2% |

Ratios under this scenario appear acceptable for a bank in financial recovery. The Debt/Equity ratio could be improved by increasing indebtedness matched with income generating assets, excluding as possible Short and Medium Term Investments.

C.- Bank's Housing Fund Financial Projections-6/30/93,94,95 & 96

(Schedule 25) (Schedules 26 & 27 for reference purposes only)

The projection does not consider \$15 million escrowed with Riggs National Bank. Compensating Loans (local currency expressed in CA\$) liabilities have been adjusted to reflect actual value in CA\$ at closing.

The projection assumes only investment of positive cash balances at short and medium term; therefore results of new portfolio are not depicted. I

have requested the Section of Financial Programming to prepare a projection through final maturity of borrowings to determine whether inflow from income-generating assets will cover debt service. This should be prepared considering terms of investment in portfolio and repayment of borrowings. Outflows should be discounted at the weighted interest rate of portfolio to determine present value and compare it with actual value. If positive the portfolio will cover debt service otherwise corrective action should be taken.

II.- ISSUES TO CONSIDER

o A.I.D. guaranty of new \$ 10 million loan to CABEI

Date of Authorization: 9/30/86 \$ 15 million
7/20/88 5 million

CABEI's financial position has improved considerably as reflected in financial ratios, cash flow statements, liquid asset position and significant reduction of non-performing loan value.

The Bank should not experience difficulty in meeting its debt service given continuing favorable financial conditions in the region. New capital infusion is critical to CABEI's financial recovery.

A new \$ 10 million loan to CABEI with reasonable restrictions regarding investment should not negatively affect the bank's position. However, if new resources yield negative returns or if exchange losses are not mitigated, this loan would adversely impact the bank. The bank must recover these resources in currencies without convertibility risk or in US\$ as obtained.

Also, we should not expect the bank to contract a loan in US\$ (liability) and invest in any activity other than loan portfolio by making loans to countries in local currencies without some maintenance-of-value mechanism

(asset). This mechanism must be implemented in accordance with each country member's (borrower) financial policy and sub-borrowers financial mechanisms, to guaranty the bank's full portfolio recovery in constant value currency (adjusted by a reliable index, e.g., construction cost index).

Other issues to consider are discussed in the Management section of this evaluation.

o Loan conditions recommended to A.I.D. to mitigate financial risk

A.I.D. should approve a new loan to CABEI only if the new loan will positively impact the bank's financial position.

Before approval AID should assess options to minimize financial risk, if financing is to be provided to municipalities in local currency without Central Bank's guaranties. Financial institutions in host countries will most likely manage the funds (Trust) for CABEI and grant acceptable guaranty to CABEI; however, related costs may deserve in-depth evaluation.

If CABEI invests in municipalities' projects in local currency carrying some maintenance-of-value mechanism, it most likely would submit an investment plan to satisfy AID debt service carries acceptable financial risk considering CABEI's full guaranty as a regional banking institution.

Under CABEI's existing financial position, a \$20 million, 30-year, fixed rate (7.20%app.) or floating rate (4.5%app.) appears within A.I.D.'s risk tolerance. An increase of \$ 20 million to the existing contingent liability of \$ 118 million should not significantly affect AID's position. Of course, risk factor assigned to CABEI by EximBank and the Federal Reserve should be considered.

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III.- RECOMMENDATIONS

Based on analysis of CABEI's financial condition indicating improvement, a favorable financial climate and introduction of new policies by its management, I recommend new financing of \$ 10 million be approved. As indicated in Observations, primary areas should be assessed from Bank/AID perspectives.

CABEI should encounter no leverage difficulty while increasing borrowings; however, terms of borrowings and subsequent investment are most critical factors to the final decision. This new loan should not produce similar negative impact as HG 008.

Secondly, this new loan must be structured so the bank would not carry any potential mis-matching between investment of resources in local currencies and repayment to the source of funds (lender).

Thirdly, if the Trust mechanism is feasible, participating banks must be evaluated by AID and CABEI prior to loan contracting. Further, participating municipalities must be evaluated to ascertain they are financially sound especially if revenue generating municipal bonds or central government budget allocations are a component used to develop municipalities' projects.

Finally, technical assistance regarding providing financing for municipal infrastructure must be provided to CABEI, sub-borrowers and other participating institution(s) to obtain successful results.

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

ORDINARY CAPITAL

BALANCE SHEETS

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

| <u>ASSETS</u> | <u>June 30,</u> <u>1992</u> | <u>1991</u> |
|--|--------------------------------|---------------------|
| Cash (Note 2) | \$CA 10,164 | \$CA 48,740 |
| Time deposits and other investments (Note 3) | 280,669 | 217,129 |
| Central American Common Market Fund | 47,974 | 47,974 |
| Loans receivable (Note 4): | | |
| Loans approved less amounts collected | 1,325,002 | 1,323,811 |
| Undisbursed balance | (302,189) | (352,612) |
| | 1,022,813 | 971,199 |
| Allowance for loan losses | (24,560) | (23,752) |
| Net loans | 998,253 | 947,447 |
| Compensating loans (Note 5) | 90,360 | 106,148 |
| Accrued interest and other charges: | | |
| On loans (Note 4) | 38,171 | 46,996 |
| On investments | 7,501 | 9,954 |
| Funds receivable from member countries (Note 6) | 44,686 | 42,027 |
| Property and office equipment - Net | 4,559 | 4,935 |
| Other assets (Note 7) | 26,792 | 17,834 |
| | <u>SCA1,549,129</u> | <u>SCA1,489,184</u> |
| <u>LIABILITIES, CAPITAL AND RESERVES</u> | | |
| Debt and other obligations payable (Note 8): | | |
| Loans payable | SCA 730,996 | SCA 721,535 |
| Bonds | 4,129 | 7,590 |
| Certificates of investment | 13,652 | 10,799 |
| Certificates of deposit | 55,000 | 54,534 |
| | 803,777 | 794,458 |
| Accrued interest on obligations | 16,927 | 18,431 |
| Accounts payable and other liabilities | 8,571 | 5,513 |
| Compensating loans (Note 5) | 98,883 | 106,148 |
| | 928,158 | 924,550 |
| Reserve for loans in foreign currency to the public sector (Note 1) | 110,000 | 110,000 |
| Capital and reserves (Note 9): | | |
| Capital | | |
| Authorized | 2,000,000 | 600,000 |
| Not subscribed | (980,000) | |
| Callable portion | (745,000) | (325,000) |
| Called and not received | (22,333) | (28,000) |
| Paid-in capital | 252,667 | 247,000 |
| Special contribution of capital | 34,985 | 16,235 |
| Donations | 83,193 | 77,296 |
| General reserve | 114,103 | 93,091 |
| Retained earnings | 26,023 | 21,012 |
| | 510,971 | 454,634 |
| | <u>SCA1,549,129</u> | <u>SCA1,489,184</u> |

The accompanying notes are an integral part
of these financial statements.

SCHEDULE 1/1

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

ORDINARY CAPITAL

STATEMENTS OF INCOME AND RETAINED EARNINGS

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

| | <u>Year ended June 30,</u> | |
|---|----------------------------|-------------------|
| | <u>1992</u> | <u>1991</u> |
| Income: | | |
| Loans | | |
| Interest | \$CA71,933 | SCA 51,962 |
| Commissions and other charges | 2,486 | 2,842 |
| Investment interest | | |
| Time deposits and other investments | 21,570 | 27,414 |
| Central American Common Market Fund | 3,331 | 3,821 |
| Other income | 310 | 5,599 |
| Total income | <u>99,630</u> | <u>91,638</u> |
| Expenses: | | |
| Interest, commissions and other expenses on borrowings | 59,291 | 63,058 |
| Administrative expenses | 12,954 | 13,388 |
| Exchange losses (gains) | <u>1,362</u> | <u>(5,820)</u> |
| Total expenses | <u>73,607</u> | <u>70,626</u> |
| Net income | 26,023 | 21,012 |
| Retained earnings (deficit) at beginning of year | 21,012 | (2,521) |
| Transfers to general reserve | <u>(21,012)</u> | <u>2,521</u> |
| Retained earnings at end of year | <u>\$CA26,023</u> | <u>SCA 21,012</u> |

The accompanying notes are an integral part
of these financial statements.

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

ORDINARY CAPITAL

BALANCE SHEETS

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

| | <u>June 30,</u> | |
|--|---------------------|---------------------|
| | <u>1991</u> | <u>1990</u> |
| <u>ASSETS</u> | | |
| Cash (Note 2) | SCA 48,740 | SCA 24,928 |
| Time deposits and other investments (Note 3) | <u>217,129</u> | <u>287,220</u> |
| Central American Common Market Fund | <u>47,974</u> | <u>47,974</u> |
| Loans receivable (Note 4): | | |
| Loans approved less amounts collected | 1,323,811 | 1,118,529 |
| Undisbursed balance | <u>(352,612)</u> | <u>(327,542)</u> |
| | 971,199 | 790,987 |
| Allowance for loan losses | <u>(23,752)</u> | <u>(23,752)</u> |
| Net loans | <u>947,447</u> | <u>767,235</u> |
| Compensating loans (Note 5) | <u>106,148</u> | <u>112,397</u> |
| Accrued interest and other charges: | | |
| On loans (Note 4) | 46,996 | 43,557 |
| On investments | 9,954 | 14,297 |
| Funds receivable from member countries (Note 6) | 42,027 | 86,160 |
| Property and office equipment - Net | 4,935 | 4,748 |
| Other assets (Note 7) | <u>17,834</u> | <u>18,087</u> |
| | <u>SCA1,489,184</u> | <u>SCA1,406,603</u> |
| <u>LIABILITIES, CAPITAL AND RESERVES</u> | | |
| Debt and other obligations payable (Note 8): | | |
| Loans payable | SCA 721,535 | SCA 663,274 |
| Bonds | 7,590 | 10,988 |
| Certificates of investment | 10,799 | 11,571 |
| Certificates of deposit | <u>54,534</u> | <u>56,224</u> |
| | 794,458 | 742,057 |
| Accrued interest on obligations | 18,431 | 18,790 |
| Accounts payable and other liabilities | 5,513 | 4,320 |
| Compensating loans (Note 5) | <u>106,148</u> | <u>112,397</u> |
| | <u>924,550</u> | <u>877,564</u> |
| Reserve for loans in foreign currency to the public sector (Note 1) | <u>110,000</u> | <u>110,000</u> |
| Capital and reserves (Note 9): | | |
| Capital | 600,000 | 600,000 |
| Authorized | | (80,000) |
| Not subscribed | (325,000) | (260,000) |
| Callable portion | <u>(28,000)</u> | <u>(30,222)</u> |
| Called and not received | 247,000 | 229,778 |
| Paid-in capital | 16,235 | 31,235 |
| Special contribution of capital | 77,296 | 64,935 |
| Donations | 93,091 | 95,612 |
| General reserve | <u>21,012</u> | <u>(2,521)</u> |
| Retained earnings (deficit) | <u>454,634</u> | <u>419,039</u> |
| | <u>SCA1,489,184</u> | <u>SCA1,406,603</u> |

The accompanying notes are an integral part
of these financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

ORDINARY CAPITAL

STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
(Expressed in thousands of Central American pesos - Note 1)

| | <u>Year ended June 30,</u> | |
|---|----------------------------|---------------------|
| | <u>1991</u> | <u>1990</u> |
| Income: | | |
| Loans | \$CA 51,962 | \$CA 46,721 |
| Interest | 2,842 | 2,734 |
| Commissions and other charges | | |
| Investment interest | 27,414 | 27,943 |
| Time deposits and other investments | | |
| Central American Common | 3,821 | 4,158 |
| Market Fund | 5,599 | 1,641 |
| Other income | | |
| Total income | <u>91,638</u> | <u>83,197</u> |
| Expenses: | | |
| Interest, commissions and other expenses on borrowings | 63,058 | 64,759 |
| Administrative expenses | 13,388 | 16,322 |
| Exchange (gains) losses | (5,820) | 4,637 |
| Total expenses | <u>70,626</u> | <u>85,718</u> |
| Net income (loss) | 21,012 | (2,521) |
| (Deficit) retained earnings at beginning of year | (2,521) | 8,085 |
| Transfers to general reserve | 2,521 | (8,085) |
| Retained earnings (deficit) at end of year | <u>\$CA 21,012</u> | <u>\$CA (2,521)</u> |

The accompanying notes are an integral part
of these financial statements.

SCHEDULE 1/4

ORDINARY CAPITAL

BALANCE SHEETS

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

| | <u>June 30,</u> | |
|--|----------------------|----------------------|
| | <u>1990</u> | <u>1989</u> |
| <u>ASSETS</u> | | |
| Cash (Note 2) | \$CA 24,928 | \$CA 32,090 |
| Time deposits and other investments (Note 2) | <u>287,220</u> | <u>267,364</u> |
| Central American Common Market Fund | <u>47,974</u> | <u>47,897</u> |
| Loans receivable (Note 3): | | |
| Loans approved less amounts collected | 1,118,529 | 1,119,984 |
| Undisbursed balance | <u>(327,542)</u> | <u>(322,788)</u> |
| | 790,987 | 797,196 |
| Allowance for loan losses | <u>(23,752)</u> | <u>(23,752)</u> |
| Net loans | <u>767,235</u> | <u>773,444</u> |
| Compensating loans (Note 4) | 112,397 | 93,961 |
| Accrued interest and other charges: | | |
| On loans (Note 3) | 43,557 | 56,229 |
| On investments | 14,297 | 15,249 |
| Funds receivable from member countries (Note 5) | 86,160 | 71,369 |
| Property and office equipment - Net | 4,748 | 3,992 |
| Other assets (Note 6) | <u>18,087</u> | <u>19,971</u> |
| | <u>\$CA1,406,603</u> | <u>\$CA1,381,566</u> |
| <u>LIABILITIES, CAPITAL AND RESERVES</u> | | |
| Debt and other obligations payable (Note 7): | | |
| Loans payable | \$CA 663,274 | \$CA 643,052 |
| Bonds | 10,988 | 15,549 |
| Certificates of investment | 11,571 | 13,953 |
| Certificates of deposit | <u>56,224</u> | <u>52,414</u> |
| | 742,057 | 724,968 |
| Accrued interest on obligations | 18,790 | 31,968 |
| Accounts payable and other liabilities | 4,320 | 7,474 |
| Compensating loans (Note 4) | <u>112,397</u> | <u>93,961</u> |
| | <u>877,564</u> | <u>858,371</u> |
| Reserve for loans in foreign currency to the public sector (Note 1) | <u>110,000</u> | <u>110,000</u> |
| Capital and reserves (Notes 8 and 9): | | |
| Capital | | |
| Authorized | 600,000 | 600,000 |
| Not subscribed | (80,000) | (80,000) |
| Callable portion | (260,000) | (260,000) |
| Called and not received | <u>(30,222)</u> | <u>(32,000)</u> |
| Paid-in capital | 229,778 | 228,000 |
| Special contribution of capital | 31,235 | 31,735 |
| Donations | 64,935 | 57,848 |
| General reserve | 95,612 | 87,527 |
| Retained earnings (deficit) (Note 10) | <u>(2,521)</u> | <u>8,085</u> |
| | <u>419,039</u> | <u>413,195</u> |
| | <u>\$CA1,406,603</u> | <u>\$CA1,381,566</u> |

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The accompanying notes are an integral part
of these financial statements.

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

ORDINARY CAPITAL

STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
(Expressed in thousands of Central American pesos - Note 1)

| | <u>Year ended June 30,</u> | |
|--|----------------------------|-------------------|
| | <u>1990</u> | <u>1989</u> |
| Income: | | |
| Loans | | |
| Interest | \$CA46,721 | \$CA40,021 |
| Commissions | 2,699 | 2,383 |
| Service charges | 35 | 29 |
| Investment interest | | |
| Time deposits and other investments | 27,943 | 26,912 |
| Central American Common Market Fund | 4,158 | 5,536 |
| Other income | 1,641 | 6,908 |
| Total income | <u>83,197</u> | <u>81,789</u> |
| Expenses: | | |
| Interest, commissions and other expenses on borrowing | 64,759 | 61,549 |
| Administrative expenses (Note 13) | 16,322 | 15,990 |
| Exchange loss | 4,637 | ← 1,196 |
| Total expenses | <u>85,718</u> | <u>78,735</u> |
| Net income (loss) | (2,521) | 3,054 |
| Retained earnings at beginning of year | 8,085 | 5,031 |
| Transfers to general reserve (Note 9) | (8,085) | |
| Retained earnings (deficit) at end of year | <u>\$CA(2,521)</u> | <u>\$CA 8,085</u> |

The accompanying notes are an integral part
of these financial statements.

SCHEDULE 1/6

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CENTRAL AMERICAN BANK OF ECONOMIC INTEGRATION
Highlights of Financial Ratios(1)
As of June 30th, 1992,1991,1990

| | 6/30/92 | 6/30/91 | 6/30/90 | REF. |
|--|----------------|----------------|----------------|------|
| <u>Balance Sheet Ratios</u> | | | | |
| Cash+Investments/Total Assets | 22% | 21% | 22% | 1 |
| Loan Prtfolio/Total Assets | 70% | 65% | 56% | 2 |
| Other Assets/Total Assets | 8% | 15% | 22% | 3 |
| Liquid Assets/Total Assets | 20% | 18% | 25% | 4 |
| Liquid Assets/Total Liabilities net of Compensating Loans | 35% | 19% | 47% | 5 |
| Debt-to-Equity | 162% 1.62:1 | 180% 1.80:1 | 183% 1.83:1 | 6 |
| Allowance for Loan Losses/ Loan Portfolio (2) | 14% | 15% | 17% | 7 |
| <u>Income Statement Ratios</u> | | | | |
| Times Interest Earned: | | | | |
| Interest Paid+Profit/Interest Paid | 1.44 times | 1.33 times | .96 times | 8 |
| Interest Paid/Interest Earned | 63% | 73% | 79% | 9 |
| Net Profit/Total Income | 26% | 23% | (3%) | 10 |
| <u>Interstatement Ratios</u> | | | | |
| Interest Income/Average Income Generating Assets | 8% | 7% | 7% | 11 |
| Interest Paid/Average Income Generating Assets | 5% | 5% | 6% | 12 |
| Administrative Expenses/Average Income Generating Assets | 1% | 1% | 1% | 13 |
| Administrative Expenses/Total Net Financial Income | 32% | 46% | 89% | 14 |
| Return on Equity | 5% | 5% | (.60%) | 15 |
| Return on Assets | 2% | 1% | (.18%) | 16 |

(1) This is not CAMEL Methodology

(2) More accurate computations following Income Statement

SCHEDULE 2

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CENTRAL AMERICAN BANK OF ECONOMIC INTEGRATION
Capital Structure
As of June 30th, 1992

Source of information: Constitutive Agreement dated
September 2nd, 1989

Authorized Capital (Chapter II, Article 4c) CAS 2,000,000,000

| | | Cash | Exigible |
|-------------------------------|-----|--------------------|---------------------------|
| Regional Members | | | |
| 51% \$ 1,020,000,000 | 25% | \$ 255,000,000 | \$ 765,000,000 |
| Outside the Region | | | |
| 49% <u>\$ 980,000,000</u> (1) | | <u>245,000,000</u> | <u>735,000,000</u> |
| | | 2,000,000,000 | 500,000,000 1,500,000,000 |

(1)

| | | |
|------------|------------------------|--|
| Mexico | 122,500,000 | |
| China | 150,000,000 | |
| Additional | <u>707,500,000</u> (2) | |
| | 980,000,000 | |

Capital subscribed
Not subscribed

1,292,500,000
707,500,000
(2)

Paid-in-capital

Regional Members

| | |
|-------------|-------------------|
| El Salvador | 45,000,000 |
| Honduras | 52,166,666 |
| Nicaragua | 55,000,000 |
| Costa Rica | 51,833,333 |
| Guatemala | <u>52,333,333</u> |
| | 256,333,333 |

Outside Region

| | | |
|--------|--------|-------------------|
| Mexico | 11.75% | 14,400,000 (3) |
| China | 25% | <u>37,500,000</u> |

Total paid-in-capital \$ 308,233,333

3) Not paid yet \$ 16,225,000 (13.25%)

SCHEDULE 3

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Annex E

Audit Recommendations on Project No. 596-0114

CLOSE-OUT FINANCIAL AUDIT OF THE
REGIONAL ECONOMIC RECOVERY PROJECT
ROCAP/GUATEMALA PROJECT NO. 596-0114
MANAGED BY THE CENTRAL AMERICAN BANK FOR
ECONOMIC INTEGRATION (CABEI)

List of Report Recommendations

Internal Control Structure

1. Since this project has been completed, we are not including any recommendation. However, for future projects, the Central American Bank should establish procedures to ensure that project records are centralized in an official file section.

Compliance with applicable laws and regulations, and agreement terms

1. We recommend that CABEI provide evidence justifying the shortfall of \$2.7 million in counterpart contributions or negotiate with ROCAP/Guatemala.
2. CABEI should show either evidence of compliance with the conditions of implementation letter FY-92-80 about the payment of 80% of the members countries' debt maturing as of December 31, 1991 and communicated to ROCAP.
3. CABEI should provide evidence that the objectives of the project have been achieved as intended; or provide adequate justification for the lack of project evaluations and periodical audits.

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Annex F
Demand Analysis

PROGRAMA REGIONAL DE MEJORAMIENTO URBANO AID/BCIE

DETERMINACION DE LA DEMANDA

1. OBJETIVOS DEL ESTUDIO.

Los principales objetivos del estudio fueron:

- i) cuantificar la demanda potencial de inversión en proyectos de servicios públicos municipales;
- ii) conocer los mecanismos actuales de financiamiento de estos proyectos;
- iii) evaluar las ventajas y desventajas de estos mecanismos;
- iv) proponer un mecanismo de financiamiento a través de la intermediación de la banca comercial y conocer el grado de aceptación de los diferentes sectores;
- v) discutir con las entidades interesadas las diferentes opciones crediticias y operativas necesarias para la implementación de el programa.

2. DESCRIPCION DE LA METODOLOGIA

Los datos de la demanda potencial de inversiones en infraestructura municipal en los cinco países centroamericanos; Guatemala, el Salvador, Honduras, Nicaragua y Costa Rica; se obtuvieron a partir de una encuesta elaborada por el BCIE y levantada por las oficinas regionales en cada país. Las fuentes primarias que proporcionaron los datos de la encuesta en cada país, fueron las siguientes:

- i) GUATEMALA: Instituto de Fomento Municipal (INFOM).
- ii) EL SALVADOR: Instituto Salvadoreño de Desarrollo Municipal (ISDEM).
- iii) HONDURAS: Las municipalidades de; San Pedro Sula, Amapala, Marcala, Trujillo, San Marcos de Colón, Juticalpa, Tegucigalpa, La Lima y Santa Bárbara.
- iv) NICARAGUA: Instituto Nicaragüense de Fomento Municipal (INIFOM).
- v) COSTA RICA: Instituto de Fomento y Asesoría Municipal (IFAM).

Esta encuesta se diseño con el propósito de obtener información desagregada por:

- i) tipo de proyecto: alcantarillado sanitario, agua potable, mejoramiento de calles, electrificación de barrios, recolección de basura, y otros.
- ii) nombre de la municipalidad;
- iii) localización;
- iv) costo total;
- v) porcentaje de participación comunitaria;
- vi) monto de financiamiento requerido,
- vii) estado actual del proyecto: idea, prefactibilidad, factibilidad;
- viii) Número de familias beneficiadas;
- ix) Modalidad de ejecución; y
- x) Duración de la ejecución.

Adicionalmente, el equipo de trabajo visito los diferentes países centroamericanos, excepto Nicaragua, para entrevistarse con bancos comerciales, institutos municipales, otras entidades publicas y algunos alcaldes; para determinar el grado de interés por el programa y la aceptación del mecanismo de financiamiento propuesto.

También se obtuvo información secundaria de otros organismos nacionales e internacionales, que por su participación en el sector municipal, mantienen una cartera de proyectos que podrían ser objeto de financiamiento, bajo este nuevo programa.

3. PRINCIPALES CONCLUSIONES.

Los resultados de la encuesta se presentan en los cuadros del anexo No. 1, estos resultados son parciales ya que todavía se espera respuesta de otras fuentes. De la información obtenida se concluyen los siguientes datos básicos:

- El costo total de los proyectos presentados asciende al equivalente de US\$ 274.1 millones; de este total el financiamiento requerido asciende a US\$ 261.6 millones, equivalente al 95% de la inversión total.
- Excluyendo los proyectos de El Salvador, que no califican dentro del programa como cementerios, tianges, etc; la demanda a ser financiada asciende a US\$ 142.5 millones. Cabe aclarar que en el caso de El Salvador, el ISDEM no presentó una muestra de proyectos relacionados con agua potable y alcantarillado, ya que estos son ejecutados por el ANDA.
- No todas las encuestas reflejaron el nivel de madurez de los proyectos, sin embargo, infiriendo de las que contienen esta información, se deduce que de 278 proyectos; el 21% esta a nivel de idea, el 51% a nivel de prefactibilidad y el restante 28% cuentan con estudios de factibilidad. Tomando como base un demanda de US\$142.5 millones, podríamos inferir que de inmediato se cuenta con proyectos listos, por un monto de US\$ 40 millones.

Cabe aclarar, que la encuesta no solicito información sobre las características socio-economica de los beneficiarios ya que esto requeriría estudios adicionales que no se podrían realizar en tan corto tiempo; por lo tanto algunos de los proyectos indicados no podrían calificar dentro de los parámetros de ingreso de los beneficiarios.

Otro de los factores que pueden influir sobre la demanda efectiva son las condiciones crediticias relacionadas con tasa de interés, plazos y garantías. Los proyectos incluidos en la encuesta, fueron presentados a los organismos oficiales de financiamiento municipal y por lo tanto, las municipalidades proponentes, asumen condiciones crediticias mas blandas

Los principales resultados de las entrevistas, se pueden resumir en la siguiente forma:

1. Instituciones Públicas de Apoyo Municipal

Las instituciones entrevistadas fueron el Instituto de Fomento Municipal de Guatemala, la Secretaria de Reconstrucción Nacional y el Instituto de Desarrollo Municipal de El Salvador, el Banco Hipotecario de la Vivienda y el Instituto de Fomento y Asesoramiento Municipal de Costa Rica. En estas instituciones existió similitud de criterios, ya que en general tienen los mismos objetivos y funciones; las principales conclusiones fueron:

- Están instituciones actúan como intermediarios financieros de recursos nacionales e internacionales incluyendo de USAID. Tienen interés de continuar con esta función, y expresaron su interés de actuar como tales en el presente programa.
- Tienen capacidad de dar asistencia técnica en las áreas de:
 - i) identificación de necesidades y calificación de prioridades;
 - ii) desarrollo de estudios de prefactibilidad y factibilidad;
 - iii) calificación de la solvencia financiera municipal;
 - iv) identificación y reserva de fuentes de fondos;
 - v) posibilidad de dar el aval o garantía del gobierno central; y
 - vi) supervisión de proyectos y obras.
- Podrían proporcionar recursos de contraparte para los proyectos financiados con el programa, ya sea de los recursos presupuestarios municipales o recursos externos de donaciones o líneas de crédito blandas.

2. Alcaldes

Las entrevistas con algunos alcaldes de El Salvador y de Costa Rica, dieron resultados limitados, para propósitos de este estudio, debido a su poca experiencia con la banca comercial y con mecanismos de financiamiento de mercado sin embargo, sus opiniones fueron importantes para la formulación del esquema operativo del Programa. Las principales conclusiones son:

- Existe una percepción generalizada de que la banca comercial desconfía de las municipalidades como sujeto de crédito.
- La relación financiera de las municipalidades ha sido con los entes centralizados, institutos municipales y los fondos de desarrollo municipal, a los que consideran como mas convenientes y ágiles.
- Consideran interesante el contar con mecanismo de financiamiento alterno que les permita palanquear(leverage) sus recursos propios o de otras fuentes. Están conscientes de que los recursos concesionales son cada vez mas limitados.

- Existe necesidad de recursos financieros para realización de estudios de factibilidad y diseños.

3. Instituciones Financieras Intermediarias

I) GUATEMALA:

- 1) Actitud positiva hacia el programa.
- 2) Un banco privado opera con municipalidades y está dispuesto a realizar operaciones con estas entidades en moneda extranjera.
- 3) Los demás bancos y las financieras sólo en moneda local.
- 4) Elementos de apoyo Garantía de reserva de recursos del IFAM sobre las transferencias a las municipalidades y vinculación de los proyectos con la zona influencia de la IFI.

II) HONDURAS:

- 1) Bancos: Cautela ante el proyecto, Dispuestos a considerarlo pero poco interés. Municipalidades cuestionadas como sujetos de crédito.
- 2) Asociaciones de Ahorro y Préstamo: Interesados y dispuestos a negociar, no asumen riesgo cambiario.

III) EL SALVADOR:

- 1) Bancos: Misma actitud de la banca de Honduras.

IV) COSTA RICA:

- 1) Bancos Privados: Interesados y dispuestos a negociar. Operación sin riesgo cambiario. Municipalidad es cuestionada como sujeto de crédito.
- 2) Banco Público: (Banco Hipotecario de la Vivienda). Interesado en operar como banco de segundo piso. Considera asumir riesgo cambiario:

PROGRAMA REGIONAL DE MEJORAMIENTO URBANO AID/BCIE

LISTA DE INSTITUCIONES VISITADAS

| PAIS | INSTITUCIONES FINANCIERAS | INSTITUCIONES PUBLICAS | ALCADES | OTRAS |
|-------------|---|--|--|-----------|
| Guatemala | Banco Continental Banco Quetzal Banco del Cafe Banco Metropolitano Financiera CORPLATIN | Instituto de Fomento Municipal | | RHUDO/AID |
| El Salvador | Banco Agricola Comercial Banco Cuscatlan Bolsa de Valores de El Salvador | Secretaria de Reconstruccion Nacional Instituto de Desarrollo Municipal | Corporacion de Municipalidades de E.S: -Alcalde de Chilatenango -Alcalde de Sonsonate -Alcalde de Texistepeque | USAID |
| Honduras | Banco Ficensa La Vivienda S.A. Futuro S.A. | | | USAID |
| Costa Rica | Banco Interfin Banco de San Jose | Banco Hipotecario de La Vivienda Instituto de Fomento y Ayuda Municipal | Alcalde de Cartago Alcalde de Ajajuelita Alcalde de Zarcerro Alcalde de Belem Alcalde de La Union Alcalde de Esquimes Alcalde de Guasimo | |

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PROGRAMA REGIONAL DE MEJORAMIENTO URBANO AID/BCIE

DEMANDA GLOBAL CENTROAMERICA

RECURSOS REQUERIDOS

-CIFRAS EN MILES DE \$CA-

| PAIS | COMPONENTES | | | | | | | | TOTAL | POBLACION BENEFICIADA |
|-------------|--------------|--------------------------|------------------------|-----------------|------------------------|---------------------|----------|-----------------------------|-----------|-----------------------|
| | AGUA POTABLE | ALCANTARILLADO SANITARIO | MEJORAMIENTO DE CALLES | ELECTRIFICACION | ALCANTARILLADO PLUVIAL | RECOLECTORES BASURA | MERCADOS | INFRAESTRUCTURA DIVERSA N/E | | |
| GUATEMALA | 1,368.3 | 1,653.7 | 1,451.8 | | | | | | 4,473.8 | N/D |
| EL SALVADOR | | | | 4,493.5 | | 8,167.2 | 77,827.8 | 119,129.0 | 209,617.5 | 6,014,693 |
| HONDURAS | 860.9 | 3,965.2 | 8,050.6 | 981.6 | | | | | 13,858.3 | 308,366 |
| NICARAGUA | 1,378.6 | 419.1 | 3,397.8 | 434.1 | | | | | 5,629.6 | 319,467 |
| COSTA RICA | 12,600.0 | 9,100.0 | 2,100.0 | | 4,200.0 | | | | 28,000.0 | 88,849 |
| TOTAL | 16,207.8 | 16,138.0 | 16,000.0 | 5,909.2 | 4,200.0 | 8,167.2 | 77,827.8 | 119,129.0 | 261,579.0 | 6,731,375 |
| PORCENTAJE | 6.20 | 6.79 | 6.73 | 2.26 | 1.61 | 3.12 | 29.75 | 45.64 | 100 | |

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PROGRAMA REGIONAL DE MEJORAMIENTO URBANO AID/BCIE

DEMANDA GLOBAL POR PAIS

GUATEMALA

- CIFRAS EN MILES DE \$CA -

| INSTITUCION | COMPONENTE | NUMERO PROYECTOS | COSTO TOTAL | RECURSOS REQUERIDOS | FAMILIAS BENEFICIADAS | SITUACION PROYECTOS | | |
|--|---------------------|---------------------|----------------|------------------------|--------------------------|---------------------|---------|------------|
| | | | | | | IDEA | PREFACT | FACTIBILIT |
| Instituto Fomento Municipal (INFOM) | Alcantarillado | 15 | 1,853.7 | 1,853.7 | | | | |
| | Agua Potable | 12 | 1,388.3 | 1,388.3 | | | | |
| | Mejoramiento Calles | 19 | 1,451.8 | 1,451.8 | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | TOTAL | 46 | 4,473.7 | 4,473.7 | N/D | N/D | N/D | N/D |

(MEURBGUA-DKT-25-PAL) 19-07-93

Nota: Población beneficiada está ubicada en 43 Municipios

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PROGRAMA REGIONAL DE MEJORAMIENTO URBANO AID/BCIE

DEMANDA GLOBAL POR PAIS

EL SALVADOR

-CIFRAS EN MILES DE \$CA-

| INSTITUCION | COMPONENTE | NUMERO PROYECTOS | COSTO TOTAL | RECURSOS REQUERIDOS | FAMILIAS BENEFICIADAS | SITUACION PROYECTOS | | |
|---|------------------------------|---------------------|------------------|------------------------|--------------------------|---------------------|------------|------------|
| | | | | | | IDEA | PREFACT | FACTIBILID |
| Inst. Salvadoreño Des. Municipal (ISDEM) | Camerterios (nichos) | 81,800 | 20,085.0 | 19,080.8 | | | | |
| | Rastros | 28 | 8,993.0 | 6,843.5 | | | | |
| | Recolectores basura | 188 | 8,587.0 | 8,167.2 | | | | |
| | Mercedos | 90 | 81,924.0 | 77,827.8 | | | | |
| | Terminales de buses | 22 | 3,927.0 | 3,730.7 | | | | |
| | Tiangues | 21 | 2,100.0 | 1,995.0 | | | | |
| (Préstamos) | Peq. Proyectos Productivos | 1,000 | 500.0 | 475.0 | | | | |
| (Lámparas) | Sust. Alumbrado Sn. Salvador | 14,000 | 2,552.0 | 2,424.0 | | | | |
| (Kilómetros) | Rep. Caminos Rurales | 4,081 | 20,305.0 | 19,289.8 | | | | |
| (Lámparas) | Alumbrado Interior País | 8,159 | 4,730.0 | 4,483.5 | | | | |
| (Kilómetros) | Introduc. Energía Eléctrica | 2,089 | 58,937.0 | 65,490.2 | | | | |
| | TOTAL | | 220,650.0 | 209,617.5 | 5,014,693 | N/D | N/D | N/D |

(MEURBES-DKT-25-PAL) 19-07-93

Nota: La población beneficiada es de 5,014,693 localizada en 14 Departamentos

N/D : No Disponible

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PROGRAMA REGIONAL DE MEJORAMIENTO URBANO AID/BCIE

DEMANDA GLOBAL POR PAIS

NICARAGUA

-CIFRAS EN MILES DE \$CA-

| INSTITUCION | COMPONENTE | NUMERO PROYECTOS | COSTO TOTAL | RECURSOS REQUERIDOS | FAMILIAS BENEFICIADAS | SITUACION PROYECTOS | | |
|---|----------------------------|---------------------|----------------|------------------------|--------------------------|---------------------|------------|--------------|
| | | | | | | IDEA | PREFACT | FACTIBILIDAD |
| Inst. Nicaraguense de Fomento Municipal (INIFOM) | Agua Potable | 41 | 1,378.0 | 1,378.8 | 56,830 | | 38 | 3 |
| | Alcantarillado Sanitario | 8 | 419.1 | 419.1 | 50,287 | | 4 | 4 |
| | Electrificación de barrios | 10 | 434.1 | 434.1 | 9,873 | | | 10 |
| | Mejoramiento de Calles | 97 | 3,397.9 | 3,397.9 | 197,477 | | 68 | 31 |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | TOTAL | 162 | 4,251.0 | 5,629.6 | 319,467 | | 108 | 54 |

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PROGRAMA REGIONAL DE MEJORAMIENTO URBANO AID/BCIE

DEMANDA GLOBAL POR PAIS

COSTA RICA

-CIFRAS EN MILES DE \$CA-

| INSTITUCION | COMPONENTE | NUMERO PROYECTOS | COSTO TOTAL | RECURSOS REQUERIDOS | FAMILIAS BENEFICIADAS | SITUACION PROYECTOS | | |
|-------------------------------------|--------------------------|---------------------|-----------------|------------------------|--------------------------|---------------------|-----------|--------------|
| | | | | | | IDEA | PREFACT | FACTIBILIDAD |
| Inst. Fomento Ases. Municipal (FAM) | Agua Potable | 15 | 12,000.0 | 12,000.0 | 58,512 | 8 | 7 | |
| | Alcantarillado Sanitario | 8 | 9,200.0 | 9,100.0 | 17,543 | 4 | 2 | |
| | Alcantarillado Pluvial | 3 | 4,300.0 | 4,200.0 | 6,484 | 2 | 1 | |
| | Mejoramiento de calles | 9 | 2,200.0 | 2,100.0 | 6,300 | | 0 | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | TOTAL | 33 | 28,600.0 | 28,000.0 | 89,840.0 | 14 | 10 | |

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Annex G

The A.I.D. Municipal Development Program in Honduras
Lessons for the LOGROS HG

The AID Municipal Development Program in Honduras--

Lessons for the LOGROS HG

In 1980, AID initiated a program of urban upgrading for the two largest cities in Honduras (HG-006). San Pedro Sula received US \$2.5 million and Tegucigalpa US \$7.5 million in grant funds. The program encouraged these municipalities to recover investment costs from beneficiaries. This grant program funded 32 projects in water, sewer, and paving in Tegucigalpa and 6 projects, mostly water systems, in San Pedro Sula. Its structure has served as the basis for subsequent AID municipal credit programs in two respects.

First, the program required each municipality to start an "implementing unit" in charge of construction of infrastructure projects. These implementing units have continued to operate the program.

Second, the program evolved a design that dealt with contractors' distrust of local government. The private developers to which much of the construction was contracted had little faith in municipalities' commitment to pay. So, the program arranged for the Ministerio de Hacienda y Credito Publico to pay contractors directly and supervise project cash flow. This mechanism also continues in use.

The subsequent loan program under HG-008--which started in 1987 with a \$20 million urban upgrading component to be lent, initially, to the largest seven municipalities--incorporated project repayment into this structure based on working with "patronatos"--neighborhood associations. Since the 1950s, patronatos have existed in most Honduran neighborhoods. These organizations have wielded considerable power, through influencing council members, by pressuring local government for services, and--occasionally--contributing labor and materials to public works.

First, municipalities and patronatos agree on the need for a specific infrastructure project, and patronatos commit to fully repaying the investment. Municipal government staff build commitment to the project by meeting with the neighborhood association and individual families. They discuss not only project characteristics but also whether local people want the project and are willing to pay the sums necessary for the service. This "promotion" ("promocion") has proved critical in project repayment rates--see below.

AID then prepares a project eligibility analysis. The inputs for this analysis include a survey of a substantial portion of the project beneficiary households, an appraisers' assessment of property values before and after project implementation, and evaluation of existing infrastructure and physical conditions. Based on this information, this study conducts a financial feasibility analysis of the project, including estimates of repayment rates, the debt that the project can support, and--hence--the amount of subsidy that the municipality must contribute to the project.

AID enters into an agreement with the municipality establishing the conditions for the loan, which typically specify the amount of capital the municipality must invest, administrative and cash flow management reforms such as a budgetary control system that the municipality must undertake, fiscal reforms such as instituting tariffs for services, and any other conditions necessary to the project's success. For example, the municipality typically must certify that no major public works--such as a highway--will disrupt the community and that no land tenure problems exist.

The Ministerio de Hacienda y Credito Public, which assumes the credit and exchange rate risk, then calls in municipal officials and others involved in the project and enters into a formal agreement with them and AID.

The design of the project is then finalized and construction begins. On completion, the municipality is in charge of collecting project charges from beneficiaries. The Ministerio de Hacienda y Credito Publico makes up any shortfall in debt service, and the municipality goes into debt for this amount to the Ministerio.

HG-008 has disbursed all but \$2 million of the initial \$20 million in urban upgrading funds, and now works with 30 municipalities.

Repayment from beneficiaries to local government has varied widely among projects. Repayment averages about 60-70 percent of that necessary to recoup the project costs financed by the loan. Thus, some beneficiaries' unwillingness to pay, lack of capacity to pay, and the lack of promotion and commitment to the project typically result in failing to recoup 30-40 percent of project costs. The degree of repayment depends most fundamentally on the promotion of the project to the patronato and beneficiary households, and their commitment to the project. Some local governments do a good job of promotion and secure the firm commitment of project beneficiaries to repayment. In these cases, repayment rates go as high as 90 percent.

The cost recovery lesson for the HG MDF is clear: citizen participation in project selection is the basis for good repayment from beneficiaries and must be at the heart of the financial analysis of projects conducted by CABEI. The HG should avoid projects--even those that initially appear financially feasible--that lack solid evidence of the commitment of local people. In addition, the HG MDF should be quite conservative in cost recovery estimates, at least until experience has accrued at the country and city level.

The Honduran municipal development program has also resulted in policy reform, particularly at the national level. In the early years of the program, Honduras had a highly restrictive municipal law that made project implementation difficult, particularly by small and medium-sized municipalities without the expertise to resist national regulations. For example, even small municipal expenditures such as that necessary to buy a few truck tires had to be approved by departmental bodies. No mechanism or possibility existed for projects involving groups of municipalities. Both the mayor and the local sindico--generally from the party opposing the mayor--had to approve projects, making decisions difficult. The AID program was instrumental in making these problems clear and getting a better municipal law in 1990.

This reform suggests two lessons for LOGROS. Project experience proved an effective vehicle on which to build national policy change. However, the process took time, about a decade from the program's start to a new municipal law.

Annex H

Initial Environmental Examination



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-93-38

REQUEST FOR A CATEGORICAL EXCLUSION

Project Location : Central America Regional

Project Title : Local Government Regional Outreach Strategy (Housing Guaranty), Amendment No. 1 (LOGROS)

Project Number : 596-0167

Funding : \$22 million

Life of Project : FY 93-99

IEE Prepared by : Jeffrey W. Goodson
Supervisory Project Development Officer, RHUDO/CA

Recommended Threshold Decision: Categorical Exclusion with conditions

Bureau Threshold Decision : Concur with Recommendation

Comments : Categorical exclusion issued as stated in attached IEE. A condition precedent shall be placed in the project agreement stipulating that CABEI will ensure that environmental assessments (EA) are conducted, which in form and substance are equivalent to EAs required by 22 CFR 216 and CABEI environmental policies and procedures. AID retains the right to review selected EAs to ensure they meet AID quality standards. RHUDO may refer selected EAs, as appropriate, to LAC/DR/E for review. Additional conditions precedent shall be placed in the project agreement, as stated in the attached IEE and Institutional Analysis.

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**REQUEST FOR A CATEGORICAL
EXCLUSION (cont'd.)**

LAC-IEE-93-38

James S. Hester Date *8/6/93*
James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Copy to : Terrence Brown, Mission Director
USAID/Guatemala

Copy to : Jeffrey Goodson, RHUDO
USAID/Guatemala

Copy to : Jack Gisiger, PRE/H

Copy to : Wayne Williams, REA/CEN
USAID/Guatemala

Copy to : James Vandebos, LAC/CEN

Copy to : John Wall, LAC/DR/CEN

Copy to : IEE File

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Initial Environmental Examination

OR

Categorical Exclusion

Project Country: Central America (Regional)

Project Title: Local Government Regional Outreach Strategy
Amendment No. 1 (Housing Guaranty)

FY(s): 1993-1999

US\$: \$22,000,000 (\$2,000,000 DA; \$10,000,000
existing HG authority; \$10,000,000 new HG
authority)

IEE Prepared by: Jeffrey W. Goodson 
Supervisory Project Development Officer
For RHUDO/CA

Environmental Action Recommended:

| | |
|------------------------|---------------|
| Positive Determination | _____ |
| Negative Determination | _____ |
| Categorical Exclusion | _____ X _____ |
| Deferral | _____ |

Summary of Findings:

The DA-funded activities to occur under this Amendment are eligible and recommended for categorical exclusion pursuant to the provisions of 22 CFR 216.2(c)(2)(i)--"education, technical assistance or training programs"--since the activities to be financed by these DA funds will have no direct impact on the environment.

Pursuant to: (1) the findings of an evaluation of the capabilities of the Central American Bank for Economic Integration (CABEI) with respect to that institution's environmental impact assessment capabilities; (2) discussions between the Mission and LAC/DR/E in July 1993; and (3) the provisions of 22 CFR 216.2(c)(1)(ii) and 216.2(c)(2)(x), the HG-funded activities to be funded under this Amendment to LOGROS are also recommended for categorical exclusion. This recommendation is contingent upon the following:

- (1) That a total of \$200,000 be earmarked under the Amendment for the purpose of procuring specialized short-term technical services--as needed and appropriate during

Initial Environmental Examination

1.0 PROJECT DESCRIPTION

Overview. The Local Government Regional Outreach Strategy (LOGROS) Housing Guaranty Program (LOGROS HG) is a six year, \$20 million activity designed by A.I.D.'s Regional Housing and Urban Development Office for Central America (RHUDO/CA), in consultation with Central America's bilateral USAID Missions, for the purpose of helping to finance municipal development activities in Central America within the context of ROCAP's LOGROS Project (596-0167).

HG-Funded Activities. The LOGROS HG is specifically designed to address high priority municipal finance issues central to the LOGROS agenda by helping municipalities obtain financing for the construction of shelter-related infrastructure projects throughout Central America. Capital funds for actual infrastructure improvements under the LOGROS HG will derive from CABEI's internally generated funds, funds generated by the HG loan, and capital contributions from participating municipalities and/or public or private lending agencies. The Program will be implemented over a six year period, 1993-1999. In accordance with HG statutory requirements, the infrastructure improvements will be accessible to families with incomes below the median.

The LOGROS HG is fully consistent with the goal and purpose statements of the LOGROS project, which was authorized in August 1992. The objective of the HG is to complement activities funded under LOGROS--i.e., consensus-building (political component) and problem-solving (technical component)--by helping municipalities secure a source of investment capital for municipal infrastructure projects. As a result of LOGROS HG implementation, municipalities will enhance their financial management capabilities and improve their ability to tap and utilize new financial resources from the public and private sectors. In this way, municipalities will be better able to respond to, and make use of, the transfer of power and responsibilities from the national to the local level.

Through this AID activity, the U.S. Government (USG) will guaranty a loan of \$20 million to the Central American Bank for Economic Integration (CABEI); CABEI will in turn contribute an amount equal to at least 30% of the HG funds (or 25% of total project costs), all of which will be loaned to intermediary financial institutions for on-lending to public or private intermediaries for municipal infrastructure projects. A major

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innovation of this program, however, is that CABEI loans will in turn be structured to advance the LOGROS agenda with regard to constraints to the flow of funds for capital investment in the municipal sector. The intent is that sound fiscal and financial structures at the local level will eventually attract additional funding sources, both internal and external to the region, to increase the flow of resources to this key developmental sector.

DA-Funded Activities. This Amendment to LOGROS also supports authorization of an additional \$2.0 million in development assistance (DA) funds to support the following activities:

Personal Services Contract. The services of a single personal services contractor will be retained to work at CABEI, with responsibility for day to day management and monitoring of the loan program, identifying needs for training or short term TA, and keeping AID informed of progress and problems. A limited amount of short term TA may also be procured to support this PSC. A total of approximately \$600,000 is budgeted for this purpose.

Handbook 3 Grant to CABEI. CABEI, as the primary implementing agent for the HG portion of LOGROS, will require TA and training to support setting up the municipal loan program. Some of that support will be provided by the resident adviser, but other needs will be met via short-term TA and training. The total cost of this grant is estimated at 600K, including \$200,000 specifically reserved for any necessary environmental impact analyses.

Institutional Contract. In order to facilitate implementation, a contract will be competed for short-term TA services over the life of the project. The resident PSC would be able to call on this facility to meet needs for short-term TA at CABEI or the IFIs or, in some cases, the municipalities. This contract would also provide services for other items on the LOGROS agenda. Based on current funding scenarios, the estimated HG-related value of this contract is \$400,000. (This amount will be combined with other LOGROS funds in a larger contract, however, covering other LOGROS TA as well as that in support of the HG.)

Other Short-Term Services. Other short-term TA will also be procured over the LOP, through both buy-ins and indefinite quantity contracts, in order to support the overall LOGROS program. The total estimated cost of these services is \$350,000. In addition, \$50,000 is budgeted for additional audit and evaluation services which may be required.

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2.0 ISSUES

There are seven major considerations in evaluating the extent to which intermediate lending institutions have the capability to ensure that significant adverse environmental impact does not ensue from the projects which they fund. These are:

- (1) Whether appropriate environmental review policies exist and are institutionalized;
- (2) Whether procedures for review of project environmental impacts are established and institutionalized;
- (3) Whether responsibility and authority are established in the institution to ensure that environmental impact review is undertaken; that mitigation measures are built in to the project as appropriate; and that project implementation is monitored to ensure that mitigation measures are followed;
- (4) Whether institutional procedures are actually followed;
- (5) Whether institutional staff levels, qualifications and experience are sufficient to ensure that impact review is appropriate;
- (6) Whether there is sufficient internal review of impact assessments by "non-interested" (e.g., legal) institutional entities; and
- (7) Whether there are mechanisms in place to ensure that loan funds can be cut off if appropriate mitigation measures are not adhered to during project implementation.

In June 1993, an evaluation of CABEI was undertaken to assess CABEI's institutional characteristics in light of these seven criteria (see Attachment 1 to the IEE). This evaluation found that--with one exception--CABEI's institutional characteristics meet or exceed the minimum levels required to ensure that significant adverse environmental impact does not accrue from CABEI-funded projects. The exception--an important one--is CABEI staff qualifications and experience. Although considerable environmental impact assessment training has occurred at CABEI over a period of nearly ten years, funded by both AID and such other bilateral donors as the German development agency (GTZ), CABEI by its own admission cannot afford to retain the highly specialized staff required to fully assess the impacts of all of the numerous types of projects (especially infrastructure projects) for which it loans money.

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In recent years, CABEI has therefore relied largely upon internal specialist staff funded in association with specific donor projects to conduct environmental review of these projects. These include staff funded under AID's CA Shelter and Urban Development Project, and more recently staff funded through a German technical assistance project.

This situation is not unique to CABEI, and it appears (parenthetically) to represent a key lesson learned in donor assistance provided for the purpose of institutionalizing environmental impact assessment capabilities: i.e., that whereas national governments may have access--through their technical ministries--to the human resources required to conduct technically adequate environmental impact review, it is financially unrealistic to expect small to medium sized intermediate finance institutions to maintain adequate staff levels to do so. Even with major multilateral development banks such as the Inter-American Development Bank (IDB) and World Bank, for example, most if not the overwhelming majority of impact assessments are contracted out rather than conducted in-house.

For this and other reasons, the CABEI Impact Assessment Capabilities Evaluation considered it inappropriate to attempt (again) to establish an intra-institutional capability within CABEI to conduct environmental impact assessment of activities to be funded under the LOGROS HG. The CABEI Evaluation argument makes three principal points. First, that LOGROS is neither an environmental nor an institutional strengthening project, and that it would therefore be inappropriate to use scarce project resources as a vehicle to fund a permanent and full-service capability within CABEI to prepare--on demand--high quality environmental impact assessments of the extremely diverse types of projects which that institution helps to fund through its various loan programs. Second, that it would be cost-ineffective to fund the long-term TA required to establish solid in-house capabilities over the six year LOGROS HG life of project, since only about 20 activities would be funded through the 1999 PACD. And third, that funding long-term technical assistance would in any case be unsustainable after the project is completed.

At the same time, it is essential that AID environmental policies as articulated in 22 CFR 216.1(b) vis-a-vis environmental impact assessment be adhered to, i.e., that "the environmental consequences of AID-financed activities are identified and considered by AID and the host country prior to a final decision to proceed and that appropriate environmental safeguards are adopted."

Given that: (1) CABEI staff resources are currently insufficient to ensure that the adverse impacts of LOGROS HG-funded activities are appropriately identified and considered prior to disbursement of loan funds; (2) it would be inappropriate, cost-

ineffective and unsustainable to use LOGROS HG DA funds to establish technical capabilities at CABEI for the sole purpose of conducting environmental review of the 20 or so HG-funded activities to be funded by the Project through the 1999 PACD; and (3) such capabilities can best be procured by this intermediate finance institution on an "as-needed when-needed" basis, the CABEI Evaluation recommended that a total of \$200,000 be earmarked under this Amendment to LOGROS for the purpose of procuring specialized short-term impact assessment technical services--as needed and appropriate during implementation--to help CABEI conduct environmental review of the specific project activities to be funded.

It further recommended that earmarking of these funds be established as part of the Project Amendment Authorization, and that as a condition precedent to guaranteeing loan funds for these activities CABEI should be required to certify that the activities funded under previous LOGROS HG Guaranties have been subjected to a technically appropriate level of environmental impact review.

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3.0 RECOMMENDED ENVIRONMENTAL ACTION

3.1 HG FUNDED ACTIVITIES

As of the time of preparation of this IEE, there remained considerable inconsistency in how HG loans were being handled vis-a-vis 22 CFR 216 in different Agency geographical bureaus. On 19 July 1993, the Mission held discussions with LAC/DR/E and it was jointly agreed that the most appropriate approach for this particular HG would be a Categorical Exclusion contingent upon completion of an evaluation of CABEI's institutional capacity vis-a-vis project environmental impact review. (As discussed below, a Categorical Exclusion is considered clearly appropriate for this particular HG activity pursuant to the provisions of 22 CFR 216.2(c)(1)(ii) and 216.2(c)(2)(x).) As a result of the findings of that evaluation, moreover, the Mission has agreed to: (1) earmark \$200,000 in DA funds to procure short-term specialized impact assessment expertise as needed during implementation; (2) include as a specific eligibility criterion for projects to be financed under the HG loan that financed projects must be environmentally sound.

3.1.1 Relevance of Section 22 CFR 216.2(c)(1)(ii)

Agency environmental procedures under 22 CFR 216.2(c)(1)--"Categorical Exclusions"--provide that certain "criteria have been applied in determining the classes of actions included in (section) 216.2(c)(2) for which an Initial Environmental Examination, Environmental Assessment and Environmental Impact Statement generally are not required".

Section 22 CFR 216.2(c)(1)(ii) specifies, as one of these criteria, that "A.I.D. does not have knowledge of or control over, and the objective of A.I.D. in furnishing assistance does not require, either prior to approval of financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physical and natural environment for which financing is provided by A.I.D." This section is clearly applicable to the LOGROS HG, since A.I.D. will be acting only as a fourth floor guarantor of funds and the Mission will have neither knowledge of--nor will it retain a right to control over the details of--the specific activities that will be funded under the loans ultimately guaranteed by AID.

3.1.2 Relevance of Section 22 CFR 216.2(c)(2)(x)

Agency environmental procedures under 22 CFR 216.2(c)(2) provide that certain "classes of actions are not subject to the procedures set forth in (section) 216.3 (i.e.,

general procedures for projects likely to have an impact on the environment), except to the extent" provided for under section 216.2(c)(2).

Under the referenced Section, Subsection 216.2(c)(2)(x) specifically includes "support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof, and when such support does not involve reservation of the right to review and approve individual loans made by the institution."

With respect to the objectives of the LOGROS HG vis-a-vis this section of the Agency's environmental procedures, it is essential to recognize that a specific objective of the CA Shelter and Urban Development Project (the precursor to the LOGROS HG) was "to permit CABEI to recapitalize its Housing Fund," and a key end-of-project status indicator as articulated in the Housing Program Agreement was that "shelter and infrastructure institutions in the region will have improved their capacity to finance, design and develop environmentally sound and financially viable projects." An objective of the LOGROS HG--while not to "capitalize" CABEI per se--is to "assist in capitalizing" this intermediate credit institution by allowing CABEI to use those institutional funds capitalized by its member states for other purposes.

With respect to reservation of the right to review and approve individual loans made by the institution, it is also essential to recognize that the LOGROS HG is an unusual (if not unique) Housing Guaranty in the extent to which it is directly tied to the specific objectives of the LOGROS Project--a DA-funded municipal development/promotion of democracy activity. The ultimate objective of the HG is therefore that of the LOGROS Project as articulated in the Project purpose, i.e., "to contribute to the transfer of authority and control over financial and human resources from central to local governments while helping to improve local governments' response to citizen demands for improved services and political enfranchisement." As such, this HG will provide the resources to implement activities directly related to the pursuit of this agenda. The primary objective of this HG is therefore not to build infrastructure, but rather to improve the ability of local governments to obtain access to credit. Neither the specific infrastructural activities which will be funded, nor the location (country or city) where they are implemented, is therefore of proximal importance to the attainment of Project objectives at the purpose level of the Project logframe. For this reason, A.I.D. will not reserve the right to review and approve individual loans made by the intermediary lending institutions.

3.2 DA-FUNDED ACTIVITIES

The activities to be supported by the \$2.0 million in DA funds under this Amendment to LOGROS include long-term TA, short-term TA, training activities (including seminars), evaluation activities, and project environmental impact assessment activities--including the \$200,000 earmarked for short-term TA to help CABEI in its review of the environmental impacts of LOGROS-funded activities. These activities are eligible and recommended for categorical exclusion pursuant to the provisions of 22 CFR 216.2(C)(2)(i)--"educational, technical assistance, or training programs"--since the specific activities to be financed using these DA funds will not directly affect the environment.

3.3 CONTINGENCY MEASURES

Consistent with the recommendation of the Institutional Evaluation of CABEI with respect to its ability to ensure that the projects which it funds do not result in significant adverse environmental impact, it is recommended:

- (1) That a total of \$200,000 be earmarked under the Amendment for the purpose of procuring specialized short-term technical services--as needed and appropriate during implementation--to help CABEI conduct environmental impact assessments of the specific project activities to be funded. Earmarking of these funds shall be explicitly established as part of the Project Amendment Authorization.
- (2) That as a specific covenant in the Implementation Agreement, CABEI will agree to ensure that environmental impact assessment is conducted on each subproject in accordance with CABEI environmental policies and procedures. As necessary to complement and supplement CABEI staff capabilities, CABEI will use DA funds earmarked under the grant in the amount of US\$ 200,000 for the purpose of contracting specialized short-term environmental impact assessment expertise to help CABEI evaluate the environmental impacts of those projects.

Attachment 1

The Central American Bank for Economic Integration
Evaluation of Capabilities in Environmental Impact Assessment

Prepared By

Jeffrey W. Goodson
Supervisory Project Development Officer

for

Regional Housing and Urban Development Office
(RHUDO/CA)

July 1993

Attachment 1

The Central American Bank for Economic Integration

Evaluation of Capabilities in Environmental Impact Assessment

1.0 BACKGROUND ON THE INSTITUTION

The Central American Bank for Economic Integration (CABEI), located in Tegucigalpa, Honduras, was originally founded by El Salvador, Guatemala, Honduras and Nicaragua in the early 1960s (Costa Rica joined several years later). AID encouraged the founding of this regional development bank because of its potential contribution to development of a common market in Central America. AID provided a grant to CABEI for public sector infrastructure loans almost simultaneous with its founding, and soon thereafter the Inter-American Development Bank (IDB) began providing loans for the construction of a regional road network.

The first years of CABEI lending were dominated by regional public infrastructure projects such as highways and telecommunications facilities that could promote economic integration. In the 1970s, however, CABEI used AID funds to lend to private sector import-substitution projects such as cement companies, and to finance major hotel construction projects to promote tourism in the region. Still later in the 1970s and into the 1980s, AID assistance began focusing on housing guaranties and agricultural loan facilities.

To help jump start the stagnant economies in Central America, AID developed the Regional Economic Recovery project (\$50 million) with CABEI in 1985. This project included a \$35 million grant designed to finance public infrastructure projects; a \$15 million loan component for export agribusiness loans through a central bank-commercial bank mechanism; and a \$5 million grant for institutional strengthening measures. The grant included TA for recovery of private sector debt arrears, agribusiness programs, personnel administration, development of environmental procedures, design of a management information system and other activities.

Throughout the LOP of the Economic Recovery Project, AID

periodically stopped disbursements to CABEI because of member country debt arrearages caused by (inter alia) internal political-economic problems. In conjunction with a major internal reorganization in the early 1990s, however, CABEI has made major progress in strengthening its internal management, obtaining funds from new sources, and solving the debt arrearage problem.

2.0 CABEI ENVIRONMENTAL POLICY

CABEI environmental policy has a long history. One of the first major environmental policy statements of the Bank--issued in 1982--was the "Program for Planning Environmental Protection in Central America." This document recommended, inter alia, three sets of actions to assist it in attaining its environmental objectives:

- (1) That CABEI establish environmental policies and strategies for consideration during the different stages of the Bank's project cycle;
- (2) That CABEI establish procedures for: (a) environmental planning and analysis that would address preparation of individual financing programs; (b) promotion of projects and eligibility analysis; (c) preparation of feasibility studies; (d) legal opinions; and (e) project supervision; and
- (3) That CABEI prepare "general" environmental evaluation guidelines for projects, and that "common" guidelines for the principal types of projects financed by CABEI be established.

In 1987, based on a Bank "Resolution de Directorio", CABEI signed the International Fund for Agricultural Development's "Declaration for Environmental Policies and Procedures for Economic Development" in Rome. In doing so, it became the 13th active member of the Committee of International Institutions for Environmental Development (CIDIE), and it effectively adopted the environmental policies stated in the Declaration. These include, inter alia, CABEI commitment to:

- (1) Ratify its support to the principal declarations and measures taken at the United Nations Conference (Stockholm 1972);

- (2) Strive to establish procedures for the systematic examination of all development activities, including policies, programs and projects being considered for financing;
- (3) Begin developing cooperative procedures with the governments and respective international organizations and institutions, so that adequate environmental measures could be incorporated in the preparation and implementation of economic development activities;
- (4) Offer technical assistance in environmental matters, including training, to the developing countries that request it;
- (5) Consider and, if appropriate, support proposals contained in projects that are specially designed to protect, restore, order and improve the human environment, the quality of life and related resources;
- (6) Initiate or cooperate with research and studies leading to perfection of project impact methodologies, including cost-benefit analyses related to measures to protect the environment;
- (7) Support training and information for personnel on the importance of the environment to economic development; and
- (8) Prepare, publish and distribute documentation and audiovisual materials which gives guidance on the importance of the environment to economic development activities.

In association with these environmental policies, CABEI also committed to:

- (1) Guaranteeing that projects which use renewable natural resources do not exceed the environment's regenerating capacity;
- (2) Ensuring that projects financed by CABEI do not cause severe or irreversible damage to the environment; jeopardize safety or public health; relocate people or affect vulnerable groups without proper mitigation measures; violate any international agreements to which a member country is a part; damage the environment of a neighboring country without their consent; or significantly modify natural areas designated by international agreements (e.g., world heritage sites or

biosphere reserves) or, in the case of parks, wildlife sanctuaries or other areas, protected by national legislation; and

- (3) Guaranteeing that projects that cause inevitable harmful effects to the environment are located in areas where damage will be kept at a minimum, even if initially they have a higher cost.

In 1988, CABEI articulated its primary environmental objectives in a document (prepared with the support of AID) entitled "Manual for Environmental Evaluation." These "objectives" were to:

- (1) Incorporate environmental ideas into the planning of the Bank's financial operations; and
- (2) Ensure that environmental protection measures which can have significant results are taken into account in the design and performance of Bank-funded projects.

3.0 CABEI ENVIRONMENTAL PROCEDURES

3.1 HISTORY OF CABEI ENVIRONMENTAL PROCEDURES

CABEI was--even in the early 1980s--aware of and sympathetic to environmental concerns, and had taken steps to identify and mitigate impacts accruing from some of its industrial, energy and agricultural projects. By 1985, however, it was clear that further progress was desirable. What ensued in the next eight years makes an interesting case study, and reflects the strengths and weaknesses in the approach taken by AID during the decade of the 1980s to institutionalize environmental impact assessment capabilities in organizations like CABEI worldwide.

A major objective of Agency environmental initiatives in the 1980s (and indeed an ongoing objective today) was to strengthen the ability of key institutions to: (1) develop environmentally sensitive policies; (2) establish procedures to implement those policies; (3) train institutional personnel; and (4) with respect to intermediate finance institutions (IFIs), develop a capacity to conduct project environmental impact review appropriate to the circumstances prevailing in the respective parts of the world where those institutions operate. With CABEI, this occurred through two projects designed and implemented by AID's Regional Office for Central American Programs (ROCAP).

The Regional Economic Recovery Project. The first of these projects was the Regional Economic Recovery Project (596-0114), a \$50.0 million activity authorized in 1985 whose purpose was "to improve CABEI's financial and administrative viability and increase the Bank's investment impact on the region while strengthening its private sector program development." This project funded: (1) the long-term services (three years, 1986-1989) of an Environmental Advisor at CABEI; (2) development of environmental guidelines to assist in project design, evaluation and monitoring; (3) short-term training of CABEI staff; and (4) hardware and software for use in project environmental analysis.

The CA Shelter and Urban Development Project. The second project was the CA Shelter and Urban Development Project (596-0143/596-HG-006), an \$89.0 million activity authorized by ROCAP in 1986 whose purpose was "to increase the availability of shelter and basic services to low-income Central American families, and to strengthen the existing capacity of CABEI and national and local public and private sector agencies to provide these services." This project substantially reinforced the activities begun under Regional Economic Recovery. Funding for CA Shelter originally included \$4 million in grant funds, \$15 million in loan funds, \$45 million in Housing Guaranty authority, and \$25 million in CABEI counterpart contributions. The HG authorization was amended in September 1987 and in July 1988; the \$15 million in DA loan funds was deauthorized in June 1990; and the PACD was subsequently extended until 31 December 1994.

A key condition precedent to disbursement under CA Shelter--as articulated in the Project Authorization and Project Agreement (Section 5.2)--was that:

"Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, for infrastructure projects after the first round of project selection, CABEI shall furnish to A.I.D., in form and substance satisfactory to A.I.D., the selection criteria, including environmental controls and cost recovery, to be used for future infrastructure project selection."

In addition, a key covenant in the Project Agreement (Section 6.8) was that CABEI will:

"Ensure that subprojects financed under the Agreement are based upon environmentally sound engineering plans and technical designs approved by CABEI in accordance with its environmental regulations and procedures."

Further, the Housing Program Agreement between CABEI and the USG for this activity specifically required certification of compliance that the infrastructure financed by CABEI:

"Is based upon environmentally sound engineering plans and technical designs approved by CABEI in accordance with its environmental regulations and procedures, and will meet all CABEI policies, standards, and procedures for financing and for construction."

Finally, end of Project status indicator No. 5, as articulated in the Project Agreement (Annex 1, Section III.A), was that: "shelter and infrastructure institutions in the region will have improved their capacity to finance, design, and develop environmentally sound and financially viable projects."

On 19 April 1988, AID advised CABEI that to comply with the Project's environmental condition precedent to disbursement, CABEI "shall submit detailed procedures for selecting infrastructure projects which include environmental controls and cost recovery mechanisms." To meet these obligations, AID agreed under the Technical Assistance and Training component of the Project to fund: (1) short-term training in the US designed to develop specific individual skills in, inter alia, environmental planning, design and construction planning; and (2) short-term experts to provide specialized assistance to individual participating institutions in environmental planning and design. On 1 March 1989, AID notified CABEI by PIL that the condition precedent related to selection criteria--including environmental controls--had been met.

Impact on the Institution. Both the Regional Economic Recovery and CA Shelter projects had a major impact on institutionally strengthening CABEI vis-a-vis that institution's capabilities to perform environmental impact review of its projects. By 1987, the CABEI Board of Directors adopted an agreement instructing the CABEI Administration to: (1) incorporate project environmental review into CABEI's financial planning and projects; and (2) support the efforts of CABEI's member countries in the activities they undertake with respect to environmental protection. To comply with these instructions, a TA and training program was prepared for the Bank's member countries, and procedures were developed for the planning and environmental analysis to follow.

By 1988, a CABEI Manual for Environmental Evaluation had been developed, published and put into effect. This manual--written to incorporate environmental review into Bank project review procedures--fully describes CABEI's system of review; review

responsibilities; methodologies for project screening; and methodologies for evaluating environmental impact. Moreover, it includes standards for the twelve most common types of projects funded by the Bank (Table 1), and methodologies for carrying out 25 specific types of environmental impact studies (Table 2).

3.2 CURRENT CABEI PROCEDURES

Under CABEI's organizational structure as it existed in the late 1980s (Figure 1), responsibility for ensuring that CABEI projects would result in no significant and unmitigated adverse environmental impact occurred at four institutional levels. The Office of Promotion and Studies was responsible for project identification and proposal evaluation; the Department of Project Analysis was responsible for project guidelines and feasibility studies; the Office of the Director was responsible for project approval; and the Office of Operations was responsible for project implementation and monitoring.

This situation changed in the early 1990s, when CABEI underwent major institutional change including a structural reorganization. Under CABEI's current organization (Figure 2), primary responsibility for project environmental review lies with the CABEI subgroup responsible for overall project approval, implementation and monitoring. Review of public sector projects is the responsibility of the Public Sector Management Division, and review of private sector projects is the responsibility of the Private Sector Management Division. Each has different project environmental review procedures.

Public Sector Projects. Public sector projects are the responsibility of the Public Sector Management Division of CABEI (Figure 2), which consists of four separate Departments:

- (1) Transportation and Water Works (eight professionals);
- (2) Energy and Communications (eight professionals);
- (3) Social Development (seven professionals, with an eighth to be added in agriculture and environment/natural resources); and
- (4) Policies and Program (four professionals).

Table 1

Common CABEI Projects
With Available Standards for Environmental Evaluation

Hydroelectric Projects
Geothermal Projects
Thermoelectric Projects
Road Projects
Agricultural Projects
Forestry Projects
Housing and Urban Development Projects
Projects for the Development of Tourism
Projects for the Development of Coasts and Fishing
Food Industry Projects
Metallic Industry Projects
Projects for the Tannery Industry

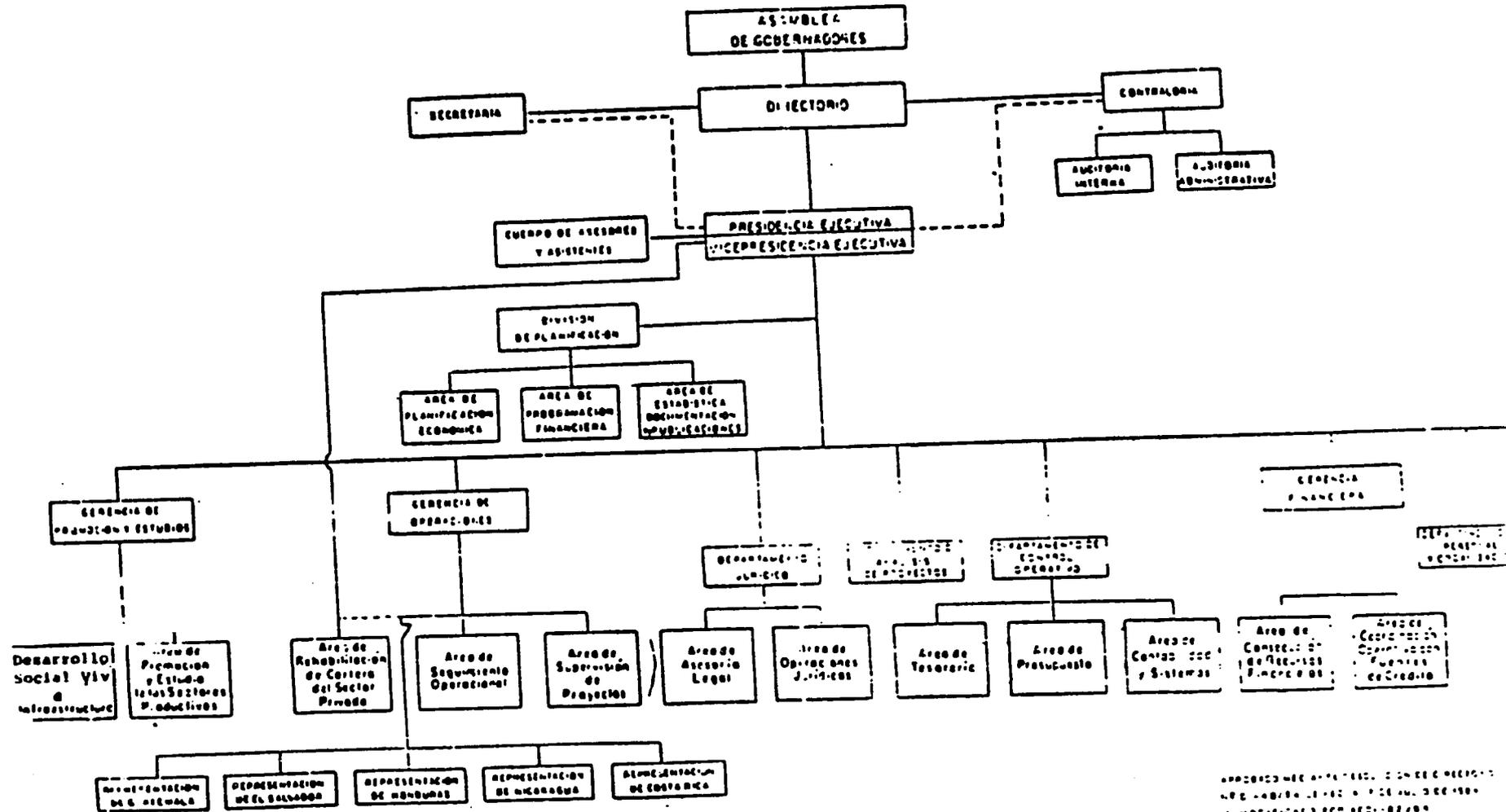
Table 2

Impact Assessment Methodologies for Common CABI Projects

Pesticides and Fertilizers
Agricultural Residual Water
Watershed Management
Forest Management
Epidemiology
Relocation
Archaeological Zones
Management of Reservoirs
Wild Fauna and Flora
Water Supply
Management and Disposal of Residual Water
Urban Planning
Social Development
Aesthetic Aspects
Coastal Stability
Drainage
Management of Fishing Resources
Opening of Roads
Banks for Supplies
Noise
Air Contamination
Water Contamination
Soil Contamination
Industrial Safety
Occupational Safety

BCIE
 GRAFICA GENERAL DE ORGANIZACION

ATTACHMENT 1

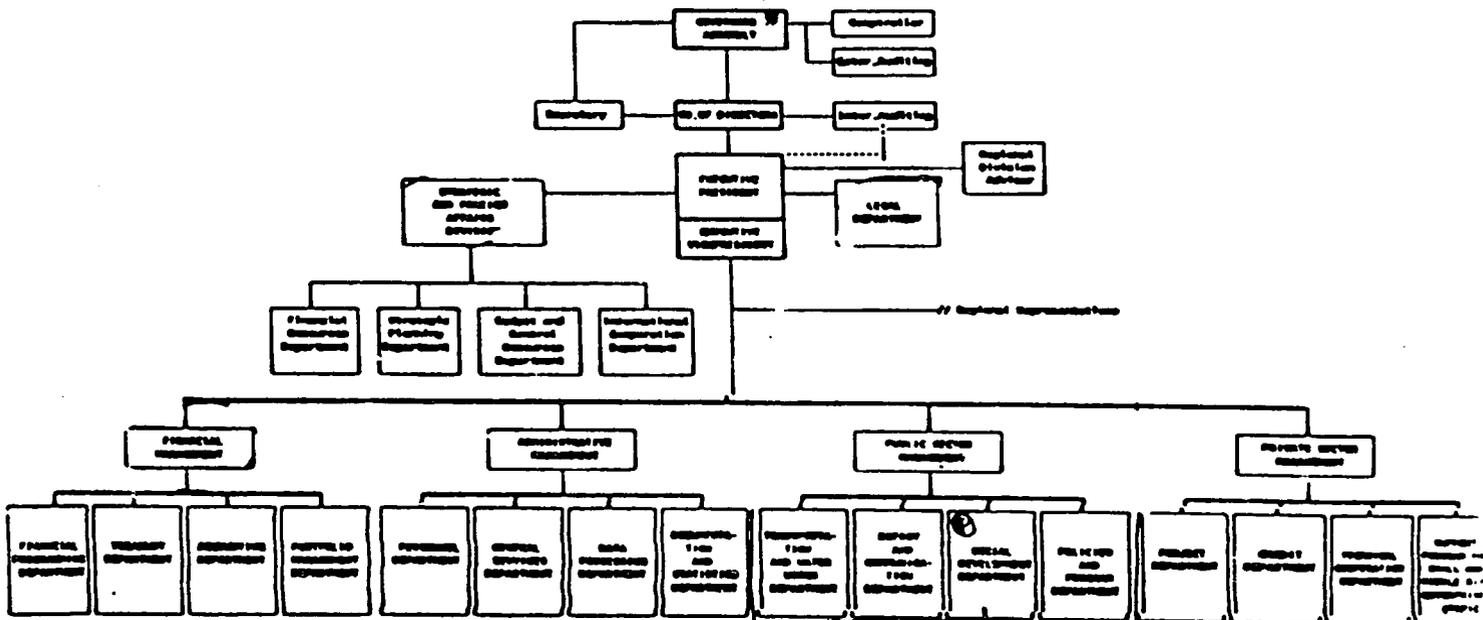


APROBADO POR EL COMITE DE ADMINISTRACION Y FINANZAS DEL BANCO EN SU REUNION DEL DIA 15 DE AGOSTO DE 1984 A LAS 10:00 HORAS EN LA OFICINA DEL DIRECTOR GENERAL DEL BANCO.

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ORGANIZATIONAL STRUCTURE OF THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



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The Social Development Department is the only one of these four departments with environmental review capabilities, and as such is specifically responsible for all environmental review of public sector projects. The seven professionals in this Department each manage a separate subprogram--in environmental preservation; health; professional training; nutrition; cooperatives and microenterprises; rural integrated development; and housing and urban development. It is the housing and urban development subprogram (with subprograms in basic services and housing, below median income housing, above median income housing, and environmental protection) which is specifically responsible for project environmental review.

The sequence of CABEI environmental review for public sector projects is as follows:

Step 1. Borrower Request for Assistance. The borrower approaches CABEI with a project description, supporting documentation, and the scopes of work required for further project development. This material includes a completed project environmental impact questionnaire, originally developed by CABEI with AID technical assistance.

Step 2. CABEI Project Request Review. A Project Working Group ("Grupo de Trabajo")--consisting of two or three CABEI professionals from different disciplines--is convened to review the project documentation submitted by the borrower, including the project environmental impact questionnaire. This Working Group may consist of professionals from either the Public or Private Sector Management Departments, or both.

Step 3. CABEI Field Review. A field review is then conducted of the specific activities to be funded under the loan request, including a review of all project documentation for completeness, clarification, practicability, economic rate of return and other factors (including environmental impact). This is normally undertaken by the Chief of the Public Sector Management Division and the heads of the four Public Sector departments, any of which may make modifications to the project.

Step 4. CABEI Credit Committee Review. When approved by the Public Sector Department, the project documentation is forwarded to the CABEI Credit Committee. The Credit Committee consists of six voting members (the Vice President of CABEI--who serves as Chair--and the heads of the Public Sector Management Division, Private Sector Management Division, Financial Management Division, Strategic Affairs Division and Legal Department), and two non-voting members (the chief of the Working Group and the chief of the Department).

Step 5. CABEI Board of Directors Review. If the project is approved by the Credit Committee, project documentation is then submitted to the Board of Directors of CABEI--along with recommendations--in a document called the "dictamen". The dictamen includes a separate section on the likely environmental impacts of the project. The Board can either accept the project documentation (with or without further modification), or reject it.

Step 6. Finalization of the Loan Agreement. Upon approval of the project by the Board of Directors, a new Implementation Working Group is established to advise and supervise the borrower vis-a-vis the loan agreement, and to articulate conditions precedent to disbursement--including any related to mitigation of environmental impacts. During project implementation, these conditions precedent can (and have) been employed to ensure that environmental mitigation measures are adhered to.

Step 7. Implementation. Upon finalization of the loan agreement, project work begins and CABEI monitors project implementation through the Working Group. The Working Group consists of three to four professionals, including technical, administrative and financial representatives. An Executive Unit--the Borrower counterpart group--is also established for the project under Borrower supervision. The Executive Unit reports monthly to the appropriate department of the Bank via the Working Group, which in turn ensures that the project is on track.

Private Sector Projects. Because of the fundamentally different nature of the roles that the Bank plays in funding private vs. public sector projects, CABEI's environmental impact review procedures for private sector projects are different than those employed for public sector projects. Private sector project environmental review procedures are implemented by the Private Sector Management Division, which consists of four Departments:

Projects (eight professionals);
Credit (seven professionals);
Technical Cooperation (largely defunct as of June 1993); and
Small and Middle Size Operations (seven professionals).

Among these professionals are financial, technical, economic and engineering specialists. How private sector loans are processed varies considerable depending on the specific level of involvement of CABEI in the loan.

CABEI as a Third Tier Lender. Where CABEI acts as a third tier lender (a scenario which is slowly being phased out), it typically lends money to the Central Bank of a member state which in turn lends money to a commercial bank in that member state. The client--in this case the commercial bank--conducts the project studies and prepares the loan application, including the CABEI environmental questionnaire. It is therefore the responsibility of the commercial bank to ensure that the financial terms are acceptable and that appropriate environmental concerns have been addressed. When the package is completed, it is forwarded along with ancillary documentation to CABEI where the Private Sector Division checks to ensure that all documentation is in order and complete and that the package meets CABEI policy, financial, technical and environmental requirements. The Private Sector Division then approves the loan; the commercial bank sends a letter to the Central Bank; the Central Bank provides the funds to the commercial bank; and the commercial bank in turn loans funds to the ultimate borrower. Third tier lending projects are supervised by CABEI in coordination with the commercial bank, and both are responsible for assuring that environmental mitigation measures are accomplished. Supervision for most third tier lending loans by CABEI, however, is more or less random.

CABEI as a Second Tier Lender. Where CABEI acts as a second tier lender, there is no loan to a member country's Central Bank; rather, the CABEI Board of Directors approves a line of credit directly to the commercial bank. The same guidelines apply as with third tier lending projects, i.e., policy, financial, technical and environmental characteristics of the loan package must be consistent with Bank procedures, and also (as with third tier loans) it is the responsibility of the Borrower (i.e., the commercial bank) to prepare the loan package to CABEI's satisfaction. Upon approval of the package by the Private Sector Division, immediate disbursement of funds to the commercial bank occurs. Again, random supervision of project implementation is undertaken by CABEI in conjunction with the commercial bank.

CABEI as a Co-Financer. On projects where CABEI co-finances projects, it lends money to one or a syndicate of banks. The banks send a line-of-credit request to CABEI requesting additional funds (usually on the order of \$2-3 million), and CABEI approves the line of credit to the commercial bank and the loan to the ultimate borrower. Under this scenario, the ultimate borrower is typically borrowing from both the commercial bank and from CABEI. Again, project documentation is submitted by the syndicate bank(s), with project monitoring undertaken by CABEI.

4.0 INSTITUTIONAL IMPACT ASSESSMENT ISSUES

There are seven major considerations in evaluating the extent to which intermediate lending institutions have the capability to ensure that significant adverse environmental impact does not ensue from the projects which they fund. These are:

- (1) Whether appropriate environmental review policies exist and are institutionalized;
- (2) Whether procedures for review of project environmental impacts are established and institutionalized;
- (3) Whether responsibility and authority are established in the institution to ensure that environmental impact review is undertaken; that mitigation measures are built in to the project as appropriate; and that project implementation is monitored to ensure that mitigation measures are followed;
- (4) Whether institutional procedures are actually followed;
- (5) Whether institutional staff levels, qualifications and experience are sufficient to ensure that impact review is appropriate;
- (6) Whether there is sufficient internal review of impact assessments by "non-interested: (e.g., legal) institutional entities; and
- (7) Whether there are mechanisms in place to ensure that loan funds can be cut off if appropriate mitigation measures are not adhered to during project implementation.

A review undertaken in June 1993 to assess CABEI's institutional characteristics in light of these seven criteria found that--with one exception--CABEI's institutional characteristics meet or exceed the minimum levels required to ensure that significant adverse environmental impact does not accrue from CABEI-funded projects. That exception is CABEI staff qualifications and experience. Although considerable environmental impact assessment training has occurred at CABEI over a period of nearly ten years--funded by both AID and such other bilateral donors as the Germans--CABEI by its own admission cannot afford to retain the highly specialized staff required to fully assess the impacts of all of the numerous types of projects (especially

infrastructure projects) for which it loans money. In recent years, CABEI has therefore relied largely on internal specialist staff funded in association with specific donor projects to conduct environmental review of these projects. These include staff funded under AID's CA Shelter and Urban Development Project, and more recently staff funded through a German technical assistance project.

This situation is not unique to CABEI, and it appears (parenthetically) to represent a key lesson learned in donor assistance provided for the purpose of institutionalizing environmental impact assessment capabilities: i.e., that whereas national governments may have access--through their technical ministries--to the human resources required to conduct technically adequate environmental impact review, it is financially unrealistic to expect small to medium sized intermediate finance institutions to maintain adequate staff levels to do so. Even with major multilateral development banks such as the IDB and World Bank, for example, most if not the overwhelming majority of impact assessments are contracted out rather than conducted in-house. For this reason, it is considered inappropriate here to attempt (again) to establish an intra-institutional capability within CABEI to conduct environmental impact assessments.

5.0 RECOMMENDATIONS

LOGROS is neither an environmental nor an institutional strengthening project, and it would be inappropriate to use scarce project resources to attempt to fund a permanent and full-service capability at CABEI to prepare--on demand--high quality environmental impact assessments of the extremely diverse types of projects which that institution helps to fund through its various loan programs. In addition to being inappropriate, moreover, it would also be cost-ineffective since only about 20 activities would be funded through the 1990 PACD, and it would in any case be unsustainable after the project is completed.

At the same time, it is essential that AID environmental policies as articulated in 22 CFR 216.1 (b) vis-a-vis environmental impact assessment be adhered to, i.e., that "the environmental consequences of AID-financed activities are identified and considered by AID and the host country prior to a final decision to proceed and that appropriate environmental safeguards are adopted."

Therefore, given that: (1) CABEI staff resources are currently insufficient to ensure that the adverse impacts of LOGROS HG-funded activities are appropriately identified and considered prior to disbursement of loan funds; (2) it would be inappropriate, cost-ineffective and unsustainable to use LOGROS HG DA funds to establish technical capabilities at CABEI for the sole purpose of conducting environmental review of the 20 or so HG-funded activities to be funded by the Project through the 1999 PACD; and (3) such capabilities can best be procured by this intermediate finance institution on an "as-needed when-needed" basis, a total of \$200,000 should be earmarked under this Amendment to LOGROS for the purpose of procuring specialized services--as needed and appropriate during implementation--to conduct environmental review of the specific project activities to be funded.

The earmarking of these funds should be established as part of the Project Amendment Authorization, and as a covenant in the Implementation Agreement CABEI should be required to agree to ensure that environmental impact assessment is conducted on each subproject in accordance with CABEI environmental policies and procedures.

Annex I

Detailed Illustrative Cost Estimates

Table I-1

**ILLUSTRATIVE BUDGET
LOGROS PROJECT SUPPLEMENT
DA GRANT
(US\$ 1.00)**

| Activity | 1994 | 1995 | 1996 | 1997 | TOTAL |
|--------------------------------------|----------------|----------------|----------------|----------------|------------------|
| A. Consensus Building* | 125,000 | 135,000 | 115,000 | 75,000 | 450,000 |
| 1. Seminars (1) | 55,000 | 55,000 | 55,000 | | 165,000 |
| 2. Workshops (5) | 50,000 | 30,000 | 30,000 | 50,000 | 160,000 |
| 3. Publications | 5,000 | 5,000 | 5,000 | 5,000 | 20,000 |
| 4. Training (15) | 15,000 | 10,000 | 10,000 | 10,000 | 45,000 |
| 5. Observation Trips | | 35,000 | 15,000 | 5,000 | 60,000 |
| B. Technical | 175,000 | 250,000 | 250,000 | 225,000 | 900,000 |
| 6. TA to CABEI | 45,000 | 60,000 | 60,000 | 35,000 | 200,000 |
| 7. TA to Financial Intermediaries | 30,000 | 65,000 | 65,000 | 65,000 | 225,000 |
| 8. TA to Municipalities/Civic Groups | 50,000 | 75,000 | 75,000 | 75,000 | 275,000 |
| 9. Environmental Impact Analysis | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| C. Project Management** | 100,000 | 200,000 | 200,000 | 100,000 | 600,000 |
| D. Evaluations | 0 | 0 | 0 | 50,000 | 50,000 |
| E. Audits | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 400,000 | 585,000 | 565,000 | 450,000 | 2,000,000 |

* Numbers in parentheses refer to events for Seminars and Workshops, and persons for Training and Trips.

** This item refers to costs for one Non-PSC to be working in CABEI.

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Table I-2

ILLUSTRATIVE BUDGET BY IMPLEMENTATION METHOD
DA GRANT SUPPLEMENT OF \$2,000,000
(US\$ 1.00)

| IMPLEMENTATION METHOD | 1994 | 1995 | 1996 | 1997 | TOTAL |
|-------------------------|---------|---------|---------|---------|-----------|
| HB 3 Grant to CABEI | 175,000 | 185,000 | 165,000 | 125,000 | 650,000 |
| Core Direct Contract | 125,000 | 200,000 | 200,000 | 225,000 | 750,000 |
| Non-PSC Direct Contract | 100,000 | 200,000 | 200,000 | 100,000 | 600,000 |
| TOTAL | 400,000 | 585,000 | 565,000 | 450,000 | 2,000,000 |

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Table I-3

ILLUSTRATIVE BUDGET
 DETAILED COST ESTIMATES FOR HB 3 GRANT TO CABEI
 (US\$ 1.00)

| Activity | | 1994 | | 1995 | | 1996 | | 1997 | TOTAL |
|----------------------------------|--------------|----------------|------|----------------|------|----------------|------|----------------|----------------|
| 1. Seminars | (1) | 55,000 | (1) | 55,000 | (1) | 55,000 | | | 165,000 |
| 2. Workshops | (5) | 50,000 | (3) | 30,000 | (3) | 30,000 | (5) | 50,000 | 160,000 |
| 3. Publications | | 5,000 | | 5,000 | | 5,000 | | 5,000 | 20,000 |
| 4. Training | (15) | 15,000 | (10) | 10,000 | (10) | 10,000 | (10) | 10,000 | 45,000 |
| 5. Observation Trips | | | (10) | 35,000 | (4) | 15,000 | (3) | 10,000 | 60,000 |
| 6. Environmental Impact Analysis | | 50,000 | | 50,000 | | 50,000 | | 50,000 | 200,000 |
| | TOTAL | 175,000 | | 185,000 | | 165,000 | | 125,000 | 650,000 |

* Numbers in parentheses refer to events for Seminars and Workshops, and persons for Training and Trips.

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Table I-4
ILLUSTRATIVE BUDGET
DETAILED COST ESTIMATES FOR CORE INSTITUTIONAL CONTRACT
(US\$ 1.00)

| ACTIVITY | 1994 | 1995 | 1996 | 1997 | TOTAL |
|--|----------------|----------------|----------------|----------------|----------------|
| 1. TA to CABEI | 45,000 | 60,000 | 60,000 | 35,000 | 200,000 |
| 2. TA to Financial Intermediaries | 30,000 | 65,000 | 65,000 | 65,000 | 225,000 |
| 3. TA to Municipalities/ Civic Groups | 50,000 | 75,000 | 75,000 | 75,000 | 275,000 |
| TOTAL | 125,000 | 200,000 | 200,000 | 225,000 | 750,000 |

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Annex J
Statutory Checklist

THE HOUSING GUARANTY PROGRAM

Statutory Checklist

The Central American Bank for Economic Integration

Project No. 596-HG-010

ANSWER YES/NO PUT PP PAGE
REFERENCES AND/OR EXPLANATIONS
WHERE APPROPRIATE

A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project meet the following criteria.

- | | |
|--|--|
| (1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost shelter is financially viable; | Yes. The project will provide shelter-related infrastructure. |
| (2) is intended to assist in marshalling resources for low-cost shelter; | Yes. |
| (3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national policy; and, | It is expected to have a maximum demonstration impact on municipal finance policies and procedures and on public and private lending institutions. |
| (4) is intended to have a long-run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for effective low-cost shelter programs and policies. | Yes. The focus is more on improving conditions for municipal borrowing to finance infrastructure than on construction capabilities per se. |

Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time be in excess of \$2,558,000,000 [not applicable for FY '93 appropriation].

N/A

Section 222(b)

Will the proposed guaranty result in activities which emphasize:

- | | |
|---|------|
| (1) projects providing improved home sites to poor families on which to build shelter, and related services, or | Yes. |
| (2) projects comprised of expandable core shelter units on serviced sites; or | No. |

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- (3) slum upgrading projects designed to conserve and improve existing shelter; or Yes.
- (4) shelter projects for low-income people designed for demonstration or institution building; or No.
- (5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor? Yes.

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?

N/A

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S Investor, as prescribed by the Administrator, not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?

Yes.

Section 223(j)

[For FY '93 appropriation, not applicable to programs for Eastern Europe]

- (1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country? Yes. The proposed Housing Guaranty is complementary to A.I.D. Project 596-0167, Local Government Regional Outreach Strategy (LOGROS) and will be coordinated with it.
- (2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of shelter or of financial or other institutional arrangements? The proposed Housing Guaranty will demonstrate the feasibility of private sector lending at market rates to finance infrastructure (water, sewer, etc.) in poor neighborhoods.
- (3) Is the project designed and planned by A.I.D. so that at least ninety percent (90%) of the face value of the proposed guaranty will be for shelter suitable for families with income below the median urban income for housing in urban areas, in the host country? Yes.

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(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed \$25 million in any fiscal year? No.

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed \$15 million? No.

B. Criteria Under General Foreign Assistance Act Authority.

(1) Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year? Yes, but we will recheck status of country eligibility checklist at time of assistance.

(2) Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country eligibility checklist? No, but we will recheck status of country eligibility checklist at time of assistance.

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