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AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON DC 20523

INFORMATION MEMORANDUM FOR THE DEPUTY ASSISTANT ADMINISTRATOR (LAC)

FROM: LAC/DR, Terrence J. Brown

SUBJECT: Wrap-Up Session: Semi-Annual Portfolio Reviews of the Central American Countries

A wrap-up of the FY 1987 (B) Semi-Annual Portfolio Reviews (SAR's) of the Central American countries has been scheduled for Tuesday, January 26, 1988 at 2:00 p.m. in M. Butler's office.

I. REGION-WIDE PERFORMANCE

A. SAR Process

The Mission SAR's were generally of good quality although some lapses in format and reporting made analyses of Mission performance more difficult. The most comprehensive and conclusive reviews were those for El Salvador and ROCAP where mission representatives were in attendance. We will continue to stress the value of mission representation at the reviews, and discuss with missions the possibility of involving bureau finance officers in the Mission's own reviews to permit greater awareness of portfolio issues and concerns.

Guidance is being prepared and will be sent to the field in February suggesting minor but important improvements in SAR content and format. We will also request that summary reporting on the ESF and local currency programs accompany the submission to AID D/W and that the projects be presented according to Action Plan (AP) objectives. This will allow for greater integration with the AP process, give a more accurate picture of actual portfolio impact and aid in the identification of issues requiring Bureau office attention.

B. Program Performance: (Refer to tables/charts attached)

1. Pipeline Liquidation Rate: The average pipeline liquidation rate (PLR) for the Central American region remained relatively constant at 41.7 for FY 87 as compared to 40.8 for FY 86. The low Guatemala liquidation rate of 20.1, due principally to the large pipeline build-up from 85-87 obligations, has affected the regional trend. Honduras' rate was 45.3, El Salvador's 43.2, Costa Rica's 38.9 and ROCAP's 39.0.

The relatively larger infusion of resources to Central America versus the Caribbean (48.5 PLR) and South America (48.9 PLR) has had some impact on pipeline and the liquidation rate.

C. "Problem" Projects:

Sixteen projects were classified as "category C" or "problem" projects out of a total of 135 projects. Missions appear to be forthcoming about the difficulties projects are encountering and the specific steps taken or needed to improve implementation.

D. Program Management:

1. Portfolio consideration: The total number of active projects in Central America (core four countries plus ROCAP) at the end of FY 1987 was slightly above the number a year earlier: 136 (9/30/87) vs. 133 (9/30/86). The total increased because of new starts in Guatemala and El Salvador. The number of active projects declined in Honduras (from 40 to 28), Costa Rica and ROCAP.
2. Project Development: Planned new starts continue to show a steady decline: 25 (FY 87 actual); 19 (FY 88 planned), and 13 (FY 89 planned). The number of new starts planned for FY 89 might increase as the FY 89 program is more defined during upcoming FY 89-90 Action Plan reviews.
3. De-obligation: Potential candidates for de-obligation are listed below:

El Salvador

519-0229 (B), FEDECREDITO--Approximately \$2.5 million ESF grant and \$1.0 million DA loan remain in the pipeline. The \$2.5 million ESF would be re-obligated for the BOP program.

Honduras

522-0269, Strategic Planning and Technical Support--The Mission is considering a PACD extension and partial de-obligation.

Guatemala

520-0281, Non-Formal Education--\$467,000 remains in the pipeline. PACD has been extended twice to March 31, 1988. Project is rated "B" and could be extended again (our preference) or de-obligated.

## ROCAP

596-0114, Regional Economic Recovery (CABEI)--\$15.4 million is in the pipeline. PACD is March 30, 1988. Project disbursements are largely suspended pending achievement of an intermediate condition precedent (CP) by CABEI to raise \$100 million in extra-regional contributions. Project will be extended if CP is achieved in early FY 1988 as expected.

596-0095, Regional Industrial Energy Efficiency--\$1.0 million in pipeline. PACD is December 12, 1987. ROCAP plans to de-obligate the funds and re-obligate for a follow-on project with ICAITI.

4. Audits and Evaluations: Twenty-eight audits were performed during FY 1987, including 13 in Costa Rica, 6 in Guatemala, and 5 in Honduras. Roughly 20 evaluations were performed (based on incomplete A.I.D./W records).

## II. PROJECT SPECIFIC ISSUES

### COSTA RICA

1. Private Investment Corporation (515-0204): Project expenditures under this \$21 million project were only \$833,000 during the period. The Private Investment Corporation (PIC) project (515-0204) has management and staff training issues that the Mission feels are now being properly corrected. Issues remain about whether PIC can establish a role for itself as an equity investor. Investors with sound projects often don't want a partner, and the other potential investments are too risky. PIC has recently experienced some bad debts--\$300,000. A.I.D./W has requested that the Mission, in connection with any extension of the 8/3/88 PACD, look carefully at PIC's: a) portfolio performance; b) success in taking equity positions; and c) progress with staff problems. We have also requested the Mission to appraise whether PIC's difficulties in identifying sound potential equity investments is an endemic problem that argues against the possibilities of successful equity investment.

2. Regional Agricultural Higher Education (596-0129 B): The Mission was requested to advise on status of the revised implementation plan for the project. Given the initial one year delay in project start-up, we are concerned that implementation actions be clearly scheduled and synchronized.

### EL SALVADOR

1. Industrial Stabilization and Recovery (519-0287): Progress under the public sector component of this project has been marginal. The Mission perceives a new interest on the part of

Duarte towards non-traditional export development. As a result, the Mission extended the PACD of the public sector component and is working on a redesign of this activity. Lending under the private sector component's Investment Fund will begin in the first quarter of CY 88. An evaluation of the operation of the trust mechanism of this fund is to be carried out as soon as combined lending under this fund and the new agribusiness project reaches \$4.5 million.

2. Small Producer Development (519-0229): FEDECCREDITO's unsound, inefficient and uncooperative management has undermined its financial soundness. The Mission states that FEDECCREDITO is willing to institute administrative changes, and as a result intends to extend the PACD through September 30, 1988. The Bureau advised the Mission of our concern that FEDECCREDITO's continued resistance may not justify this extension.
3. Urban Small Business (519-0309): Credit approvals and training activities have increased. PROPEMI is drawing up changes to its credit lines to further accelerate credit delivery. It has, however, focused more on providing technical assistance and training to small businesses. The Mission is discussing with FUSADES how to best spin off PROPEMI.
4. Water Management (519-0303): Only 6 percent of project funds have been expended. Serious questions have arisen regarding the assumptions under which CORPREX, an association of irrigation equipment dealers, was chosen as a major project implementing agency. The Mission maintains that demand for irrigation loans is high. FUSADES is amending the role of CORPREX and will integrate all its agribusiness activities, including irrigation, into one department. The public sector component is being recommended.
5. Agrarian Reform Credit (519-0263): This project is nearly complete. The Bureau just authorized a six-month extension to complete the installation and testing of the BFA's credit management information system.
6. Agrarian Reform Sector Support (519-0265): Phase I and Phase III land titling proceeded through the December, 1987 PACD. These activities are expected to be continued by the GOES using local currency resources. The Mission was requested to provide AID/W with its strategy for this sector.
7. Health and Jobs for Displaced Families (519-0281): The Mission is focusing on supporting the returnee movement by concentrating on communities where Displaced Persons are returning voluntarily. In response to concerns about FEDECCREDITO, the Mission is now contracting directly with a CPA firm to assist its program auditing unit and provide training and recommendations to local credit agencies.

8. Judicial Reform (519-0256): An evaluation of the project is to be submitted shortly. The future of the JPU will remain unclear until the Mission (and Embassy) have had a chance to study this evaluation. The Committee on Investigations made substantial progress on a number of investigations. This work has been overtaken by events related to GOES actions under the regional peace plan. The Bureau has requested a copy of the evaluation and has asked the Mission to discuss the impact of amnesty for prisoners of this project in the next SAR.

### GUATEMALA

1. Agriculture Sector: The Mission is completing a rural development strategy which is expected to be submitted for A.I.D./W review later this month or early February along with the Action Plan. Key issues are agricultural credit, land distribution constraints and long-term agricultural targets. The strategy will probably require some project changes including those below:

2. Highlands Agricultural Development Project (520-0274): Reprogramming efforts have been undertaken to improve the technical and physical capability of BANDESA and DIGESA to improve project performance. An evaluation of this project completed in December 1987 indicates that further reprogramming may be required. The Bureau is awaiting a copy of the evaluation and proposed actions.

3. Small Farmer Diversification Systems (520-0255): A PP amendment is proposed by the Mission this FY as a result of an evaluation of the project. The PACD of September 30, 1988 will allow time for the reprogramming. The main problems encountered are that disbursements under the project have been smaller than expected due to the devaluation of the quetzal and annual under-budgeting of funds by the GOG. The amendment will include the following modifications, among others:

- The addition of a marketing component, since dependency on other projects for marketing services was not working.
- The research component will be renovated.
- The long-term U.S. technical assistance team will be reduced with use of short-term assistance as required.
- Activities which have not provided major impacts, such as the 4-S Clubs, will be eliminated.
- An integrated Pest Management Component will be

added to introduce training and technical assistance in the effective, safe handling of pesticides.

- A less-restrictive credit mechanism is being incorporated.

4. Agribusiness Development (520-0276): An evaluation of this project was completed in December, 1987. The evaluation deals particularly with the demand for credit and credit line problems. The Bureau is awaiting a copy of the evaluation and actions proposed.

#### HONDURAS

1. Export Development and Services (522-0207): The project's main thrust of increasing non-traditional exports continues to come slowly, especially on the agricultural side with FEPROEXAAH. The Mission is evaluating the project's three components and may redesign them.

2. Small Farmer Livestock Development (522-0209): During the reporting period, the Mission evaluated the financial and operational capability of the project implementing agency, the Fondo Ganadero. The FONDO has serious financial problems primarily because it is not being capitalized as planned. The Mission plans to resolve this problem possibly by directly contributing to a capitalization fund. The Bureau asked the Mission to advise how it intends that the capitalization would work.

3. Small Farmer Organization Strengthening (522-0252): The start-up of project activities is finally well underway. The Mission expects three intermediaries which have submitted applications to the Honduran Cooperative Financial Development Fund to shortly qualify for funding and that the project will be fully disbursed by 1990. The major delay at present is negotiating a bank account agreement to fund the operational support and financial stabilization of these institutions. The Bureau advised the Mission that we agree with their assessment that continued delays in financing these institutions will have a major negative impact on the project.

4. Strategic Planning and Technical Support (522-0269): At current expenditure rates, there will be a \$2.25 million pipeline at July 31, 1988, the current PACD. The Mission has noted that now since the Consultative Committee is functioning, disbursements will quickly increase. The RIG audited this project during FY 87. Its preliminary findings indicate concern with delays in implementing the project and a possible circumvention of authorized staffing levels using project funds. The Mission states that there has been no circumvention

in spirit or in practice of authorized staffing levels. The Mission has been asked to keep the Bureau fully informed of its response to the audit and to spell out its intentions regarding deobligation or the prospect of extending the PACD.

5. Primary Education Efficiency (522-0273): Technically, much is being accomplished. Textbooks and guides are to be distributed shortly. AVANCE's rural newspaper circulation is higher than projected. MOE's contracting and budgeting systems are now in place. The Mission has identified administrative problems in AVANCE that have slowed performance. The Bureau requested that the Mission review questions of AVANCE's eventual selfsufficiency and to advise the Bureau in the next Semi-Annual Report of any changes in this aspect of the project.

#### ROCAP

1. Central American Energy Resources (596-0134): a) This \$21 million project has continuing management difficulties. The Los Alamos National Laboratories (LANL) has inadequate systems for implementation planning, reporting, budgeting and vouchering. Problems have been identified, actions taken, and the situation is improving. The Mission has been asked to report on progress in this respect in the next SAR.

b) Questions will emerge about future directions for this project if Congress continues to earmark money for LANL. While the minerals exploration and energy development components of the project have achieved some important scientific and technical successes, the steps for translating those results into economic pay off are not clear.

2. Regional Economic Recovery (596-0114): This \$50 million project through the Central American Bank for Economic Integration (CABEI) was essentially suspended during the period. The private sector lending component (\$15 of the \$30 million project pipeline) is being activated, now that agreements with participating central banks have been achieved. The public sector lending component (\$11.4 million pipeline) is expected to restart in early FY 88 if CABEI raises \$100 million in extra-regional contributions. CABEI had raised \$78 million as of September 30, 1987. A.I.D./W has requested a cable summary of the evaluation now being prepared, along with Mission response and proposed actions.

### III. COUNTRY-SPECIFIC PERFORMANCE

#### COSTA RICA

1. Quality: The Mission was commended for responsiveness to

previous A.I.D./W guidance regarding: discussion of project issues; the ESF program; the Regional Higher Education project (EARTH) (596-0129B); and local currency programs (when tied to DA projects).

The Mission was asked to improve reporting on the Regional Administration of Justice projects (597-002, 598-0642). We have encouraged some reflection in the next SAR on the projects' effectiveness and problems in achieving broad objectives.

2. Project Implementation: Portfolio performance was satisfactory over the period; the pipeline liquidation rate for FY 1987 was 38.9 percent. Serious problems with the \$21 million Private Investment Corporation (PIC) project (515-0204) prevented the mission from achieving better progress.

The ESF program provided a critical margin of support for the Costa Rican economy over a year and a half when assistance was not available from the IMF and the World Bank.

3. Program Management: a) The A.I.D. Mission has been the subject of extensive management audits over the past year. b) The Mission has prepared a draft strategy paper in response to AP guidance. It will probably not be finalized until Carl Leonard comes on board in January and has a chance to review/revise it. c) The Mission DA program continues to evolve into a mixed DA and LC funding program. The approach stretches the size and range of DA-type programs and conserves scarce DA for TA and other cost-effective uses of dollars.

4. Evaluations: Two evaluations were received by A.I.D./W during the period. Evaluation of the Northern Zone Infrastructure (515-0235) development project showed good success; findings are being incorporated into design of the Mission's follow-on project in FY 88.

5. Audit: There were thirteen audit reports issued in FY 87, four were federal audits. All of the nine open recommendations have been reported resolved.

6. Impact of Proposed FY 88 Assistance Levels

	<u>OYB FY 88</u>	<u>FY 88 CP</u>
	(\$000)	
ARDN :	5,106	5,575
POP :	839	175
HE :	280	50
CSF :	0	0
EHRD :	70	1,100
SDA :	3,964	6,000
TOTAL DA :	10,259	12,900
TOTAL ESF :	90,000	90,000

With funds from the FY 87 supplemental, the Mission paid off its entire mortgage. Thus, FY 88 funds are unexpectedly available for new project starts. The Mission is considering two new FY 88 starts not previously discussed in the Action Plan: \$4.5 million Forest Management (515-0243) and \$6.0 million Road Rehabilitation and Maintenance (515-0249). These will be addressed in the Mission's Strategy Paper and A.P. A.I.D./W will review the PID's.

7. Sectoral: Progress continued on the GOCR's ambitious privatization/divestiture program. An evaluation is scheduled for FY 1988.

### EL SALVADOR

1. Quality: The organization of the SAR by goals facilitated review of accomplishments at the programmatic as well as project level. The SAR included extensive details of projects which made it difficult to assess key areas for management attention.

2. Project Implementation: Project obligation during FY 87 amounted to over a quarter of a billion dollars, most of which took place in the fourth quarter. However, the project pipeline grew by only \$146.0 million. The high expenditure rate, nearly \$130.0 million was due in part to fast-disbursing projects like the Earthquake Recovery Project (0331).

3. Program Management: The Mission noted in the SAR that it is rethinking its goals and the strategy for attaining them. The extent of the Mission portfolio with FUSADES remains a concern. Some 97%, or \$62.0 million, of project assistance to the private sector is programmed with FUSADES. The Bureau has requested that the Mission carry out a broad evaluation of FUSADES before any additional resources are provided for any new activities. The major vehicle for institutional support to the Agrarian Reform ended 12/31/87. The Bureau has again requested that the Mission send in a supplement to its agricultural strategy describing GOES' plans for the agrarian reform sector and describing/justifying USAID follow-up support.

4. Evaluations: The Mission planned to evaluate twelve existing projects in FY 87. The Semi-annual Reports did not include sections on evaluations.

5. Audit: There were two federal audit reports issued in FY 87. The three open recommendations have been reported resolved.

6. Impact of Proposed FY 88 Assistance Levels

	<u>OYB FY 88</u>	<u>FY 88 CP</u>
	(\$000)	
ARDN :	25,898	27,401
POP :	1,117	1,100
HE :	16,202	18,400
CSF :	1,572	5,000
EHRD :	9,828	10,844
SDA :	8,993	12,875
TOTAL DA :	<u>75,620</u>	<u>63,610</u>
TOTAL ESF:	186,000	200,000

GUATEMALA

1. Quality: The SAR presentation was excellent and lacked details only on ESF local currency program status. The Mission will include this in the next report.

2. Project Implementation: The Mission increased the \$21.2 million FY 86 expenditure figure by 30 percent to \$27.6 million in FY 87. At the same time, the Mission pipeline increased 31 percent from the end of FY 86, from \$116 million to \$151.7 million. This increase was due primarily to the \$52.1 million in DA and projectized ESF obligations in the latter part of FY 87. Obligations in FY 87 increased 23 percent from FY 86.

3. Program Management: The Mission's increased FY 87 expenditures compared to FY 86 reflects the positive results of close management attention to problem projects. With the increased pipeline, however, and reprogramming of on-going projects, design of six new PP and PP amendments in FY 86, 16 project evaluations, and a total on-going portfolio of 52 projects, including the management of ESF local currency generations, questions have been raised relative to the Mission's capacity to manage the workload.

4. Evaluations: During the past fiscal year, three project evaluations were completed. No major problems were noted and the Mission has taken action on resulting recommendations. In FY 88, 16 project evaluations (11 on major projects) are scheduled.

5. Audits: Six audits were conducted in FY 87, one of these was a federal audit. The three open recommendations have been reported resolved. In FY 88 three audits are scheduled.

6. Impact of Proposed FY 88 Assistance Level

	<u>OYB FY 88</u>	<u>FY 88 CP</u>
	(\$000)	
ARDN :	13,043	12,650
POP :	4,839	4,400
HE :	280	2,000
CSF :	2,902	2,000
EHRD :	3,515	6,000
SDA :	4,294	6,250
TOTAL DA :	28,873	33,300
TOTAL ESF:	80,000	80,000

HONDURAS

1. Quality: The SAR was thorough and useful. It provided a good sense of each project's status as well as providing the reader with a good sense of the portfolio's status and problems affecting it.

2. Project Implementation: Implementation appears to be steady. Project expenditure for FY 87 increased by \$7.0 million to \$59.3 million. Despite the portfolio's increase as a result of the projectized ESF Supplemental, the pipeline grew by only \$18 million during FY 87.

3. Program Management: Mission management has concentrated on implementation. Previous problem projects and slow starts have done well. The Mosquitia Relief Project (522-0278) is drawing to a close. A major thrust of the Mission's efforts has gone into consolidating and concentrating what had been a diffuse portfolio. As a result, the Mission began only two new projects in FY 87, Policy Planning and Institutional Development (522-0325) and Strengthening Democratic Institutions (0296).

The Mission classified five projects as requiring management attention and twelve projects as having minor problems. Of the "problem projects" only Export Development and Services (0207) can be considered a chronic problem.

Local Currency Management: The Mission is rewriting its Mission Orders (MO) as a result of recent Agency and LAC guidance on this subject.

4. Evaluations: The Mission evaluated seven projects during the reporting period. An eighth evaluation of the Export Development and Services Project (0207) is currently underway.

5. Audit: Five federal audits were performed in FY 87. Eight recommendations remain open, four pertain to RHUDO. All open recommendations, except one each for the Mission and RHUDO, are reported resolved.

6. Impact of Proposed FY 88 Assistance Level

	<u>OYB FY 88</u>	<u>FY 88 CP</u>
	(\$000)	
ARDN :	24,644	18,712
POP :	3,189	4,000
HE :	2,100	2,250
CSF :	3,869	2,000
EHRD :	4,288	7,150
SDA :	4,129	6,250
TOTAL DA :	<u>42,219</u>	<u>40,362</u>
TOTAL ESF:	100,000	100,000

ROCAP

1. Quality: ROCAP was commended for an excellent report and thorough treatment of important project issues. The Mission instituted an internal system for reviewing more intensively projects where expenditures lag targets by more than about 12 percent.

2. Project Implementation: With the major exception of the \$50 million Regional Economic Recovery (596-0114) project, project expenditures appeared essentially on target. The pipeline liquidation rate for all of FY 1987 was a solid 39 percent, assuming M/FM's W-209 is accurate. A.I.D./W has not been able to reconcile ROCAP's statistical reports with those produced by M/FM. Some disparity always exists between reports from the field and from FM, but FM reports show ROCAP expenditures in FY 1987 at nearly double the rate shown in the ROCAP reports.

The Regional Pest Coffee Control (596-0090) project has identified technological breakthroughs that are having significant impact on small and medium farmer coffee production. First year's experience with the \$8 million

Non-Traditional Agricultural Export Support project (596-0108) has been very promising. ROCAP feels that an important key to project success is the comprehensive approach to export constraints at all stages of the export process, from initial production to final marketing. LAC is encouraging ROCAP to document early experience and share it with other missions. The C.A. Regional transport study was completed. The new Private Enterprise Federation of C.A. (FEDEPRICAP) began transportation seminars.

3. Program Management: The Mission is proposing no new project starts in FY 1988 with the possible exception of the \$1.7 million C.A. Regional "Economic Policy Research" project, originally planned as a centrally-funded LAC project.

ROCAP projects in Panama: ROCAP projects continue to be active in Panama. Suggestions at the Semi-Annual Review were to discontinue direct American assistance to Panama, e.g., through the C.A. Energy Resources project and the NRECA project, but not to cut off U.S. assistance that would damage important regional programs or harm USG relations with regional organizations. Separate instructions to ROCAP are being prepared.

4. Evaluations: Two key evaluations were initiated during the period, one for the Regional Economic Recovery (596-0114) project and one for the Fuelwood and Alternative Energy Sources project (596-0089) and the Industrial Energy Efficiency projects with ICAITI. The ICAITI evaluation demonstrated very good success in promoting more efficient use of fuels. ROCAP hopes to continue core support for ICAITI to complete ICAITI's transition to a self-financing institution.

5. Audit: Two audit reports pertaining to ROCAP were issued in FY 87. All six recommendations remaining open have been reported resolved.

6. Impact of Proposed FY 88 Assistance Levels

	<u>OYB FY 88</u>	<u>FY 88 CP</u>
	(\$000)	
ARDN :	16,021	14,700
POP :	0	0
HE :	502	100
CSF :	0	0
EHRD :	791	3,911
SDA :	9,327	5,650
TOTAL DA :	26,641	24,361
TOTAL ESF:	0	5,000

Congress earmarked \$5 million for the C.A. Energy Resources project with the Los Alamos National Laboratories (LANL) and an additional \$5 million for rural electrification, but did not approve any ESF for ROCAP.

7. Sectoral Developments:

- a) CDSS: The Mission is finalizing a CDSS that should be available in January 1988.
- b) Regional Environmental Profile: The Mission has begun to provide leadership related to environmental concerns.
- c) Central American Parliament: The five Central American nations signed a treaty in September 1987 to create a Central American Parliament which is to facilitate cooperation on economic development among other things.

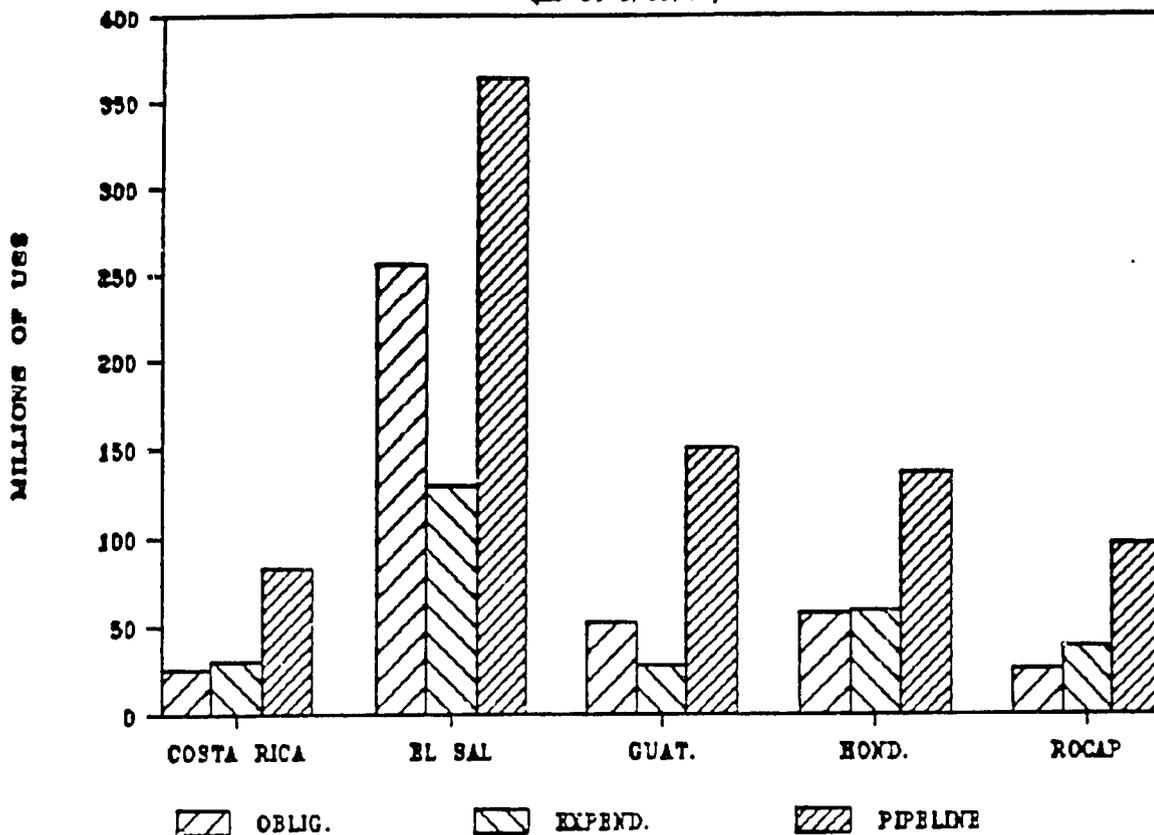
PIPELINE HISTORY  
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 REPORT BY COUNTRY AND REGION

(Millions)

FISCAL YEAR 1987	COUNTRIES:	EL				RCCAP
		COSTA RICA	SALVADOR	GUATEMALA	HONDURAS	
	BEG. PIPELINE OBLIGATIONS:					
	PROJECT	112.8	284.5	116.9	165.5	98.9
	PROGRAM	25.3	256.0	52.1	57.5	25.7
	TOTAL	119.7	157.0	90.7	100.0	--
	TOTAL	145.0	413.0	142.8	157.5	25.7
	EXPENDITURES:					
	PROJECT	30.2	129.9	27.6	59.3	36.2
	PROGRAM	60.0	144.0	56.0	71.2	--
	TOTAL	110.2	273.9	83.6	130.5	38.2
	END. PIPELINE					
	PROJECT	82.6	363.6	151.7	137.7	97.0
	PROGRAM	75.7	60.0	34.7	70.0	0.0
	TOTAL	162.3	423.6	186.4	207.7	97.0
	NO. OF USM:	23.8	35.3	18.8	57.8	14.5
	NO. OF PROJECTS:	20	44	32	44	26
	INDICATORS:					
	PIPELINE LIQUIDATION RATE:					
	PROJECT (%)	36.9	43.2	20.6	45.3	39.0
	TOTAL (%)	80.1	77.4	55.1	69.9	39.0
	AGE OF PIPELINE:					
	% OF PIPELINE	30.8	60.2	8.0	54.3	25.2
	% OF YEAR'S OBLIGATION	75.9	79.5	18.9	83.8	92.4

# CENTRAL AMERICA PORTFOLIO

(As of 9/30/67)



FISCAL YEAR 1967

	Obliga- tions US\$000	Expendi- tures US\$000	Pipe- line US\$000
COSTA RICA	25.3	30.2	82.6
EL SAL	256.0	129.9	363.6
GUAT.	52.1	27.6	151.7
HOND.	57.5	59.3	137.7
ROCAP	25.7	38.2	97.0

# CENTRAL AMERICA PORTFOLIO

(As of 9/30/87)



FISCAL YEAR 1987

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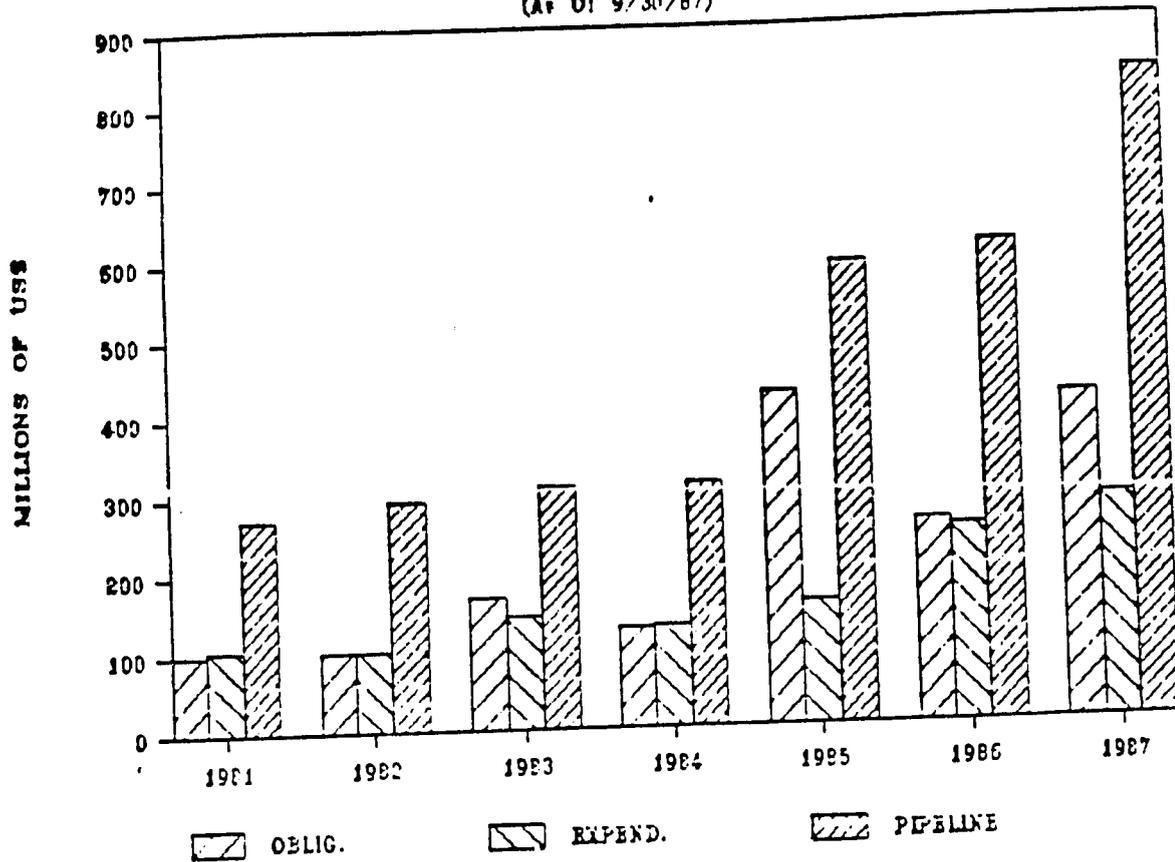
Pipe-  
line  
Liquida-  
tion Rate

COSTA RICA	38.9
EL SAL	43.2
GUAT.	20.6
HOND.	45.3
ROCAP	39.0



# CENTRAL AMERICAN REGION PORTFOLIO

(As of 9/30/87)



## COUNTRY: CENTRAL AMERICAN REGION

Fiscal Year	Obligation US\$000	Expenditure US\$000	Pipeline US\$000
1981	95.7	105.4	270.4
1982	102.1	101.4	290.8
1983	169.2	145.8	310.6
1984	128.4	129.3	311.8
1985	425.7	157.4	591.9
1986	258.7	251.5	614.6
1987	416.6	285.2	852.6

FY 1988 and FY 1989 New Projects

FY 1988

<u>Country</u>	<u>Number</u>	<u>Project</u>	<u>FY 88/89 AP (\$000) Included</u>	<u>Status/Note</u>	
Costa Rica (515- )	0168	Family Planning Self-Reliance	\$ 3,500	Yes	Mission Approv.
	0226	Agr.Services & Union Dvp.	1,000	Yes	Mission Approv.
	0235	Northern Zone Consolidation	1,000	Yes	Mission Approv.
	0236	Econ.Stab.& Recovery VII(ESF)	32,200	Yes	AID/W Approv.
	0243	Forest Mgt.	4,500	No	AID/W Approv.
	0244	Administration of Justice ESF BOP	1,900 90,000	Yes	Mission Approv.
El Salvador (519- )	0242	Local Government Strength.		Yes	Deferred
	0323	Industrial Parks and Infrast.	12,000	Yes	AID/W Approv.
	0324	Potable Water/Sanitation	20,000	Yes	
	0335	Agr. Technology Transfer	20,000	Yes	Mission Approv.
	0338	Medium Term Credit		Yes	Cancelled
	0349	Techniccal Support Training ESF BOP	15,000 188,000	No	AID/W Approv.
Guatemala (520- )	0288	Expans.of Fmly Plng. Serv.	3,400	Yes	AID/W Approv.
	0324	Pvt. Sect.Part.& Skills Trng.	5,000	Yes	Mission Approv.
	0352	Rural Electrification III	10,000	Yes	Mission Approv.
	0370	ESF Structural Adjustment	56,000	Yes	AID/W Approv.
	0371	Improved Tax Administration ESF BOP	4,000 82,000	Yes	Mission Approv.
Honduras (522- )	0210	Health Sector II	10,000	Yes	AID/W Approv.
	0241	Small Business Support	20,000	Yes	Mission Approv.
	0246	Forestry Development	20,000	Yes	Mission Approv.
	0328	FDJ Coordination Strength. ESF BOP	4,000 85,000	Yes	Mission Approv.
ROCAP (596- )	NCNE				

FY 1989

Costa Rica (515- )	0140	ESR VIII	\$ 74,685	Yes	
	0245	Invest.Promo. of Expt.Indust.	6,000	No	
	0246	Watershed Management	5,000	No	
	0248	Southern Zone Infrastructure	1,000	No	
El Salvador (519- )	0318	Small Business Assistance	7,500	Yes	
	0320	Public Services Restoration/Rehabilitation	77,325	Yes	
	0350	Privatization	10,000	No	
Guatemala (520- )	0373	Micro-Enterprise Development	1,000	Yes	
	0374	Education Sector Improvement	5,000	Yes	
	0375	Econ. Stabil. and Recovery	82,200	Yes	
	0381	Techn.of Trad. Export Crops	3,000	No	
Honduras (522- )	0292	Land Use Prod.& Enhancement	30,000	Yes	
	0312	Invest. & Export Promotion	15,000	Yes	
	0369	Priv. Sector Pop. Prog. II	17,000	No	
ROCAP (596- )	0147	Regl. Agr. Policy Integration	3,000	Yes	

THESE NUMBERS NEED TO BE CHECKED BEFORE PUTTING IN FINAL

LAC/CP Actual DA Mortgage by End of FY 87  
(\$Millions)

<u>Country</u>	<u>ARDN</u>	<u>POP</u>	<u>HE</u>	<u>CSF</u>	<u>EHRD</u>	<u>SDA</u>	<u>TOTAL</u>
Costa Rica	13.0	6.0	0	-	1.0	6.0	26.0
El Salvador	52.8	.8	32.5	4.2	26.7	42.0	159.0
Guatemala	32.4	7.6	0	4.8	15.0	15.1	74.9
Honduras	95.0	19.7	16.0	20.0	21.5	31.6	203.8
ROCAP	<u>34.5</u>	<u>-</u>	<u>.8</u>	<u>-</u>	<u>6.0</u>	<u>13.4</u>	<u>54.7</u>
Total:	227.7	34.1	49.3	29.0	70.2	108.1	518.4

Source: Mission submitted figures for the FY 89 CP

LAC/CP: Mission's Workforce by end of FY 87

	<u>USDH</u>	<u>USPSC</u> <sup>1</sup>	<u>PASA</u>	<u>FNDH</u>	<u>FNPSC</u>	<u>TOTAL</u>
Costa Rica	24	8	--	20	90	142
El Salvador	37	10	--	43	139	229
Guatemala	26	6	6	41	93	172
Honduras	35	11	--	36	56	138
ROCAP	11	8	--	6	21	46

Source: FY 88/89 Action Plans

<sup>1</sup> Includes USRES H.

November 23, 1987

MEMORANDUM

TO: PPC/PB, George Hill

FROM: PPC/PB, *David Adams*  
David Adams

SUBJECT: Bolivia Portfolio Review Issues

The mission's proposals in the Semi-Annual report represent a significant departure from the Action Plan and much of the pipeline review ended up being a review of proposed new projects pending a more formal PID review and a new Action Plan or CDSS.

The mission justified its departure from the Action Plan based on 1) a new initiative from the Bolivian government designed to reactivate the economy following recession induced by stabilization and 2) a desire to get projects underway before the election process complicates things 2 years from now. It argued that the new proposals were in tune with the government's new initiatives and support the new activism of the GOB.

The issues paper raised questions about the management burden and budgetary implications of the new starts for a small mission and looked critically at some on-going problem projects.

Private Sector Portfolio

There is a fundamental question concerning the SDA account mortgage. These projects would create a \$22.4 million mortgage with only \$4-6 million/year expected - effectively eliminating new projects in that account for the next few years. The mission responded that there is some split funding and that it is good to have lots of projects that can then make use of money that falls out from other projects in the deob/reob process (as they have done productively in the past). They admitted, however that this is a legitimate issue and seemed to accept the determination that only one project should go forward now.

NEW PROJECTS

Community and Child Health (511-0594)

The project grows out of a team evaluation and the mission's determination that the sector needs to be addressed. The mission has adequate staffing but a major question is the capability of the Ministry of Health to handle the project.

SENSITIVE OR PROBLEM PROJECTS

Chapare Regional Development Project

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
511-0543	\$16.90	\$16.90	\$5.29	\$10.61	8/83-8/88(?)

Discussion of this project was minimal because the AA/LAC has just authorized the mission to move forward on these efforts to provide alternative income and employment to farmers who have eradicated coca. Most project activities had been suspended in early 1986 because they were not contributing to narcotics control objectives. The mission indicated it was committed to monitoring 100% eradication and that safety in the region had not been a problem.

Child Survival Projects

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
511-0590	\$ .84	\$ .84	\$ .16	\$ .68	9/85-9/89
511-0599	\$ 4.50	\$ 4.04	\$ .65	\$ 3.39	8/86-8/90

Some problems are related to difficulties with PL-480 and local currency which may have implications for new project. The mission is conditioning the new PL-480 agreement on getting the payment from millers directly to the local currency account (leaving out the government as middleman) to deal with the problem. CARE implementation problems have led to a go/no go decision in 6 months. The specific objectives for CARE that will form the basis of a decision were requested from the mission.

Emergency Agricultural Credit

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
515-0591	\$10.00	\$10.00	\$7.00	\$ 3.00	9/86-3/88

The mission proposes to extend this project using \$5 million deobligated from the Disaster Recovery Project because it is the only real source of credit for small farmers. Extension of the project may find resistance on Capitol Hill because of questions of fungibility between ESF and DA, narcotics issues, etc. The CN and other documents will need to change wording - no longer "emergency". It will need strong justification to get Congressional approval given statements at the project's initial review.

CREDIT

Projects in Bolivia have resulted in numerous credit lines being opened, with new proposals to add more. Participants expressed concern over the proliferation of credit lines and the mission responded that credit is a major constraint in Bolivia and a necessary element in restoring confidence in the economy. The mission will do an overall credit analysis as part of the Export Promotion PID and will work on broadly stating their approach to the credit problem for the next few years.

WRAP-UP

Though Bolivia has a good record in disbursing steadily and dealing with problem projects there is concern about the number of new starts and the missions absorptive capacity. In addition, LAC was reluctant to approve new projects heading in a new direction prior to an AP/CDSS review. Financial and agriculture sector analyses should be a part of that review.

Note: PPC has identified 6 projects as potential deob candidates - at present, unexpended funds for those projects total \$4.066 million. We will be discussing these projects with the bureau in the next few weeks.

TAmami;11/18/87;Wang:0687H

Clear: MMuhammad (draft)

December 30, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
THRU: PPC/PB, David Adams  
FROM: PPC/PB, Todd Amani  
SUBJECT: Dominican Republic Portfolio Review Issues

The mission assessment classifies only 7 of 19 projects as progressing satisfactorily. Expenditures appear to be concentrated in only a few projects, one of which has now suspended disbursements, which means the mission's pipeline liquidation rate will likely be reduced. The mission is beginning to focus more time on implementation.

CROSSCUTTING ISSUES

Counterpart Funding

The rate of counterpart contributions has been a continuing constraint on at least five on-going projects. The mission has been asked to report on this issue and it will be considered as part of the Action Plan Review.

PROBLEM PROJECTS

Natural Resource Management (517-0126) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$10.50	\$10.50	\$6.21	\$ 4.29	8/81-7/88(Rev.)

The project had been held up by Ministry personnel changes and accounting problems which apparently have been resolved. The mission does not intend to extend the current PACD and has been asked to prepare for deobligation of any funds remaining. The environmental officer asked why the deob/reob process is continuing if everything is back on track and whether a new project will address the same issues. The mission will be asked whether the project can be brought to a conclusion.

Agriculture Sector Training (517-0160) [EHR/ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 5.00	\$ 5.00	\$1.17	\$ 3.83	6/83-12/91

Language training has not progressed as quickly as anticipated and it is unlikely that the project will be able to process the targeted numbers of MS and PhD candidates by the PACD. The mission will be asked to clarify LOP targets.

Rural Development Management (517-0125) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 1.60	\$ 1.60	\$1.17	\$ .43	6/81-(6/86)12/87

Because of continuing problems in mobilizing private sector resources, the mission was earlier advised to terminate at the current PACD. Some private sector support has been forthcoming and the mission wishes to extend the PACD; LAC wants to see an evaluation and new focus on previous problems before agreeing to an extension.

Health Systems Management (517-0153) [Health]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 1.50	\$ 1.50	\$ .52	\$ .98	2/84-(5/88)10/88

Lack of counterpart funds may require some scaling down of targets - especially in disease control component. Overall project implementation has improved since last review and implementation of management systems is progressing well.

Vector Control (517-0235) [Health]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 1.50	\$ 1.50	\$ .25	\$ 1.25	9/86-9/89

Identified by the mission as the project with the most serious difficulties, the main problem has been with key personnel: the implementing agency is now on its fourth director - the first with any knowledge of disease control. The mission will address the need for an overall improvement with the agency but feels the project will improve under the new leadership.

Small Industry Development (517-0150) [ARDN/SDA]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 5.85	\$ 5.85	\$3.80	\$ 2.05	9/82-9/88(9/89)

In accordance with an evaluation recommendation and to assure sustainability the mission wants to supply additional technical assistance but differs with LAC on whether to use a contract or cooperative agreement. In addition, loan disbursement by the implementing agency have been suspended pending a financial review.

Agribusiness Promotion (517-0186) [ARDN/SDA]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$19.80	\$19.80	\$17.69	\$ 2.11	8/85-12/89

Disbursements under the loan portion of the project have been temporarily suspended after a Price-Waterhouse audit uncovered serious deficiencies in the implementing agency's compliance with the loan agreement. This will likely have a negative effect on the overall pipeline liquidation rate. The mission will undertake negotiations to try to get the project back on track. The mission will also have to deal with the impact of monetary policy change that could detrimentally affect LOP targets.

SUMMARY

This is a slow-moving portfolio that now lacks its star performer - the Agribusiness Promotion project has accounted for much of the recent overall pipeline liquidation. There do not appear to be other projects which will pick up the slack.

TAmami;0857b

Jan 1  
(30)

December 4, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
THRU: PPC/PB, David Adams *D.A.*  
FROM: PPC/PB, Todd Amani *T.Amani*  
SUBJECT: Ecuador Portfolio Review Issues

The mission's overall pipeline has been reduced from \$73.4 million in FY 86 to \$68.9 million last year. Only 4 of 32 active projects appear to be experiencing major implementation difficulties.

AGRICULTURE, RURAL DEVELOPMENT SECTOR

Thirty-four percent of the pipeline and two of the problem projects are in this sector. The mission is experiencing difficulty in getting GOE funding and assignments for counterparts and project activities. The mission and the government disagree on priorities in the sector.

HEALTH/POPULATION/NUTRITION SECTOR

Procurement problems with UNICEF and other entities are causing serious delays on health projects. This is not a mission problem but something that can be partially addressed here.

PROBLEM PROJECTS

Land Titling (518-0059) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
\$10.3 m	\$ 5.5 m	\$ 1.4 m	\$ 4.1 m	8/85 - 12/90

No new titles have been issued under this project which is a third of the way to its PACD - it is "unlikely to meet project goals even if the project is extended". The major problem is an inherently weak implementing institution (many personnel turnovers, poor performance) that has not gotten necessary personnel and support. Project design was overambitious in setting goals for issuance of new titles; registration and clarification of titles have been the primary activities. There have also been contract delays.

The project is now being redesigned to reflect actual activities, and a new implementation plan has been drawn up. If the government does not show greater commitment to the project, however, termination will be considered.

Forestry Sector (518-0023) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
\$ 8.1 m	\$ 8.1 m	\$ 3.3 m	\$ 4.7 m	9/82-(3/88)3/90

No implementing agency for a major subproject has yet been chosen; meaningful results by the PACD are doubtful. This is another example of GOE lack of commitment. The amendment incorporating project redesign will not be signed until there is greater commitment from the government.

PL-480 Title II (non-monetized)

CRS has not addressed the need for alternative sources of food while this program is being gradually phased out. Without alternatives, 25,000 beneficiaries face serious shortages of food; CRS wants a 2-3 year transition program. The mission will review the reasons for CRS' failure to establish alternative food sources and will attempt to assess its capacity to do so in the future.

Malaria Control (518-0049) [Health]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
\$ 9.5 m	\$ 9.5 m	\$ 2.2 m	\$ 7.3 m	3/85 - 2/90

The project has a substantial pipeline at the half-way point. Delays are attributable to change in the longterm advisors, a strike by the Malaria Workers Union, shortage of insecticides, and inadequate performance by the contractor. The mission is stepping up its monitoring of the contractor and giving greater attention procurement.

SUMMARY

Most project delays involve lack of full GOE commitment to assign personnel to projects and to provide local currency counterpart to funding. LAC will request the mission to address these issues through more active dialogue and to condition future activities on government action to support the projects.

cc: PPC/PB:JPainter  
MMuhammad  
DSheldon

December 16, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
THRU: PPC/PB, David Adams *D.A.*  
FROM: PPC/PB, Todd Amani *T.Amani*  
SUBJECT: Jamaica Portfolio Review Issues

The Jamaica mission is working at consolidating its portfolio - it now has a high number of projects for a mission its size. Six projects will be closing out (5 in agriculture) and others are winding down. It is seeing some improvement in its pipeline liquidation rate.

CROSS-CUTTING ISSUES

Procurement

The Ministry of Finance has been a source of procurement problems that affect a number of projects - especially those involving construction services over J\$750,000 which need cabinet approval. To get around this problem, the mission has been trying to keep contracts below J\$750,000 (these need only be approved by the technical ministry and the Contracts Committee). Breaking down contracts in this way may mean more expensive bids.

Mortgage

The mission responded to questions about its mortgage level by pointing out that only two projects pose difficult mortgage problems. In each case, reducing LOP funding is a viable option.

PROBLEM PROJECTS

Agriculture Education (532-0082) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$12.85	\$ 9.50	\$1.12	\$ 8.38	8/84-8/90(Rev)

This project to develop and expand the college of agriculture and secondary agriculture school has been held up by the procurement problems mentioned above and inability to meet project CPs. Earlier, the bureau had considered scaling back, termination or de-obligation. Though there are serious problems involving the management capability of the Ministry of Education, the mission has seen "enormous progress in the last few months" through the intervention of the Prime Minister's office. More such intervention will likely be needed in the near future but should be forthcoming since the project is important politically. The mission is now committed to construction in January which limits their leverage - it is no longer really an option to terminate though the mission would have preferred redesign in any case.

Primary Education Assistance (532-0126) [EHR]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$11.30	\$ 6.00	\$2.43	\$ 3.57	8/85-8/88(Rev)

The mission director's assessment of the primary school renovation portion of the project is that it is "not implementable as designed" primarily because "construction contracts are political". The mission is looking for different contracting options (and ways to speed up the A&E process) but is first monitoring a Ministry proposal to speed construction on 10 pilot schools. De-obligation is possible; or reprogramming to focus more on educational quality issues rather than bricks and mortar. The political importance of schools in an election year may hinder attempts to deobligate, or may create an opportunity to make better progress.

Crop Diversification/Irrigation (532-0123) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 7.40	\$ 7.40	\$5.40	\$ 2.00	8/85-8/90(Rev)

Though it now appears to be doing fairly well, the project is still politically sensitive. Some questions remain about the lead institution (Agro 21) and the overall effectiveness and sustainability of investment promotion. Ongoing redesign is addressing sustainability of the irrigation systems and marketing arrangements for small farmers.

Basic Skills Training (532-0083) [EHR]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 8.50	\$ 8.50	\$6.00	\$ 2.50	8/84-8/89

After 3 1/2 years, one of the CPs is still not met. An evaluation is being done preliminary to redesign.

SUMMARY

A number of implementation problems may be exacerbated as the election process gets underway. The mission will have to deal with these sensitivities.

Clearance: PPC/PB:MMuhammad D.A.

ni;0825b ✓

TKS

December 4, 1987

MEMORANDUM

TO: PPC/PB, George Hill

THRU: PPC/PB, David Adams, D.A.

FROM: PPC/PB, Todd Amani *T. Amani*

SUBJECT: RDO/C Portfolio Review Issues

The RDO/C mission is emphasizing implementation and is moving away from its previous focus on design; this is reflected in an 18% reduction in the pipeline (from \$106.6 million in FY-86 to \$87.0 million last year).

GRENADA

The Grenada program is being phased down and intentions are to close out by September, 1988. No new programs have been started and most PACDs will have been met by December, 1987. Only one USDH is there and three PSC contracts which run out during the summer will not be renewed.

PROBLEM PROJECTS

Investment Promotion and Export Development (538-0119) [ESF/SDA]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
\$17.2 m	\$13.0 m	\$11.9 m	\$ 1.1 m	8/84-12/89(Rev)

The Project Development Assistance Program (PDAP) evaluation has raised major questions about 1) the earlier assumption that good investment promotion would lead to increased investment, 2) linkages between investment promotion and employment targets, and 3) prospects for sustainability. These same questions apply to the Eastern Caribbean Investment Promotion Service (ECIPS) which has major questions of sustainability - if they cannot get money now for counterparts what are prospects three years from now? The mission is no longer defending the concept.

LAC commented that the mission's experience raises broad questions about investment promotion in the bureau. Costa Rica is proposing a major effort in this area - how useful will it be? Will it be sustainable?

Small Enterprise Assistance (SEA) (538-0133) [ESF/SDA]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
\$11.9 m	\$ 5.9 m	\$ 2.7 m	\$ 3.2 m	3/86 - 2/91

The complexity of the project and number of CPs indicate an uncertain design. Preliminary evaluations point out the need for redesign building on the realization that 1) the concept of established businesses helping smaller ones get going hasn't worked, 2) National Coordinating Councils have not been effective and 3) many positive accomplishments have come from the National Development Foundations. LAC commented that it appears that overhead costs are excessive and not enough funding is reaching small businesses. FY-1988 funds will not be obligated until redesign.

St. Lucia Geothermal (538-0137) [ESF]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
\$ 4.0 m	\$ 4.0 m	\$ 2.5 m	\$ 1.5 m	8/85 - 3/88

Contrary to all expectations the original drilling site for the project did not yield geothermal fluids. Gearing up to move to a second site and resulting delays have been costly. The U.N. and GOSL will pick up some of the shortfall. The mission intends no additional resources after a second well is drilled. Questions were raised about whether to turn it over to the private sector if steam is found; if the second site is also unproductive the private sector will probably be provided the opportunity to participate more fully.

Agricultural Venture Trust (538-0140.1) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
\$12.9 m	\$ 2.8 m	\$ 0.2 m	\$ 2.6 m	7/86 - 7/91

The fundamental problem with this component of HIAMP is the Equity Agreement, written based on guidance from AID/W. It serves to protect the money in the trust but restrictive clauses and a conservative approach to investment effectively prevent it from creating true venture capital. The matter is a sensitive one in this case because of the political prominence of the lawyer who wrote the agreement but there are broad issues about equity participation that should be considered - e.g. "the simplest way to do it is through a private bank but PPC has ruled that it can't be done that way... AID/W must change the rules to make it work or we can't do it".

The mission has taken some steps to improve coordination and personnel but will likely do major restructuring of the project to try to make it work.

Grenada - Structural Adjustment Support (538-0141.01) [ESF]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
\$ 5.0 m	\$ 5.0 m	\$ 1.2 m	\$ 3.8 m	7/87 - 6/88

Grenada has not been meeting CPs; mission intends to halt disbursements and "let them stew" as the second tranche is forfeited. LAC "fully supports" that position.

WRAP-UP

The impact of the mission's series of evaluations was evident throughout the review and the mission was commended by LAC for giving more attention to implementation. The evaluations have identified key areas in projects that need to be addressed but have also outlined broader issues of interest to the mission and the LAC bureau.

cc: PPC/PB:JPainter  
MMuhammad  
DSheldon

PPC/PB/C:TAmami:11/25/87:Wang:0704H

December 16, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
THUR: PPC/PB, David Adams *D.A.*  
FROM: PPC/PB, Todd Amani *Amani*  
SUBJECT: Peru Portfolio Review Issues

The overall pipeline has increased primarily because legislative provisions (620(q), Brooke-Alexander, Narcotics) have limited the obligation of funds. GOP budget difficulties and its reluctance to use counterpart and loan money for technical assistance have also been problems.

Counterpart Availability

Potential reductions in PL-480 local currency generations (due to the shifting of PL 480 resources for the African famine) have implications for counterpart funding in agriculture and nutrition areas. The mission will do contingency planning.

Mortgage

The new Agriculture Technology Transformation project has a large mortgage. If the mission cannot find additional money to fund it (possibly from the Central Selva project - see below) financing the mortgage will be problematic.

PROBLEM PROJECTS

Agriculture Planning and Institutional Development (APID) (527-0238)  
[ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$16.35	\$16.35	\$10.37	\$ 5.98	8/83-(12/88)12/89

Original project objectives were unrealistic. A number of participants may be sent home due to disagreements between AID, the GOP, and the universities involved.

Private Sector Agricultural Investment Promotion (PRIDA) (527-0265)  
[ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$10.00	\$10.00	\$ 5.81	\$ 4.19	12/82-3/88

This project had been suspended for a couple of years pending redesign and additional investments from the GOP. Those investments have now been made and sufficient funds have been drawn to prevent planned deobligation. The mission has authority to extend the project but should share its project review with AID/W prior to extension - particularly in light of changes in banking laws in Peru.

Private Sector Policy Planning and Institutional Development  
527-0298 [SDA]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 6.00	\$ 3.89	\$ 1.70	\$ 2.19	6/85-12/90

The PACD for one component, the Institute for Liberty and Democracy (ILD) is March, 1988. This institute founded by Hernando De Soto has been at the leading edge of research and activities addressing the "informal sector". The mission has stated that it will be unable to fund ILD activities beyond the PACD (OYB constraints already raise questions about whether there are sufficient SDA funds to meet the project's mortgage) and has asked AID/W to provide additional funding outside the project to ensure the operations of ILD. LAC believes that ILD activities are important in an area where AID lacks insight and is looking toward additional ILD work in Central America. De Soto's work has been high profile and may have influenced Congressional interest in micro-enterprise. A recent evaluation of ILD was very positive but pointed out significant administrative problems. Decision: If support is continued, management of the effort should stay with USAID/Peru; other interested missions should fund their own work with ILD. A position paper will be drafted for full review with the AA/LAC and DAA/LAC to determine funding priorities and sources (mission reallocations, LAC Regional funds, etc.).

Administration of Justice (527-0303) [ESF]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 1.85	\$ 1.85	\$ 0.36	\$ 1.49	6/86-(12/87)12/89

The project has encountered problems in coordination, administration, and counterpart funding from implementing agencies. This is one of four projects incrementally funded by ESF in Peru - is this a healthy idea? Of \$20 million available for judicial activities in the region, \$1 million may be available for Peru - so far it has been entirely funded out of the OYB.

Upper Huallaga Area Development (527-0244) [ARDN/ESF]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$23.40	\$23.40	\$19.02	\$ 4.38	3/82-(9/86)9/88

The project has been delayed because of the dangers and limitations involved in traveling to the area. If ESF is not available the project is threatened unless some ARDN funds can be found. The project will be reviewed in January and redesign considered.

Central Selva Resource Management Project (527-0240) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$22.80	\$22.80	\$11.18	\$11.62	3/82-(9/86)9/88

The project was redesigned last year but the government hasn't responded - some officials appear disinterested and there are questions about high level support. Withdrawing at this point is likely to raise serious environmental questions - a backlash from environmentalists would be expected. This is also AID's only real experience with tropical forest management. The mission appears to have little leverage to move the project and seems to be only waiting; should they ask for a PACD extension (5 years is inadequate for tropical forest management) or work toward deobligating? The bureau environmental officer will look more closely at potentially serious environmental questions.

SUMMARY

The mission has a number of serious implementation problems but is also plagued by budgetary problems stemming both from legislative restrictions and Peru's relatively low priority.

Clearance: PPC/PB:MMuhammad

D. I.

0829b

December 28, 1987

MEMORANDUM

TO: PPC/PB, David Adams

FROM: PPC/PB, Todd Amani *T. Amani*

SUBJECT: Crosscutting Issues from LAC Pipeline Review Meetings

The following issues summarize problems and observations that appeared in a number of the LAC pipeline reviews:

EMPHASIS ON IMPLEMENTATION/CONSOLIDATION OF PORTFOLIOS

LAC missions appear to be emphasizing implementation issues which directly address moving the pipeline rather than continuing to focus on new project starts. LAC appeared to review new project proposals with an eye toward the overall performance of existing projects and the staffing capacity of each mission - missions were advised to hold off on a number of new projects pending progress/completion of current activities. Missions appear to be using ongoing evaluations to actively look for deob candidates or reprogram project activities to get things moving. There seems to be a prevailing ethos that project proliferation should be avoided and consolidation of the portfolio is desirable. In politically charged programs, however, the political implications of closing out project activities are a constraint to further consolidation.

LOCAL CURRENCY

LAC has not required reporting of the uses of local currency generated from ESF and PL-480/Section 416 commodities. Since some missions directly manage large sums of local currency, AID/W reviews may miss important aspects of the mission's work. In addition, missions with major involvement in local currency management may require more staff resources than would appear necessary given the official portfolio. LAC will require reporting on local currency in future semi-annual reports and is in the process of developing guidance for that reporting.

HOST COUNTRY COUNTERPARTS

Progress on many LAC projects has been delayed because host country funding and/or personnel have not been forthcoming. The reasons for host government non-cooperation are varied - different priorities, budget constraints, bureaucratic inefficiency, political considerations - but the problem is a critical one in many LAC missions - for both public and private sector projects. LAC advised greater formal/informal conditionality and renewed policy dialogue to deal with the problem in different situations. A workshop to address the issue may be considered.

## PRIVATE SECTOR PROJECTS

A high percentage of problem projects identified by the missions are those addressing the private sector. One explanation may be that the first generation of private sector projects is now reaching maturity and the design problems inherent in focusing work in a new sector are now becoming apparent. Nonetheless, the issues raised by many of these projects are important to the viability of private sector strategies and to perceptions of AID's effectiveness. Among those issues are the following:

Investment Promotion Many of the LAC private sector projects look toward investment and export promotion to stimulate the private sector. Many of these projects are now having problems and raise the serious question about whether investment promotion is really effective or has much impact. Information about investment opportunities does not appear to be the most important factor influencing investment decisions. Evaluations of current projects should influence decisions about proposed similar projects in this area.

Institutionalization/Sustainability of Private Sector Entities AID projects have created or substantially supported associations or private sector organizations to carry out its project activities. Many of these are having difficulty becoming self-financing or are experiencing management/administrative difficulties. LAC may explore the option of providing a long-term endowment for those private organization that perform a "public good". In many projects the institutionalization goal for these enterprises may have been partially overlooked in an effort to achieve other project goals and could be addressed over a longer time frame.

## RESOURCE CONSTRAINTS

Frustration over the limits on SDA and ESF money surfaced in a number of pipeline reviews and were the focus of deob/reob questions. Resources are tight in some of the areas on which LAC and the missions want to concentrate their efforts. In other accounts with less pressure on the resources, reviews tended to be more lenient. Costa Rica, on the other hand, seems to be lacking a developmental justification for its level of resources. The question was raised about whether performance by a mission or country government has any impact on the kinds of resources available to it.

December 28, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
THRU: PPC/PB, David Adams  
FROM: PPC/PB, Todd Amaní  
SUBJECT: Belize Portfolio Review Issues

Expenditures increased for the last 6 months to \$12 million from \$7.8 million the previous period, reflecting efforts to use deob/reob authority and consolidate the portfolio.

PROBLEM PROJECTS

Increased Productivity through Better Health (505-0018) [ESF/Health]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 7.00	\$ 5.25	\$2.28	\$ 2.97	3/85-3/88

Administrative and staffing problems have held up malaria control spraying of houses and problems with drilling rigs have delayed the Water and Sanitation component. Some personnel and management problems are being addressed and an evaluation is expected early next year but the mission wants to revise down its malaria spraying targets and extend the PACD. LAC questions whether the malaria campaign may require a certain threshold of spraying to be effective - reduced coverage may threaten the overall objective. LAC intends a closer look at this project in light of its program and staffing; it will offer the mission TDY help.

SUMMARY

Though a small mission may be overextended given the number of projects, the small size of Belize and extensive use of contractors have allowed the mission to effectively manage the portfolio. Further consolidation of the portfolio will contribute to program effectiveness.

Clearance:

PPC/PB:MMuhammad \_\_\_\_\_

TAmání:0861b

November 23, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
FROM: PPC/PB, *David Adams* David Adams

SUBJECT: Costa Rica Portfolio Review Issues

The discussion of Costa Rica portfolio issues (Nov. 12, 1987) focused on problems involved in managing the ESF local currency program and those DA projects experiencing pipeline or implementation problems. Overall, most of Costa Rica's pipeline can be accounted for in 3 or 4 projects.

ESF PROGRAM

Local Currency

The amount of local currency generated by ESF dwarfs the DA money available to the mission. Questions were raised about the mission's review and management of the local currency portfolio. The mission apparently does review the portfolio but until now hasn't communicated its findings to AID/W. Participants in the meeting appeared to desire less intensive management of the local currency portfolio by the mission. Shifting more of the local currency programming responsibilities to the government, however, raises concerns about adverse effects on privatization efforts. The mission will address these issues in an upcoming "Strategy Document" and will be asked to report on its local currency management.

Privatization

Concerns about the U.S. push for privatization were raised in relation to the effects of increased government management of local currency (above). It was suggested that the purpose of privatization efforts was to eliminate the drain on Central Bank financing from public enterprises (at one point 30%). Since that has been accomplished, the U.S. should "declare victory and get out". Progress in this area was quantified in a June ABS attachment and the mission does not plan to program additional resources in this area, in part because of the management burden.

DA PROBLEM PROJECTS

Private Investment Corporation (PIC)

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Ob - PACD</u>
515-0204	\$21.00	\$21.00	\$6.64	\$14.36	8/84-8/88(?)

This project exhibits management problems and questions of demand - a "shaky project...following on...a failure".

Apparently, there is little demand for investment partners in Costa Rica when projects are sound; such partners are desired when a project is of high risk. The quality of the PIC portfolio is questionable. The mission is expected to request a PACD extension - that may be the time to cut it off. A solid justification is required for a PACD extension for such a chronic underperformer.

Regional Agriculture Higher Education (EARTH)

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Ob - PACD</u>
515-0129B	\$26.40	\$ 7.00	\$ .06	\$ 6.94	9/85-9/95

The mission has been cabled for a revised implementation plan - current expectations appear overly optimistic especially when considering requirements for synchronized activities. Given amounts of procurement and current status (now only in design phase), a January 1990 inauguration is much more likely than January 1989. Some unresolved political issues (will the government take over the school, will there be a tax exemption) give this project "the potential for the biggest white elephant in Costa Rica". Participants expressed concern over the management of this project by a 3rd country national, the "unseemly amount of informal communication" and the relationship between the mission and ROCAP on the project. The only disbursement thus far is for land; local currency remains in AID accounts. An updated implementation plan is being requested by LAC.

Northern Zone Infrastructure

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Ob - PACD</u>
0191	\$14.70	\$14.70	\$13.50	\$ 1.20	7/83-(4/87)4/88

Land titling, which was an important part of the original project, has been lagging and may be dropped in hopes the government will address problems on its own. Discussion focused on how important land titling is (difficulties in getting the GOCR to move since land tenure, etc. is not a serious political problem). Since titling was not the prime reason for the Northern Zone project and was not a crucial element should AID push it? Why is it now not a constraint to project achievement? What is the development impact of titling (e.g. it is often a requirement to qualify for credit) and how important is it to the mission? The bad experience under this project has implications for a proposed Southern Zone project.

Wrap-up

Overall the review identified the PIC and EARTH school projects as having chronic problems that require reporting to Washington. No major issues in relation to the Action Plan seemed to emerge. An analysis of the credit sector may be useful as well as reporting on the uses of local currency for FY-88. The mission used the supplemental to pay off its mortgage.

In general, the review pointed out that that a Costa Rica CDSS is way overdue - the mission needs to flesh out its rationale for a development program beyond the notion that there are "pockets of underdevelopment" or "targets of opportunity".

There were no significant reob-deob issues.

TAmami;11/18/87;Wang: 0686H

Clear: MMuhammad (draft)

December 30, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
THRU: PPC/PB, David Adams *DA*  
FROM: PPC/PB, Todd Amani *T. Amani*  
SUBJECT: El Salvador Portfolio Review Issues

The El Salvador program has seen a dramatic increase in its portfolio and its staff is overextended; one mission priority is to consolidate and streamline the program. The politically charged environment, however, makes backing off from any project difficult. Because the the war is not likely to wind down soon, many projects originally conceived as temporary short-term measures are likely to become semi-permanent.

CROSS-CUTTING ISSUES

Salvador Foundation for Economic And Social Development (FUSADES)

Much of the financing for credit activities has been concentrated in FUSADES (\$62 million of a total \$64 million project assistance to the private sector, industrial and ag credit lines) and the organization also handles a broad range of research, TA, and association strengthening activities. While a recent evaluation found FUSADES basically sound there is concern about its capacity to handle the increasing demands being placed on it. The mission has expressed concern as well but claims FUSADES is really the only organization capable of handling these project elements. LAC will require an overall evaluation of FUSADES to follow on audits of project elements handled by FUSADES before providing any new resources to the organization.

Agrarian Reform

Two new laws have been passed by the Assembly addressing the roles of campesino organizations and a land bank apparatus to allocate and finance land on a voluntary basis. AID is withholding support until more movement on Phase III titling is seen. Phase I is unlikely to accomplish much more since most remaining land is held up by litigation - some abandoned or idle land from production coops may yet be allocated to individual farmers. AID policy is to do nothing to support new production coops but maintain its commitment to the existing ones while pushing self-management and trying to link them to the private sector. A new strategy supplement on ag reform is being developed; the mission hopes to move toward a broader sectoral approach focusing on agribusiness. Because ag reform is the most politically charged of U.S. programs, the mission will try to provide a written "assessment of impact" outlining the effects and quality of the land reform effort.

PROBLEM PROJECTS

Industrial Stabilization and Recovery (519-0287) [ESF]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$38.92	\$29.46	\$6.63	\$22.83	9/84-(9/87)9/89

FUSADES handles a major portion of this project to support non-traditional exporters but only appears to have problems in developing an investment fund for exports. The major delay has come from the public sector side and the Ministry of Foreign Commerce (MICE) which lacks the capacity to carry out studies and articulate policy proposals. There may be some new interest in non-traditional export promotion from the Duarte administration but sustainability of the project (as in many similar LAC export promotion schemes) is a real question. The mission has extended the PACD of the GOES component to review and redesign the MICE activity; redesign is expected in January, 1988.

Small Producer Development (519-0229) [ESF/ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$14.25	\$14.25	\$11.80	\$ 2.45	9/83-(6/87)Rev.

This project supporting the Federation of Credit Agencies (FEDECCREDITO) in efforts to get credit to small farmers was held up because of FEDECCREDITO's unwillingness to meet conditions - disbursements were held up at one point for 18 months. A RIG audit delivered in August recommended deobligation claiming the mission's unilateral extension beyond the original September, 1986 PACD was invalid. The mission says all its original demands involving improved management and decentralization have now been accepted and implementation has begun. Since there is continuing demand for small farmer credit, the mission wants to extend the PACD through September, 1988. FEDECCREDITO has a large outreach and is the only vehicle to reach many small producers. On the other hand it has been charged with egregious corruption and mismanagement (though Wall Street Journal charges were essentially refuted). LAC will have to approve any PACD extension.

Urban Small Business (519-0304) [SDA]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 3.00	\$ 3.00	\$ 1.38	\$ 1.62	8/85-(9/88)Rev.

PROPEMI, the division of FUSADES responsible for the project, has focused mainly on technical assistance and training and not enough on credit delivery. The mission is trying to spin-off PROPEMI from FUSADES to make it a successful organization but has no intentions of financing its operating deficit after the PACD.

Water Management (519-0303) [ESF/ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$18.74	\$18.74	\$ 1.38	\$17.36	8/85-8/90

FUSADES has asked that the role of the association of irrigation equipment dealers (CORPREX) chosen to be the major implementing agency be limited to only equipment supply through a project amendment. FUSADES would then integrate all its agribusiness activities and handle credit, TA, etc. FUSADES has had difficulty in moving approved loans due to internal problems. The public sector side of the program has stalled as well and the role of the National Agricultural School is being examined. Overall, the mission is reexamining assumptions and will use evaluations to refocus and expedite the project.

Agrarian Reform Credit (519-0263) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$85.82	\$85.82	\$82.47	\$ 3.35	7/80-(9/82)12/87

The implementation of an automated Management Information System has been delayed and its completion has become a condition for disbursement of the credit line. A PACD extension may be considered.

Agrarian Reform Sector Support (519-0265) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$46.00	\$46.00	\$34.85	\$11.15	9/83-(12/87)12/88

The mission intends to wind down the project on schedule but make arrangements for local currency to support those activities that should continue beyond the PACD: land titling, support for Phase I coops, evaluation and policy efforts. The project has been delayed by a Ministry of Agriculture strike and travel restrictions imposed by the war. FUSADES is in the process of a major reorganization that would merge other project entities and diversify some of their activities into non-traditional exports.

Health and Jobs for Displaced Families (519-0281) [ESF/Health/SDA]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
-\$72.53	\$71.69	\$41.35	\$30.34	5/82-12/88 Rev.

Mismanagement by implementing institutions has been a problem. Because of the continuing level of violence, the mission will not be able to phase out as previously envisioned but hopes to move away from the "welfare" nature of the present program toward one with a more developmental focus.

Judicial Reform (519-0296) [ESF]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 9.23	\$ 9.23	\$ 2.90	\$ 6.34	7/84-(9/87)12/88

Previous problems related to decisions about appropriate ways to provide judicial protection should be resolved by an upcoming evaluation. The amnesty law growing out of the Regional Peace Plan affects cases dealt with by the project and may hold up progress. As long as courts allow people to go free in highly publicized cases, the project is negatively affected.

SUMMARY

The growing realization that the war will be semi-permanent raises questions about whether the a "normal" portfolio is appropriate or whether more of a focus on political/military goals is appropriate as a prerequisite for economic development. The war prevents real progress in many elements of the portfolio. The Action Plan process should address these questions.

Clearance:  
PPC/PB:MMuhammad

  
\_\_\_\_\_

TAmami;0851b

December 30, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
THRU: PPC/PB, David Adams *DA*  
FROM: PPC/PB, Todd Amani *T.A.*  
SUBJECT: El Salvador Portfolio Review Issues

The El Salvador program has seen a dramatic increase in its portfolio and its staff is overextended; one mission priority is to consolidate and streamline the program. The politically charged environment, however, makes backing off from any project difficult. Because the the war is not likely to wind down soon, many projects originally conceived as temporary short-term measures are likely to become semi-permanent.

CROSS-CUTTING ISSUES

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Agrarian Reform

Two new laws have been passed by the Assembly addressing the roles of campesino organizations and a land bank apparatus to allocate and finance land on a voluntary basis. AID is withholding support until more movement on Phase III titling is seen. Phase I is unlikely to accomplish much more since most remaining land is held up by litigation - some abandoned or idle land from production coops may yet be allocated to individual farmers. AID policy is to do nothing to support new production coops but maintain its commitment to the existing ones while pushing self-management and trying to link them to the private sector. A new strategy supplement on ag reform is being developed; the mission hopes to move toward a broader sectoral approach focusing on agribusiness. Because ag reform is the most politically charged of U.S. programs, the mission will try to provide a written "assessment of impact" outlining the effects and quality of the land reform effort.

November 23, 1987

MEMORANDUM

TO: PPC/PB George Hill

FROM: PPC/PB  David Adams

SUBJECT: Guatemala Portfolio Review Issues

The meeting opened with a discussion of discrepancies in figures (mission, FM computer-generated tables) and the need to get solid, workable numbers so that both the mission and AID/W are doing analysis and decision-making on the same basis.

Local Currency

LAC wants to be able to monitor the status of ESF local currency generation and Trust Fund arrangements. The mission does not now report on its management of local currency nor its discussions of options with the Guatemalan government. Expanding on decisions made in the Costa Rica Pipeline Review, the bureau will be requesting that missions report on local currency in future Semi-Annual Reports. Guidance for those reports will be provided by LAC in order to maintain a common format.

Sector vs Stabilization focus

A cable is in the works calling on the mission to move toward a sector rather than stabilization focus for ESF. AID/W expects this to be the subject of some discussion and debate with the mission ("the mission will have a heart attack"). The Rural Development Strategy statement being readied for AID/W review will be important both in orienting the overall program and in addressing some of the most serious problem projects. The 1988 PAAD Concept Paper is due in late December or early January.

Credit

Problems involving the National Agriculture Development Bank (BANDESA) have been a major subject of conversation in previous reviews and cut across a number of problem projects. It now appears they are making some promising changes - decentralizing decision-making authority, liberalizing qualification requirements to allow access of small farmers, and changed legal requirements to speed loan review and approval. LAC will await reviews in subsequent reports to see the effects.

## PROBLEM PROJECTS

### Highland Agriculture

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
520-0274	\$ 9.19	\$ 6.42	\$1.22	\$ 4.20	7/83-(9/88)9/90

The project has lacked coordination between the primary implementing institutions - BANDESA (see above) and the General Directorate of Agricultural Services (DIGESA). On the basis of a mission review of the project the grant portion of the project was reprogrammed and a proposal for reprogramming the loan portion was drafted. This reprogramming was designed to address the technical and physical capabilities of these institutions and a Coordinating Committee was established to expedite the project. Expenditures increased but remain far below planned levels. A formal evaluation of the project is being completed; the bureau is requesting a copy to use as a basis for reviewing further reprogramming requests.

### Small Farmer Diversification

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
520-0255	\$ 9.20	\$ 9.20	\$5.68	\$ 3.52	8/81-(3/87)12/87

The mission is designing a project amendment to incorporate recommendations from a recently completed evaluation (copy requested by AID/W). The reprogramming amendment should also address problems encountered in disbursements due to the devaluation of the Quetzal and under-budgeting of funds by the GOG for implementing agencies. The mission was again advised to limit the number of implementing agencies to minimize coordination difficulties. A design team will be in-country in January. The project will require a second extension of the PACD for 9 months (mission has two-year authority to do so).

### Agribusiness Development

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
520-0276	\$12.50	\$12.50	\$1.18	\$11.32	3/85-3/90

Though project export and cooperative activities are meeting goals, the Central Bank credit line is not moving at all. Questions were raised about whether there is really a demand for this. An ongoing evaluation is scheduled to be completed in December which deals with the demand for credit and credit lines problem and should form the basis for new proposals for corrective action or reorientation of the project. LAC requested a copy of the evaluation.

Immunization and ORT

<u>Proj #</u>	<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl - PACD</u>
520-0339	\$16.42	\$16.42	\$1.29	\$15.13	8/85-(8/88)12/91

The project has not moved according to schedule due to changes in the project administrator and counterparts. The MOH has undergone frequent recent changes in personnel and the accession of Cerezo may have been disruptive (the project was characterized as being in "temporary shock"). A new project administrator and other contract personnel available in December are expected to give the project a boost and the project amendment signed in August should work to strengthen the MOH. Nothing else is planned in the health sector for 2 years so the mission will be able to concentrate on this. Project difficulties raised questions about the regional project and its impact in Guatemala.

Wrap-up

The mission appears to be taking steps to identify problem projects (monthly and quarterly reviews) and has carried out reprogramming as necessary. Increased levels of expenditures have resulted. However, the staff effort involved in this monitoring and reprogramming as well as on new project proposals and significant local currency management raises questions about the mission's capacity to manage the workload. This issue will be a part of upcoming AP/CDSS reviews. Many of the problem projects are in the ARDN area; the pending ag strategy review related to a new sector focus will be important to addressing the issues raised.

Note: PPC has otherwise identified 6 projects as potential deob candidates - at present unexpended funds for those projects total \$3.462 million. We will be discussing these projects with the bureau in the next few weeks.

TAmami;11/20/87; Wang:0696H

Clear: MMuhammad (draft)

December 16, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
THRU: PPC/PB, David Adams  
FROM: PPC/PB, Todd Amani *T. Amani*

SUBJECT: Honduras Portfolio Review Issues

Over the last 6 months the mission was able to maintain a steady implementation pace and increase expenditures. It has moved toward consolidating its project portfolio and honestly stating its project implementation problems.

Agriculture Sector

Three of five problem projects are in this sector. Many of the problems encountered in these projects relate to:

Implementing institutions. The Honduran mission attempted, early on, to identify private sector channels for activities generally undertaken by the public sector. Those private entities are now having difficulty becoming self-financing (or "institutionalized"). This raises a question about whether the public good done by a "dependent" institution supported by AID overrides the need to demonstrate it is reaching the goal of institutionalization. Does it serve U.S. interests to force self sufficiency? Should endowments be considered? Valuable activities may not be income-generating - could AID look at it as buying a service for a period of time?

Credit. The interest rate structure of Honduras reflects a tight money situation; people are not willing to borrow at such a high rate. Thus the strategy of emphasizing export agriculture may be revised to focus on "hillside agriculture" which is less credit intensive. The mission is studying the credit issue.

Education

Administrative weaknesses and procurement problems with the Ministry of Education have argued against host country procurement. The standard procedure of ending all contracts at the end of each calendar year has resulted in delays. The president must sign every contract which further causes delays.

PROBLEM PROJECTS

Export Development and Services (522-0207) [ESF/ARDN/SDA]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$23.55	\$21.85	\$5.14	\$18.36	8/84-8/89

FEPROEXAAH, a participating export promotion institution, may have become overextended in serving as an association of commodity groups. Its base is questionable since many phantom member organizations were created to influence the credit decisions of its board. FEPROEXAAH has been frequently cited as "a prime example of AID waste". The current chairman is politically prominent (a newspaper columnist and opposition vice-presidential candidate) which make the project and a forthcoming evaluation politically sensitive. A recent audit showed the obvious - the credit line had not moved - but missed many other problems. FEPROEXAAH's activities may need to be redefined and consolidated to channel support directly to member organizations or to concentrate on providing technical assistance.

FIDE, another participating export promotion institution, appears to be well managed and somewhat successful but unable to become self-financing. The primary constraint to increasing exports is apparently not marketing but the ability to produce in the quantity, quality, and price range demanded by the world market.

Difficulties in implementing this project, and in particular with FEPROEXAAH, have had negative effects on other agricultural projects.

Small Farmer Livestock Improvement (522-0209) [ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$13.00	\$13.50	\$9.77	\$ 3.23	9/83-9/90

The implementing institution, Fondo Ganadero, is technically bankrupt because of failure to attract projected capital, especially from the private sector. The mission intends to develop a mechanism to capitalize Fondo Ganadero but the project exhibits serious design flaws. The complicated technology being promoted is not appropriate to the small enterprises being addressed. Questions about the "capitalization trust fund" proposed by the mission involve whether what is, in effect, an endowment should be provided for a corporation.

Strategic Planning and Technical Support (522-0269) [ARDN/SDA]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$ 6.00	\$ 4.00	\$ .81	\$ 3.19	9/85-9/88

Initial delays due to the weaknesses of the Ministry of Planning appear to have been overcome but there will likely be a large pipeline at the PACD. The mission is considering both a PACD extension and deobligation.

Primary Education Efficiency (522-0273) [ESF/EHR]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$27.40	\$11.32	\$ .38	\$10.94	8/86-7/94

A private sector institution, AVANCE, provides an educational media component to the project - textbooks, guides, radio broadcasts, and a rural newspaper. AVANCE has experienced some administrative problems and is considering reorganizing but its successes have also generated complaints about its subsidized competition with other private sector companies. Part of its administrative problems come from San Pedro Sula-Tegucigalpa rivalry on the Board of Directors. The questions raised about self-sufficiency of private institutions apply here, too. AVANCE is performing well technically and provides a much needed service - could it be considered for an endowment?

SUMMARY

The mission will need to take stronger actions to deal with the weaknesses of implementing institutions. As evaluations are completed on many of these project components, appropriate redesign should take place.

Clearance: PPC/PB:MMuhammad

Q. A.

TAmami;0830b

December 16, 1987

MEMORANDUM

TO: PPC/PB, George Hill  
THRU: PPC/PB, David Adams *D.A.*  
FROM: PPC/PB, Todd Amani *T.A.*  
SUBJECT: ROCAP Portfolio Review Issues

ROCAP achieved its target project expenditures of \$18.2 million for the last half of FY-87 and the pipeline liquidation rate for the year was a fairly high 39%. Two problem projects account for a third of ROCAP's total portfolio.

PANAMA

Portions of regional projects that involve direct assistance to the public sector of Panama were identified; in most cases decisions were made to end that assistance. Projects in which regional organizations would be adversely affected by U.S. pressure to limit assistance to Panama were left to further review.

PROBLEM PROJECTS

Regional Economic Recovery (596-0114) [ESF/ARDN]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$50.0 m	\$50.0 m	\$19.6 m	\$30.4m	12/85 - 9/88

Both the private sector (agribusiness) and public sector lending components of this project to improve the financial and administrative capability of the Central American Bank for Economic Integration (CABEI) have been delayed. The agribusiness component has been held up by problems in reaching agreement with central banks. Though further problems with a "sick" portfolio are beginning to be addressed with contractor assistance there may need to be some redesign of this segment. Public sector lending remains suspended because the CP requiring \$100 million in extra-regional contributions to CABEI has not been met. The mission believes it will be met in early 1988 and has no plans to request a waiver. The project PACD will probably have to be extended.

Central American Energy Resources (596-0134) [ESF]

<u>Authorized</u>	<u>Obligated</u>	<u>Expended</u>	<u>Pipeline</u>	<u>Init Obl-PACD</u>
\$21.2 m	\$16.2 m	\$12.8 m	\$3.4 m	3/85-(12/86)6/89

Los Alamos National Laboratories' (LANL) project planning, monitoring, reporting, and financial management have been inadequate. Personnel problems with counterparts and technical breakdowns have slowed progress. A PIL has been sent and the ROCAP controller will visit LANL to address these problems.

Though the project has identified a major peat source in Panama, a likely gold vein in Costa Rica, and major contributions to geothermal power in El Salvador and Honduras, it has not formulated bankable economic development projects out of its scientific discoveries. Nonetheless, some high payoff results could more than justify the project (e.g., fixing the geothermal field in El Salvador could save \$100 million/year in foreign exchange). LAC expressed concern that LANL will go to Congress for continued funding through an earmark; AID will develop a paper that puts the project's successes into perspective - investment costs, remoteness, political problems, etc. all limit the viability of these discoveries.

Tropical Agriculture Research and Training Center (CATIE)  
[ESF/ARDN]

Though the four AID projects currently handled through CATIE (totaling \$28.8 million) are performing well, there had been concern about CATIE's financial soundness and staffing based on delinquency of member countries in paying their quota. Though there are still concerns about cash flow, member countries' payments are coming in and the financial situation looks better. LAC noted that it would be useful for AID to move away from projectized support to core support of CATIE; different means of moving toward core support will be analyzed and it will be considered as part of the CDSS review.

SUMMARY

The mission seems to be addressing problem areas and has noted successes it wishes to build upon. In some cases, certain elements of projects and some types of projects now being implemented at the regional level can be better handled bilaterally. LAC intends to address these issues through further reviews or workshops on specific topics.