Central American Local Currency Impact Study

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EXECUTIVE SUMMARY

The utilization of local currencies in the programming of the Missions has increased dramatically during the past several years, especially in the last three. These currencies, derived from the sales of PL 480 Title I commodities and the sugar quota offset, the Economic Support Funds, and a few other minor sources, have been used alone and in conjunction with dollar denominated funds to promote development and to provide a safety net of social services in the host countries.

The Latin American and Caribbean Bureau is conducting a series of studies on the local currencies. Among these, it contracted a study of their amounts, processes for programming and management, and their impacts in Costa Rica, Honduras, El Salvador, and Guatemala. The period under study was FY 1983 through FY 1987. In addition to the separate descriptions in these nations, it also requested a general Central American summary of the information.

A. The Financial Resources

The amounts of local currencies, dollar denominated funds, and the total development resources varied widely among the four USAID Missions: El Salvador received by far the greatest sums; Costa Rica, Honduras, and Guatemala followed in order. El Salvador also programmed the greatest amount of dollar denominated funds; the other three varied little in total amounts programmed. On the other hand, El Salvador and Costa Rica received similar amounts of local currency, with Honduras in third place and Guatemala with the least amount.

While these general statements hold for the totals for the five years, there were substantial differences by year. In general, all of the Missions programmed less local currency and dollars in 1983 and 1984. The amounts for 1985 were the largest for total funding but not always for local currency. There were some small declines for 1986 and 1987, relatively speaking, but these were not consistent in every country.

Two mechanisms were used to effect private sector development: funds passed directly to the private sector and those passed to it through a public agency. The combination of these showed that Costa Rica dedicated the greatest proportion of its local currency funds to the private sector. Honduras almost evenly divided its funding attention to the public and private sectors. El Salvador and Guatemala expended much larger sums in favor of the public sector, primarily because of the investment necessary to rehabilitate their infrastructures.

Projections on the availabilities of local currencies were furnished by AID/Washington and the Missions. A moderate drop was forecast between 1987 and 1988, but, thereafter, most countries were expected to have considerably less local currency for Mission development funding. Total funding was not projected.

B. Local Currency Processes

Some mutual programming was carried out formally in the first part of the period, but the Missions tended to conduct much of that process with informal consultation with host government agencies. By the end of the period, however, all four Missions had developed a formal mechanism with the host governments for programming, implementation, accounting, and audits.

In all four countries, a unit had been created for or designated as the principal process agency for local currency fund management. In three, the unit was located in the Ministry of Finance, in the other, the Ministry of Planning. In Costa Rica and El Salvador, the office of the Presidency had a role to play. Within the Missions, programming tended to be centered in the program office but the agriculture division remained a major actor in the process for the PL 480 local currency funds.

The many responsibilities involved in deposits of dollars and their conversion to local currencies, the transfer of these funds to special or regular budget accounts, and thence to implementation agencies, and the routines of accounting, audits, and supervision varied by each governmental organization. They were, however, described in detail and the tracking processes were legal and appeared appropriate. Only one reservation was voiced by Mission personnel, that of the delays incurred, particularly when the monies had to be approved by the national congress.

The monitoring and evaluation of the activities paid for by the local currencies were less clearly defined even though there were some provisions for them in the network. The Mission approaches differed, too, with USAID/Honduras more preoccupied with the determination of impact, whether measured through internal or external evaluations; that Mission also demanded more detailed data from government agencies than did the others. The other three Missions generally interpreted the host government ownership of the funds to also mean that the agencies were charged with impact evaluation. While some had been conducted in each of the other Missions, neither the volume nor the data base was as extensive as when the projects were managed more directly by Mission personnel.

In summary, the present arrangements to assure mutual programming and appropriate accounting were excellent. Monitoring was satisfactory when the activities are viewed principally as government functions.

C. Beneficiary Impacts

The study team examined Mission and host government documents that contained impact information and summarized the findings. The amount of information was far too great for inclusion in this report. Much of it was discussed in general terms and examples were briefly described as indications of the effects of the local currency funding activities.

An important part of this study into impacts involved relating the proportions of the local currency programmed for each service sector in relation to the needs as suggested in socioeconomic indicators. As a generality, the sector assignments addressed the needs in about the proportions merited. Education and health in Costa Rica, for example, received small percentages of the funds; that country has the most favorable indicators for these in Central America. Honduras has much less favorable indicators in the two sectors, and it dedicated much higher proportions to them. It must be emphasized that even in Costa Rica, there were weaknesses in health and education, as was true in El Salvador and Guatemala, and the Missions provided funds to supplement government spending and underpin these services.

Agriculture has been in dire straits for some years in Central America. The Missions responded with substantial investments in this top priority sector. Economic recovery was deemed to be, in large part, dependent on improvement in agriculture.

Business and industry had suffered quite severely in all but Guatemala. The Missions directed substantial portions of the local currency funding toward their improvement. This was the largest user of local currency in Costa Rica, summing to about 45%.

In El Salvador, because of the violence of the earthquake, very large sums had been spent in community and urban development, mainly in the replacement of infrastructure. This sector was also large in Guatemala but predicated on the deterioration of infrastructure due to the neglect by the last several governments.

The other sectors - transportation, potable water/sanitation, housing, and democratization - all received funds during the five year period, but these, except for housing in El Salvador, tended to be minor in percentage. They were significant, nevertheless, because of their contributions to the social safety net.

In addition to this general expression of potential impacts, the individual country descriptions include some direct evidence of impact to beneficiaries and on some institutions. The details, including briefs on individual beneficiaries, are impressive. A few general indications also emanate from the information, directions that are vital to the overall development strategies.

- By far the largest proportions were directed toward the poor, to rural and small town areas, and outside the major metropolitan centers.

- Long term benefits were enabled through the investments in roads, bridges, airports, irrigation and potable water systems, and sewage provisions.

- The activities that broadened the benefits of development to a wider spectrum of the population also contributed measurably to the efforts toward democratization. Additionally, the direct assistance on elections, secondary municipality improvements, education, and notably the CAPS program, furthered the democratization objective.

- The private sector was measurably strengthened: business/industry directly, small farmer titling, lines of credit, many training programs and employment generation, and assistance toward the development of private educational institutions contributed to the goal of a viable private sector.

There is, of course, a great deal left to do in all four countries. Five years is not enough to foster development, stabilize the economies, and provide the needed social services so that marginals in the population can enter more fully into the national life. Important improvements were begun and with further resources, will continue toward the goals of the US and host governments.

I. INTRODUCTION

During the last decade, and especially since 1982, the Missions have increasingly funded their development activities with the local currencies of the countries while reducing the relative proportions of dollar funded projects. In part, this change was one of the measures for monetary control in the effort to reduce the external debt. Dollars or dollar purchased commodities flowed into the countries, and were converted to the local currencies. Most of these were jointly programmed by the two governments to effect developmental improvements leading to better economic and social conditions. While many Missions utilized this form of transfer, Central America has been among the major users.

AID/Washington has begun a series of studies to determine the currency generation mechanisms, the amounts utilized, and the results of these fundings. The present report is one in the series. Its focus is on impact - what was accomplished with the local currency funded (or combined dollar and local currency) projects. An initial step in the study was the determination of how much local currency was made available and from which sources. Secondly, the study examined the process through which the funds were generated and programmed. Concomitantly, the impacts were studied. The present report is the result of these examinations in Costa Rica, Honduras, El Salvador, and Guatemala. The period studied was FY 1983 - FY 1987.

A. Funding for Country Programs

Economic assistance programs are funded by dollars and in local currencies produced by various dollar disbursements. The most important dollar sources are Development Assistance, Economic Support Funds and Food Assistance. The first two are made available under the Foreign Assistance Act of 1961 as amended and the third under the Food for Peace Program of Public Law 480. The dollars are appropriated annually by the Congress. The programs of assistance are managed by the Agency for International Development (AID) through country missions called USAIDs. Other agencies, particularly the Department of State and, in the case of PL 480, the Department of Agriculture, are also involved.

Development Assistance funds are normally used to finance specific, individual, well defined development projects in health, agriculture, education, nutrition, amd general development. The dollars pay for important goods and services. Some dollars may be exchanged for local currency to pay for locally produced or procured goods and services. These funds are disbursed, accounted for, monitored, and audited by AID and belong to the United States. These dollar denominated funds are not the subject of this report. However, associated with the dollar funds are usually what are called "counterpart" funds. These are local cash goods and services provided by the host country to finance part of the locally acquired goods and services. This counterpart contribution can be in cash or kind. It is usually in kind and usually funded in the host country's budget. The monies belong to the host country. They are usually disbursed, monitored, and accounted for by host country agencies in accordance with host country law and procedure. However, counterpart funds may be administered by a USAID controller in accordance with a trust fund arrangement. In such cases, the funds are still the property of the host country and must be accounted for to the host country.

Again, while project counterpart funds are not a subject of this report, they are mentioned since one of the uses of local currency derived from PL 480 or Economic Support Funds is to provide the needed project counterpart funds for AID projects and, on occasion, for projects financed by other international lending institutions or other donors.

Under Title I of PL 480, sales of agricultural products for dollars are made on concessional terms to recipient countries. The recipient country sells the product locally for its own currency. The sales proceeds are then deposited in a special account in the country's central bank. The sale of the products "generates" local currency. The use of the generated currencies is agreed upon by the two governments in support of agricultural and rural development programs. Not all of the dollar value of products sold on credit to the recipient country produces local currency available for joint programming. A small (usually 5% destined for USDA use) initial payment in dollars is called for and another amount, a Currency Use Payment (CUP), in local currency is negotiated. The CUP, an advance payment on the loan, is available to the US Government, i.e., the appropriate United States disbursing office, for obligations in the recipient country and is owned, managed, and accounted for by the United States.

Under a new Section 108 of PL 480, the recipient country may make an initial repayment of the loan in local currency. This local currency is then lent by the United States to host country intermediary financial institutions, banks, cooperatives, or savings and loan associations for private sector development. The funds are owned and managed by the United States. These funds are in addition to Section 106 funds which are generated funds set aside by mutual agreement for use in development of the private sector. The Section 106 funds are owned, managed, and accounted for by the host country but in agreement with USAID. The worldwide target is 10% of the value of Title I commodities sold and shall be used for private sector development through either Section 106 or 108. Individual country agreements may provide for a higher or lower percentage.

Section 416 of PL 480 provides that the Commodity Credit Corporation may donate surplus food products to assist needy persons overseas. The program was originally limited to dairy products but later extended to grains, oilseeds, and honey. The Agency for International Development manages the overseas part of the program under an agreement with the Commodity Credit Program. These products may be "monetized," i.e., sold to provide monies for distribution and similar costs, or distributed directly by local private voluntary organizations.

As a result of the reduction in US quotas for foreign sugar imports, the US Sugar Quota Set Aside program was instituted under which affected countries are provided with Section 416 commodities which they monetize for balance of payments support to offset losses of foreign exchange earnings from their sugar quotas. The monetized funds can be used for development projects as agreed upon in the negotiations for the program.

Under the Foreign Assistance Act, countries suffering from political and/or economic crises may receive Economic Support Funds. These are, in all of the countries covered in this report, balance of payment support funds, dollars made available to the central banks to finance essential imports of United

States source and origin. Although in each of the four countries the central bank sells the dollars to importers, there is no direct link between the dollars and the local currency received. Strictly speaking, the dollars do not "generate" local currency. Rather, the central bank, upon receipt of the dollars, as part of its reserves, deposits an equivalent amount of local currency into a special account. Funds from this account are thus used to pay the costs of mutually agreed projects or programs. The programming process in each country varies; these processes are described in detail in later sections of this report.

There are several other sources of local currency of varying degrees of importance. For example, in the earlier days of AID, loans were made for revenue producing projects at two different interest rates, one to the government and a higher rate to the user entity. In some cases, the difference accrued to the government in local currency and agreement provisions called for mutual programming of the accruals. The amounts by now have mostly become insignificant.

Local currencies deposited by central banks in special accounts draw interest until they are disbursed for projects or programs. This can create a loss to the central bank with no offsetting income. Arrangements have been worked out when this has happened to re-program local currency back into the bank, creating essentially a bookkeeping offset. More important is interest earned on credits extended to dealers in PL 480 commodities. These interest earnings are programmed mutually. No decisions have as yet been made as to the treatment of interest earned or Section 108 loans to local financial institutions. These will be US owned funds and, as such, available for re-programming to meet other local obligations of the United States or eventually for reconversion into dollars. These are matters for further negotiation and agreement.

B. Study Methodology

This study of the sources of, processes for, and impacts from local currencies in Central America during the period FY 1983 through 1987 was conducted under an IQC contract to Development Associates, Inc., which provided an economist and an impact specialist to the team. In addition, AID/Washington assigned an experienced Mission manager to work as a member of the team during the preparatory and field work phases. Further, AID/Washington requested that each Mission designate a liaison officer to work with the team in the preparation of documents, schedules, and access to any necessary Mission and government officials. Since slightly less than four weeks was available for the field research, Mission assistance was crucial.

1. General Strategy

AID/Washington furnished a number of data documents and drafts of studies to the team. Additionally, several LAC officers took time to give orientation to the study team, thus helping sharpen the focus of the work.

Four Missions were included in the study: Costa Rica, Honduras, El Salvador, and Guatemala. In each, the team briefed the director and other senior staff members upon arrival. A debriefing was held with them before departure. A liaison worked intensively with the team throughout the stay in the country, and many other officers participated actively in the work in all the Missions. These contributions were vital to the collection and understanding of the information because only 2 to 5 working days were available in each country.

Some of the data and other information were expressed to Development Associates from the countries to facilitate the analyses. These were compiled when the team returned to the United States. The report was prepared there in final form and submitted to AID/Washington.

2. Financial Data

The financial analyst on the team worked closely with the program, project, and controller offices to obtain the supplies of funding in each Mission. In conjunction with those offices, the funds were delineated by type (dollar, local currency), source, and programmed amounts by year. Programmed amounts were selected rather than disbursements and/or expenditures since projects and other funded activities often spanned more than one fiscal year, and because the host countries operated on fiscal periods that differed from those of AID.

In the disaggregation exercises, the analyst consulted the agreements between the US and the host countries, the Memoranda of Understanding, Project Implementation Letters, and other documents with budgetary information. Despite this multiple approach, assistance from Mission staff members was necessary on many occasions because of:

- varying budgetary designations and aggregations;
- documents that were unavailable because of natural and other disasters; and
- changing systems across the five-year time period.

Government information sources were also invaluable in two countries.

The financial analyses contributed to the understanding of the local currency sources and use destinations, and to the impact sections. The regional (four countries) summaries prepared by the analyst helped give an overview on the importance of local currencies in local programs that transcend specific uses to meet individual country development strategies.

For each of the four country chapters of this report, there are four tables which present budgetary data relevant to this local currency study. The first table (always included in Annex A), dollar amount of economic assistance by fiscal year for the period FY 1983 - FY 1987 in three categories: Development Assistance (DA), Food Commodity Assistance (PL 480 Title I), and Economic Support Funds. The table does not include other sources of financing such as the Commodity Credit Corporation and the Export Import Bank.

In the second table (always within each country chapter), the dollar amounts of local currency and dollar denominated program financing are shown by fiscal year by source. The amounts indicated are those available for programming from a given fiscal year obligations. It does not necessarily indicate the year in which the programming actually took place nor the year in which the expenditure of the local currency occurred. The reason for this is that there is often a lag between the dollar obligation and the availability of local currency. This may be due (in the case of ESF) to conditions precedent to disbursement, and (in the case of PL 480 Title I), commodities must be shipped, sold, and payment made. This means that obligations made late in the fiscal year may not produce local currency until the next fiscal year. Because of time constraints, it was not possible to show the fiscal year in which funds were spent. The overall view across the five years generally obviates this problem.

The third table shows the dollar equivalents of local currency programmed from a given source in each fiscal year to the public sector, private sector, and for use by USAID. The public sector is broken down to show the amount for direct public sector activities and the amount passed through the public sector to the private sector. Examples of the latter include monies programmed to the central bank lines of credit for private commercial banks, for divestiture activities, and for host government financing of non-governmental organization (NGO) and private voluntary organization (PVO) activities. There were many cases in which the team members had great difficulty deciding how activities were to be classified. For example, in one country, funds were programmed to a PVO, which in turn used some of the funds to assist the programs of public sector entities. These funds are shown under the public sector pass to private sector line item. In no case were the amounts involved large or of great significance in the overall considerations.

The fourth table shows the estimated local currency to be available for joint programming in the period FY 1988 - FY 1992. The amounts of ESF were provided by LAC/DP. The Missions gave the estimates for the amounts to be projectized. The team made no attempt to determine whether the future levels were appropriate.

3. Management Process

In each country, the management of local currency was studied as a process. Interviews were conducted and documents were studied to determine:

(a) How funds were programmed; where projects and programs originated; how are they studied; how agreements were reached; and how they were documented. The principles guiding the programming exercise were examined.

(b) How projects and programs were implemented and monitored; how responsibility was shared between local agencies and the USAID Mission. Reports prepared on these were studied.

(c) How were funds controlled and accounted for; what documents were used to commit and disburse funds; what system of final accounting was in place. Audit procedures, including sources, were analyzed.

(d) How project and program results were evaluated was the final step.

In each of the four countries visited, written orders or manuals existed for USAID and the host government. These documents were studied and discussed at length with the working level officials, local and American, charged with following them in carrying out the programming, monitoring, and review processes. To establish an understanding of the principles guiding local currency programming and management, top level officials in USAIDs and national ministries were also extensively interviewed. An essential element of this examination of process was the determination of how the system actually worked as well as how it appeared on paper or in instructions. This review of process also determined how programming and management of the local currency resource differed from country to country and how much it was often very similar.

4. Impact Information

The search for impact information was conducted entirely in the four countries and utilized a variety of sources. These consisted of both internal and externally verified data and descriptions.

The internal search concentrated on Mission documents that included interim and final reports on projects, descriptions prepared for these and other studies, and sector assessments that contained information on projects funded wholly or partially from local currencies. The technical offices were the major sources of impact data. In two countries, host government agencies supplied substantial impact data.

Two externally verified data sources were utilized. The first was evaluations that had been conducted by contractors to the Missions. Their impact sections, whether interim or final, supplied researched information on particular projects. These were especially helpful for projects conducted or concluded early in the study period. The second approach was that of direct inspection of project work, including informal interviews with the implementation agency personnel and with beneficiaries.

The financial impact questions were investigated via a combination of methods - controller records, individual project documents, and interviews with project personnel. This multiple approach allowed for the separation of local currency uses by:

- Recipients and ultimate users of funds: public agencies for public sector uses; public agencies to pass to private user destinations; and directly to the private sector for private use.

Two minor configurations were discovered: (1) private recipients for public uses; and, (2) private agency recipient, pass to private sector implementers to carry out public benefit activities.

* Proportion of Mission dollar to local currency funds.

The proportions were calculated by combining all sources of each kind of currency.

* Percentages of local currency uses by the several sectors.

A standardized set of sectors was employed to facilitate comparisons across countries (agriculture, business/industry, general education, health, community/urban development, transport, housing, and unspecified budget support). Disaster relief appeared in two countries and was left as a separate item for them. A regional institution was assisted in one Mission so it, too, was not aggregated into the other sectors.

While every effort was made to separate funds by sector, some combination projects were not delineated by sector. Mission and implementing agency personnel provided estimates for those. Counterpart and trust funds were assigned to their designated sectors. Operations and project expenses were proportionately aggregated to the sectors.

Finally, with the assistance of program, economics, and technical office personnel, estimates of local currency use and impact were prepared on: government budget support services; sector needs in relationship to socioeconomic indicators; impacts on host country budgets; and Mission/CBI objectives. None of these was possible as a statistical calculation but each was addressed in relative terms.

C. Limitations to the Report

As a generality, the appropriate data were found in the four countries and, through intensive analysis sessions with the Mission officers, the basic tables were accurately prepared. However, as noted in some previous sections of this chapter, exact disaggregations for some of the comparisons were not possible. These primarily involved: (1) the public/public pass to private/private; (2) assignment by service sector; (3) programmed funds to host country budgets; and (4) utilization in comparison to recognized development indicators.

The difficulties with the first two (public/private and service sectors) were quite accurately resolved with the help of the Missions. For the most part, the problems were encountered on the older projects, especially those that were comprised of technical assistance to institutions in conjunction with direct help to some segment of the population. Careful estimates were made of the two uses. Those tables and graphics are quite accurate.

The other two (government budgets and socioeconomic indicators) presented some problems that could not be totally resolved during the restricted time available. Government budget items frequently involved funding for combined uses. Housing, for example, was sometimes enabled in direct housing projects, loan funds through development banks, and for different ministries (rural, urban). Access roads and electrification sometimes appeared in four or five portions of the budgets. A great deal of effort was expended on this comparison but only approximations were possible. These are presented narratively.

Similarly, the recognized socioeconomic indicators are due to multiple factors. Infant mortality, as an important example, is a result of family income, educational attainment, availability of health services, nutrition, and sometimes local traditions. An absolute attribution of cause and effect is difficult at best and can only be determined by detailed analyses. The report discusses these and the Missions' projects in general terms.

Although a great deal of other impact data were found, overall effects could not be totally ascertained, particularly in the short time available. The authors collected the information available on the specific projects funded and furnished summary data on them. In addition, the team selected some sample projects on which more data were available and described these in greater detail as indications of what had been achieved.

In spite of these limitations, Development Associates presents the report with confidence that the findings, both qualitative or quantitative, are substantially correct. The report portrays the true and unbiased general status of the utility and benefits of local currency in the Missions' portfolios.

II. COSTA RICA

Costa Rica's external debt from borrowing and trade deficits climbed to amounts beyond the Republic's ability to pay. Negotiations with the International Monetary Fund and private banks brought about severe restrictions in its currency control policies. Additionally, the government is expected to hold the line on the number of its employees, divest itself of its unprofitable state enterprises, and minimize its use of hard currency reserves.

Economic recovery demands that Costa Rica increase its foreign exports and find productive employment for its large un/underemployed work force. At the same time, world prices for two of its major exports (sugar and bananas) have declined and coffee prices have varied substantially. In recompense, the government has sought to improve coffee and cacao yields, and increase non-traditional crop production and export.

Obviously, these two efforts are in part contradictory - expansion requires investment, some of it in dollars. The Costa Rican and US governments, in conjunction with the international donors, have therefore worked at a strategy of using an increasing amount of local currency (colons) to improve the financial structures and productive infrastructure, to fund light industry and agribusiness, to divest some of the state owned enterprises, and to train a wide spectrum of managers and other employees to meet the needs of the growing private sector investment in the Costa Rican economy.

A. Financing for the Costa Rican Programs

The USAID/Costa Rica programs included strong investment activities during the FY 1983-1987 period, resulting in considerable variations in funding by dollars and colons. The early development stages of two institutions and beginning efforts in divestiture in another, required substantial inputs at specific times. Some other activities were increasing in intensity while others were reaching maturity, requiring less financial assistance. A natural disaster occurred and USAID responded with rapid assistance. Democratization activities increased just prior to the elections; funds to strengthen local government entities were provided. The protection of natural resources, financially important in themselves and to agriculture, Costa Rica's main economic sector, was undertaken. Investment in infrastructure to strengthen a wide range of private sector activities was necessary for continued growth.

What appears, then, to be somewhat uneven financing in dollars and local currency actually represents management decisions to favor the growth of specific sectors and activities. The discussions of local currency variations must be seen in that light.

1. The Financial Picture for the Period

Over the period FY 1983-1987, the total USAID assistance to the Costa Rican activities amounted to US $925,277,000 when the colon funds are converted to their dollar equivalent (using a weighted average on the exchange rates). (See Table II.1.) This total was not evenly distributed across the years: 1983 = 22.8%, 1984 = 18.2%, 1985 = 22.4%. 1986 = 17%, and 1987 = 19.6%. A major part of the differentials was due to relatively heavy investments in the activities of three institutions: EARTH, a university designed to meet the trained personnel needs of the region in humid tropics agriculture; in CODESA, a holding company for state enterprises with the investment to be used for divestiture; and CINDE, an institution to favor investment and training for the private sector.

Table II.1: Local Currency (Colon) and Dollar Programmed Funds, USAID/Costa Rica, FY 1983-1987

(US$ 000)

Type/Source	1983	1984	1985	1986	1987	TOTAL
Local Currency*						
1. ESF	37,735	95,000	160,000	120,582	119,750	533,067
2. PL 480 Title I**	27,145	22,414	21,100	16,100	16,000	102,759
3. Section 416				4,828	5,600	10,428
Total Local Currency	64,880	117,414	181,100	141,510	141,350	646,254
Dollars						
1. Development Assistance	28,465	15,925	25,854	12,859	17,204	100,307
2. ESF Grants	118,000	35,000				153,000
3. Projectized and other				3,000	22,916	25,916
Total $ (not to loc. curr.)	146,465	50,925	25,854	15,859	40,120	279,223
GRAND TOTAL	211,345	168,339	206,954	157,369	181,470	925,477

* The local currencies were converted to approximate dollars using weighted average exchange rates: 1983 = $47.80, 1984 = $43.30, 1985 = $48.23, 1986 = $54.43, 1987 = $60.63

** This includes Section 108 (sugar quota offset) funds of $4,800,000 in 1987.

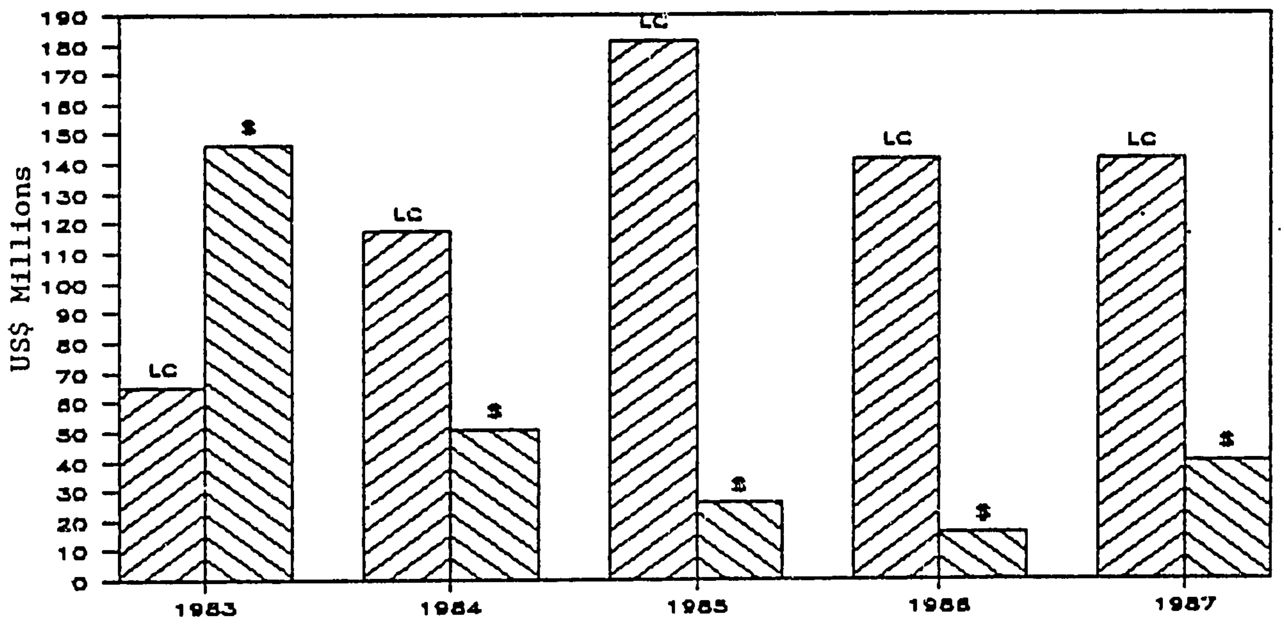
NOTE: $87,000 was earned in interest from earlier two stage loans; these funds were preprogrammed and are not included herein. Central Bank deposits have also earned interest, but those have not been programmed.

The proportion of local currency to dollar funding averaged 70% during the period but this also varied. In the first year, 1983, local currency was only 31% of the total. That percentage more than doubled in 1984, rising to about 70%. In 1985, the local currency portion of the programmed funds increased to 90%, dipped slightly in 1986, 86%, then declined again in 1987 to approximately 78%. Some of the changes were associated with dollar grants to the three previously named institutions but more importantly, to an incremental rise in the utilization of the local currency resources.

The inputs from the two major sources of local currency also varied across the five years. The Food Commodity Assistance (PL 480) was at a high of $27,345,000 (equivalent) in 1983 but had fallen to $16,000,000 in 1987, a decline of 41.5%, detailed in Tables II.1. In 1987, this loss was partially made up by the addition of the sugar export quota offset of $4,800,000, a temporary measure. Even with the offset, the decline would be 21% from 1983 to 1987.

Local currency derived from Economic Support Funds (ESF), on the other hand, increased substantially during the period, beginning at $37,735,000 in 1983 and ending at $119,750,000 in 1987. These, too, varied, greatly, with a high of $160 million in 1985. (See Figure II.A, and, for a more detailed exposition, consult Table A.1 in Annex A.)

Figure II.A: Relative Proportions of Local Currency and Dollar Funding in the Costa Rican Portfolio: FY 1983-1987



Direct dollar funding began very high, nearly $141.5 million, and declined to a low of $15.9 million in 1986, with a rise to $39.9 million in 1987 (Table II.1 and Figure II.A). While in part these modifications involved differing kinds of investments, the most important factor was increased availability of local currency to help the government achieve development while stabilizing the general economic structure. (Greater detail is presented in Table A.1. in Annex A.)

2. Public and Private Sector Investments

Improvements for the private sector were a major thrust throughout the study period, but the designated recipient agencies did not always make that clear. The analyst, with help from Mission officers, broke "public" designations into two categories: straight public (funds went to a public agency for public expenditure) and public pass to private (public recipient for private sector use).

Figure II.B: Amounts of Local Currency (in US$ Equivalents) by Recipient/Ultimate User Sectors, FY 1983-1987

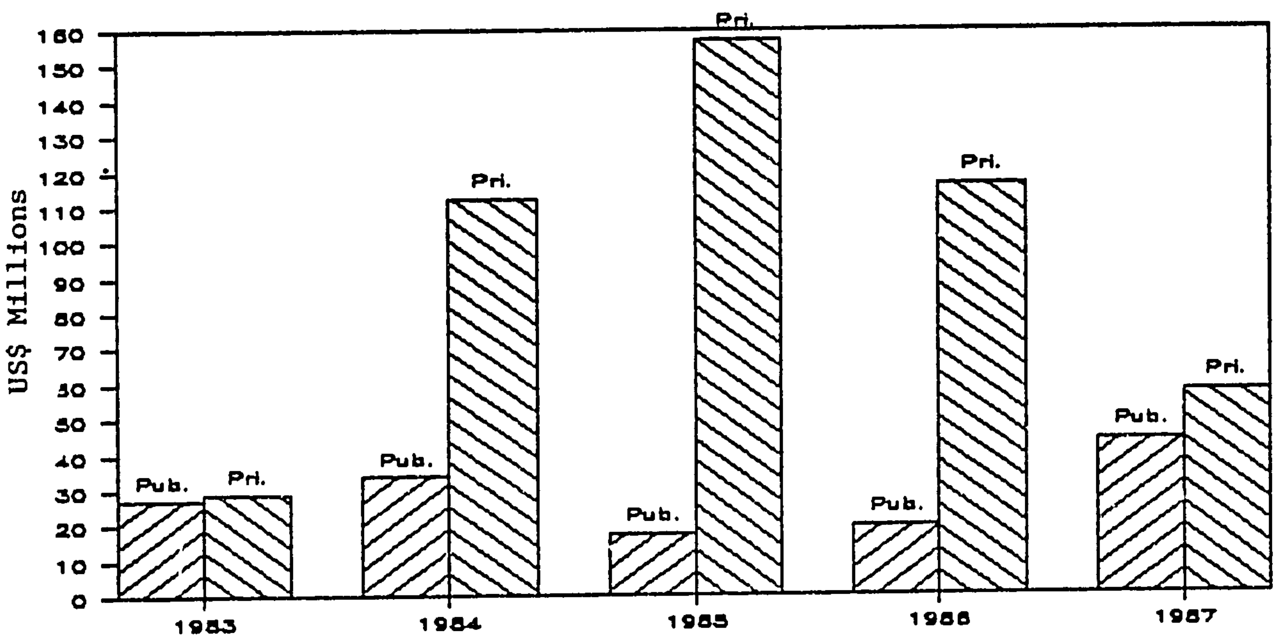


Table II.2: Local Currency Programmed Funds (Stated in US$ 000) by Source, Sector and Year, USAID/Costa Rica, FY 1983-1987

Source/Sector	1983	1984	1985	1986	1987	TOTAL
1. ESF						
a) Public sector						
Straight public	7,052	17,949	3,230	1,965	33,866	64,062
Pass to private		6,470	145,930	65,751	29,575	247,726
b) Private sector	25,525	99,901	4,357	48,813	22,899	201,495
c) USAID						
OE	4,350	3,143	14,761	2,756	5,266	30,276
Program	2,045	1,617	705			4,367
Total ESF	38,972	129,080	168,983	119,285	91,606	547,926
2. PL 480						
a) Public sector	19,288	15,533	14,011	14,591	9,776	73,199
Straight public						
Pass to private						
b) Private sector	3,246	6,114	6,998	1,739	5,262	23,359
c) Currency Use Payment	632	1,155	622	62	268	2,739
Total PL 480	23,166	22,802	21,631	16,392	15,306	99,297
3. Section 416						
a) Public sector						
Straight public				3,200		3,200
Pass to private						
Total Section 416				3,200		3,200
4. Other - Two Step Loan						
a) Public sector						
Straight public	675	342	24	34		1,075
Pass to private						
b) Private sector						
Total Other	675	342	24	34		1,075
GRAND TOTAL	62,813	152,224	190,638	138,911	106,912	651,498

The relative programming of local currency funds between the public and private sectors is graphically displayed in Figure II.B, and the details are supplied in Table II.2. Note that in every year, greater sums were devoted to the private sector. The differences were dramatic in 1984, 1985, and 1986, when the private sector assignments were several times those of the public sector.

During the five year span, the public sector accounted for only 23%, the private 77% (ignoring OE, Program, and CUP). This private sector dominance included business, industry, divestiture, private schools and universities, and facilities for private sector growth through training, loans, and infrastructure.

The public sector investment mostly was programmed to strengthen government institutions to improve their performance: banking, customs, universities, general education, agriculture and natural resources, and infrastructure (roads, ports, water supplies). Community development and local government improvement were also important. (See also the service sector proportions in the impacts section of this chapter.)

Table II.3: Projected Local Currency Availabilities for Costa Rica by Source and Year, FY 1988-1992 (US$ 000)

Source*	1988	1989	1990	1991	1992	TOTAL
1. ESF	90,00C	70,000	50,000	30,000	10,000	250,000
2. PL 480 Title I	15,000	15,000	15,000	15,000	15,000	75,000
3. Section 416	5,600	5,600				11,20C
4. Other - Type B						
TOTAL	110,600	90,600	65,000	45,000	25,000	336,200

* Some interest from Type B loans will also become available but these will be very small.

** Including about $4.5 million per year from Section 108. Further, the amounts listed are the totals for PL 480; 5% for USDA designated uses will not be available for USAID and host government programming.

3. Projected Local Currency Availabilities

The USAID/Costa Rica and LAC/PR officials estimated the local currency funding that may be available for programming. (Table II.3). While circumstances may bring about modifications of these, the overall projection is for less local currency. The 1988 forecast is about 22% less than the resource for 1987. Further, if the predictions hold, the 1992 amount would represent just under 18% of the money utilized in 1987, a drastic reduction.

While a small reduction is anticipated in PL 480 generations (straightlined at $15 million, $1 million less than in 1987), the greatest losses will be from ESF, declining from nearly $20 million in 1987 to $10 million in 1992, just over 62.5% of the 1987 amount. No projections were made on the availability of dollar dominated funds thus it was not possible to examine total future program levels.

B. Program Operations and Management

Historically, PL 480 funds were managed primarily by the Agriculture/Rural Development Division and that office still has a stong input to their use. ESF, on the other hand, was early on placed with the Program Division. The two now work together on final programming.

1. PL 480 Title I Process

Under Title I of Public Law 480, the United States sells agricultural commodities to Costa Rica under concessional loan terms, and the sales produce local currency in three ways. The sales agreement usually provides for a Currency Use Payment, currently negotiated in Costa Rica at 2.5% of value of commodities sold, which is considered an advance payment of early maturities under the loan. This money is deposited by the Government of Costa Rica to the account of the United States Disbursing Officer; it is money which belongs to the United States and is available for any obligation of the United States. It is mostly used for activities of the United States Department of Agriculture. The sales agreement can also provide, under Section 108 of PL 480, that a government can extinguish part of its dollar debt to the United States by an additional advance repayment in local currency. These Section 108 funds then become available for loans to financial intermediaries in support of private enterprise.

These are funds of the US Government since they represent loan repayments. They are held by the United States Disbursing Office and disbursed by USAID through standard procedures and controls as if they were dollars. The current agreement with Costa Rica calls for a Section 108 local currency repayment of thirty percent of commodity sales value. The exact details of how these funds will be programmed is yet to be worked out.

The rest of the local currency is generated by the sale of commodities by the Government of Costa Rica to the wholesalers, retailers or flour millers. The Costa Rica Ministry of National Planning and Economic Policy

(MIDEPLAN) controls and manages these funds, which are Government of Costa Rica funds, in accordance with agreements reached with the Government of the United States through the USAID and the United States Embassy.

At the time the Commodity Sales Agreement is negotiated, a program of local currency uses is also negotiated and set forth in a Memorandum of Understanding (MOU). The MOU also covers matters other than local currency uses. Local currency uses tend to be defined rather generally in the MOU. If these activities should change over the life of the agreement, a Letter of Understanding will record the agreed changes. Detailed uses of the local currency are developed and agreed upon separately.

MIDEPLAN requires that each implementing organization submit with each funding request, a life of project proposal and an annual implementation plan and budget. In addition to these prerequisites, MIDEPLAN requires a pre-award survey of the implementing organization's accounting and internal control systems. If MIDEPLAN finds all documentation to be in order, it drafts a Local Currency Use agreement (LCU). The draft LCU and all supporting documentation is provided to USAID's Rural Development Office (RDO) for review and comments. Upon receipt of the LCU, RDO requests review and clearance by the related Mission technical and staff offices, conpiles the responses, makes suggested revisions to the draft, and provides them to MIDEPLAN. Most agreements require considerable negotiation between the USAID and MIDEPLAN at this time.

Based on the Mission's comments, MIDEPLAN finalizes the LCU. When funds provided prior to FY 87 were used, the LCU was signed by MIDEPLAN, USAID, and the implementing organization. Beginning in FY 87, with the exception of Projects that provide counterpart to AID Development Assistance loans, USAID only reviews the final LCUs but does not sign them. The signed final agreement is then reviewed and approved by the Costa Rican Controller General at which time it becomes binding under the laws of Costa Rica. Final copies are then distributed to all interested parties.

From this description, it appears that the programming is initiated by the Costa Rican side and subsequently approved by the United States side. This is not strictly true. The United States technicians engage in constant dialogue with their opposite members in the Costa Rican implementing agencies so that the requests for funding from Title I generations that come through the Costa Rican agencies to MIDEPLAN are usually already well known to USAID. The projects in some cases relate directly to AID's dollar portfolio since a first priority for local currency use is to provide the agreed upon host country contribution to Development Assistance financed projects. The process further assures that local currencies are used in accordance with the Congressional mandates to promote rural development, nutrition, population planning, and to directly improve the lives of the poorest people. The programming process involves the agreement of the two governments in general terms when the sales agreement is negotiated and in greater detail when the project lists are developed, drawn up and mutually approved.

The monitoring of the PL 480, Title I local currency projects is again a shared responsibility of USAID and MIDEPLAN, but most of the burden falls, quite appropriately, on the Costa Rican entity. The PL 480 Title I implementing unit within MIDEPLAN maintains a staff of 7 project managers who are charged with the routine monitoring of local currency projects. Each implementing organization is required in their LCUs to submit to MIDEPLAN quarterly progress reports. These reports are submitted by MIDEPLAN to USAID for its review and comments. In addition to the recipients' quarterly progress reports, MIDEPLAN provides USAID with monthly and annual consolidated financial reports on the status of the local currency project portfolio. A USAID representative visits each PL 480 Title I local currency project at least once each year. A trip report on each visit is prepared. If deficiencies are noted in the implementation of any project, USAID can request the stoppage of funding if corrective action is not taken. During FY 87, USAID did not approve funding for two projects due to inadequate internal controls, and requested that MIDEPLAN halt disbursements to two other projects due to the improper use of resources. In each of these cases, MIDEPLAN took corrective action.

USAID has used the Non-Federal Audit mechanism as a principal means of evaluating project performance. During FY 87, fifteen projects were audited by four separate US CPA or US CPA affiliate firms. The results of these audits have led to the inclusion in the LCUs of more stringent and effective accounting and internal control systems. Furthermore, MIDEPLAN has accepted the need for more extensive use of better qualified financial personnel in project evaluation and monitoring.

In the 1987 PL 480, Title I Sales Agreement, a 30% repayment in local currency under Section 108 was provided. Details as to how the United States will program, disburse, and account for these monies have not yet been worked out. But, as noted, these are US owned local currencies and programming will be a US responsibility. Disbursement, monitoring, accounting, and auditing processes are expected to closely parallel AID procedures for handling dollar or other US owned resources.

Section 416 generated currencies are programmed in the general agreements and then managed by the Government of Costa Rica. The uses are described very generally; in 1987 they went to roads, agricultural marketing and extension, and for rural potable water. Except that the funds are generated from grants other than from concessionary loans, the process of programming and control of Section 416 funds is essentially the same as that for Title I funds with most responsibility assumed by the GOCR.

2. Economic Support Funds

Funds have been made available to Costa Rica under the Economic Support provisions of the Foreign Assistance Act in a series of Economic Stabilization and Recovery (ESR) agreements. In each of the US fiscal years 1982 through 1987, six agreements were signed. Prior to the 1987 agreement, USAID tended to take major responsibility for the programming, monitoring, accounting, and audit of local currency funds. The Government of Costa Rica was consulted, informed, and agreed, although somewhat informally.

As dollars were disbursed by the United States to the Central Bank of Costa Rica, an equivalent amount of Costa Rican colons, based on the exchange rate then prevailing, were deposited in what was called the AID Special Account. The funds in this account were programmed by inclusion in the various ESR agreements or as a result of proposals developed within USAID.

Any AID office could propose an activity for ESR funding by preparing a Local Currency Activity justification and sending it through a Mission clearance and approval process. Once approved by the Mission Director or his Deputy, the activity was registered in USAID Project Development Division (PDD) and became a management responsibility of USAID office to which it was assigned (almost always the originating office).

To obligate funds, the PDD was prepared and USAID entered into a Memorandum of Understanding, or Letter Grant, with a Costa Rican entity, public or private. This was an agreement between USAID and the entity.

To disburse funds from the AID Special Account, USAID issued Project Implementation Letters (PILs) to the Central Bank of Costa Rica directing the Bank to transfer funds to the account of the implementing agency. In the case of projects or activities directly implemented by USAID or by USAID through another agency, the PIL would specify that funds be transferred to an AID managed trust fund.

As funds were disbursed, USAID monitored the activity, in some cases implemented the activity (i.e., entered into procurement arrangements or contracts) and the USAID Controller maintained records of obligations and disbursement of the AID Special Account of the Central Bank, of AID trust funds, and of implementing agency accounts. The USAID Controller also arranged for or required external audits paid for from local currency project funds.

The Government of Costa Rica was kept informed as to the use of the local currency funds. Programming in the broad sense was covered in discussion between USAID management and the highest levels of government. Moreover, Costa Rica was satisfied with a system which achieved broad, agreed upon development goals while insulating the funds from political pressures since the activities supported were not included in the regular national budget. However, a heavy burden of programming, monitoring, managing, and accounting responsibility was assumed by the United States AID Mission for funds that were Costa Rican owned.

The management burden has tended to be reduced as the local currency programs have become more focused. There were 49 Memoranda of Understanding entered into in 1983, but only eight in 1987.

Central America Initiative Objectives addressed by local currency programming were nineteen in 1983, they were seven in 1987. Nevertheless, the September 1, 1987, Economic Stabilization and Recovery Agreement includes provisions for important changes in the programming, managing, and monitoring of local currency funds becoming available under the agreement. These changes are designed not only to shift some of the management burden away from USAID but also to reinforce the understanding among Costa Rican planners and administrators that these are Costa Rican owned funds and that Costa Rican authorities are ultimately responsible for their effective use.

In the 1987 agreement, three provisions make the situation clear. The "Special Account" is now called the US-CR Bilateral Assistance Program Account. The uses of the funds are set forth in the agreement for about 71% of the local currency to be made available; joint programming is called for the balance. Moreover, disbursements from the Bilateral Assistance Program Account are to be in accordance with instructions received by the Central Bank pursuant to Memoranda of Understanding entered into with the participation of AID, the Government of Costa Rica and the implementing agency or beneficiary, as appropriate. In other words, the GOCR is now fully integrated into the process, especially since the memoranda of understanding specify responsibilities for implementation, monitoring, reporting, financial control, and audit.

In addition to the changes embodied in the 1987 agreement, the creation of a new bilateral body to assume mutual agreement on programming and management has been established. A Local Currency Bipartite Commission has been set up, chaired by the Minister of the Presidency, and consisting of the President of the Central Bank of Costa Rica, the Ministry of Planning, their senior aides, together with the United States represented by the Deputy Director of USAID, senior staff officers of the Mission and a representative of US Embassy, as appropriate.

The bipartite commission held meetings starting in January, 1988 to start work on programming of the unprogrammed funds in the 1987 agreement (the equivalent of $34,750,000), as well as re-programming of unused funds from previous years. The commission will also set up a system for project documentation and will set up a unit within the office of the Presidency for the management and administration of the local currency resources.

It can be seen that the programming and management of local currency funds made available under Economic Support Fund agreements with Costa Rica are in a state of flux. The principal change is the closer and more formal involvement of the Costa Rican economic policy agencies in the process. A secondary effect should be to somewhat reduce the management burden on USAID. USAID will still have some financial control responsibility especially for funds used in the trust fund mechanism. However, the oversight through independent outside auditors will probably pass to the GOCR. USAID will continue to receive local currency for its operating expense trust fund and will continue to use the funds in accordance with standard AID obligations, procurement, disbursement, and accounting practices, regulations and procedures.

C. Program Impacts

The examination of impacts for the Costa Rica activities concentrated on three levels:

- Potential impacts (derived from funding levels) on two separate but related objectives:

    (1) Private sector development,
    (2) Service sector assignments.

- Potential impact by the number of Central American Initiatives (CAI) and USAID/Costa Rica Action Plan objectives addressed.

- Information on institutional strengthening and beneficiaries assisted.

A descriptive section discusses some overall impact potentials utilizing country social indicators, special needs, and Government of Costa Rica ability to spur development and provide the "safety net" of social services.

Each of these merited substantial investigation, but time constraints limited this study to indications of impact. These are, however, useful in a general assessment of the utilization of local currency (and in combination with dollars) in the Costa Rican setting.

1. Potential Service Sector Impacts

The overall split between the private and public sectors, as explained in Section A, was 77% and 23%, respectively, for the five years. That varied by individual years, however, from 51% private to 49% public to a high of 90% for the private endeavors. The Mission moved much larger sums to the benefit of the private sector from 1984-1986 to hasten economic recovery of business and industry, divestiture activities, and to build/strengthen the private sector access to loan funds and to provide quality educational opportunities in private schools, universities, and other training programs.

The second sectoral examination broke the five year total uses of local currency into more customary services, calculating the percentage devoted to each one. (Table II.4 and Figure II.C.) While most of the project funds' ultimate sector users could be easily discerned, a few were difficult because of their integrated development nature. Estimates by Mission staff members were employed in those calculations.

The largest beneficiary segment by far was business and industry, 43.5%. This included direct assistance such as loan funds and training; help to facilitate the economic growth of these through policy dialogue, customs reform, information systems, and other investments to make these possible, even though they in some cases involved public agencies. The business/industry category began modestly in 1983, then burgeoned thereafter, remaining high through 1987.

Agriculture/natural resources, with 15.81%, was the second largest and continued quite stable across the years. It is, of course, Costa Rica's major economic base. The funds were used to strengthen agricultural and forestry programs in government, and in public and private universities; for loan programs; reorganization of the agrarian reform sector; two integrated development programs; to strengthen the production of non-traditional export crops; and to assist agribusiness (listed in this category rather than business/industry).

Table II.4: Percentage of Local Currency Programmed, FY 1983-1987, by Sector, in Costa Rica*

Sector	Percent
Agriculture/natural resources	15.80
Housing	7.79
General education	0.93
Health/social services	0.47
Water/sanitary systems	1.30
Transport/roads, trails, bridges	6.20
Community/urban development	0.99
Business and industry	43.50
Civic improvement/democratization	0.62
GOCR general budget support	7.40
Disaster relief services	0.21
EARTH (regional agricultural college)	14.79
TOTAL	100.00

* The sector uses include all public and private channel activities intended to benefit the sector, including credit lines, training, agency improvement, and the proportionate share of operational and program expense costs.

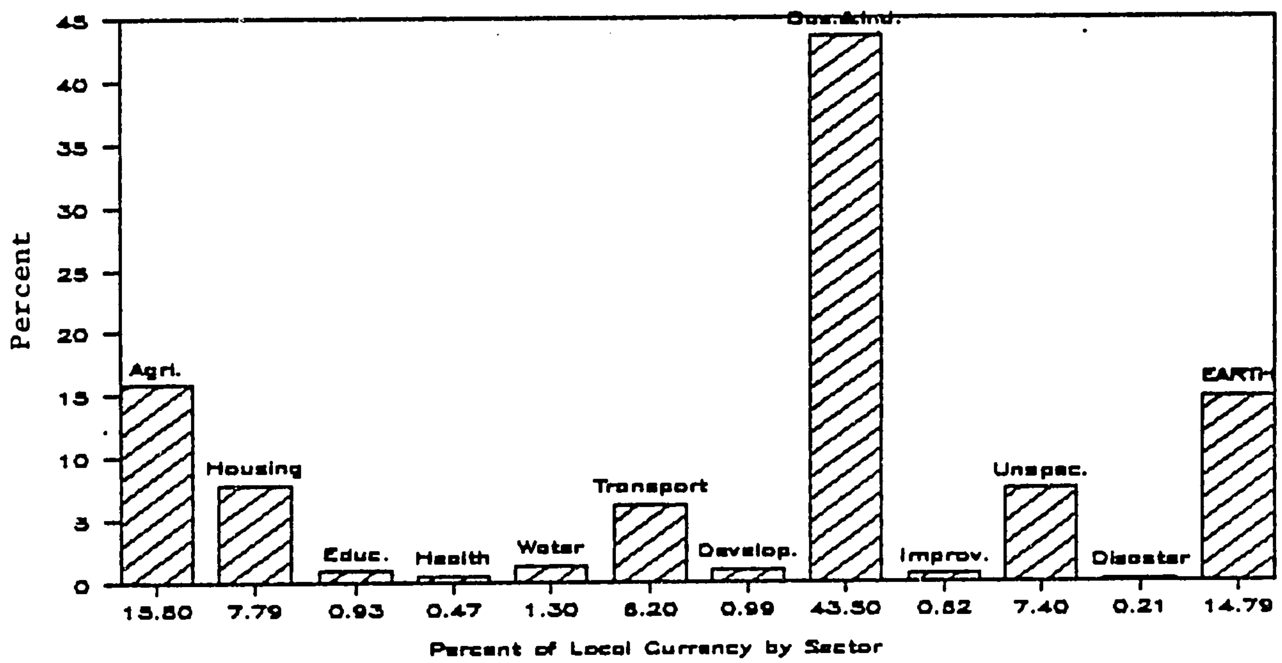
The third largest investment was for the regional humid tropics agriculture university, EARTH. The costs were shared with the Regional Office for Central America and Panama (ROCAP), which used only dollars for its establishment. Costa Rica will, of course, benefit substantially when the college is in operation because of its specialist training, research, and employment. No attempt was made to break the USAID/Costa Rica funds down into benefits for agriculture, agribusiness, and employment generation since the first students do not enroll until 1990.

Housing has received considerable benefit from the portfolio, 7.78%. The funds were used for credit lines and for self help projects through PVOs, and especially the Peace Corps. Nearly three-fourths was used for rural housing. Although the proportion appears small, the 1.29% expended on potable water and sewer systems was an important complement to rural housing as well as health.

Unspecified government budget support, 7.39%, was important in balance of payments, strengthening the service sectors, and to the social services safety net. Even though these funds, by their line item categories, could not be assigned to the other sectors, they were crucial to general recovery.

Transportation received substantial help from FY 1983 to FY 1987. Most of these monies were spent on rural roads but some were for the general highway network connecting the previously difficult access between the perimeter areas and the Central Plain. Port improvements were sorely needed to facilitate imports and exports.

Figure II.C: Percentages of Local Currency Uses by Service Sectors for Costa Rica for FY 1983-1987



While each of the others accounted for less than 1%, they were valuable for the overall strategy: general education, health, community development, democratization, and disaster relief and a system to respond efficiently to future disasters. As will be shown in a later subsection, all of these correspond to strong characteristics in Costa Rica: nearly no illiteracy and high secondary and university enrollments, the lowest infant mortality rate in Latin America, concern for secondary cities and towns, and a stable democracy. Overall, the distribution of these and those previously discussed was in keeping with the nation's pressing needs.

2. CAI and Mission Objectives

The numbers of Central American Initiative objectives (total is 16) as addressed by MOUs by fiscal year were:

Fiscal Year	1983	1984	1985	1986	1987
Public Sector	9	6	3	4	1
Mixed Public/Private	0	3	2	3	3
Private Sector	10	8	5	4	3

As these figures clearly show, the local currency use has become more sharply focused on the Central American/Jackson Initiatives. They now concentrate more on the integral development approach rather the earlier, more scattered project strategy. Each of the CAI and Mission Action Plan objectives was addressed every year but the last four emphasized private sector development more than was the case in 1983.

3. Examples of Beneficiary Impact

Costa Rica has for decades spent about 30% of its national budget on education. Despite this enormous proportion, the highest in the world, it has not been able to finance some needed improvements. In recognition of Costa Rica's efforts, the Mission has provided some much needed basic assistance that will further enable the populace to participate effectively in the nation's economy.

Rural School Refurbishment Project

The Rural School Refurbishment Project represents a collaboration of USAID, the Peace Corps, and the Costa Rican Ministry of Education. It assists rural communities to upgrade the quality of education through physical improvement of their primary schools. The C50,000,000 project will have a nationwide focus and benefit more than 500 communities and 16,000 school children over its expected life of two years. Beneficiary communities must be willing to participate actively in the design of the school renovation, and to contribute to the completion of the work by providing labor and transportation for materials. The project's focus is on renovation and repair, as opposed to new construction, encouraging communities to maintain existing facilities.

The project finances construction materials for the repair, renovation or construction of school classrooms, school lunchrooms, sanitary facilities, and basic school furniture. Communities with schools of three classrooms or fewer were eligible to participate in the Project. Emphasis was placed on one room schoolhouses and mixed grade classroom schools, with priority given to communities with the greatest need.

The School Refurbishment Project was not a giveaway but a self help program which offered financial assistance to communities that have already demonstrated the ability to organize and initiate such an endeavor on their own. Besides providing communities with much needed school repairs, the project stimulated the broader social development goals of self confidence, trust, pride in one's community, and a willingness to cooperate. The renovation projects often stimulated the beneficiaries to embark on other community oriented development projects. Seventy-four subproject requests have been approved for a total value of approximately C7,000,000.

Multigrade Classroom Program

This project is to help the Ministry of Education address the problem of lack of materials for multigrade classroom (mostly rural one room schools) instruction and the lack of training on the part of the teachers in the specific methodologies necessary for the management of multigrade classrooms. The quantitative outputs were:

(1) Nine workshops were held, attended by 1,100 rural teachers, which represent 90% of the country's multigrade classroom teachers;

(2) Two workshops for rural supervisors were held, attended by 160 supervisors;

(3) 4,000 copies of the manual for the rural teacher were printed and distributed;

(4) 2,400,000 worksheets were printed and distributed; and

(5) 1,000 copies of the rural supervisor's manual were printed.

The project produced materials and workshops which are practical for Costa Rica and which are providing the one room school teachers with planning strategies, materials, and methodologies to teach better. Thanks to this project, rural one room schools in Costa Rica now have at least five things that they did not have before: textbooks, worksheets, teacher's guides, an approved Ministry program, and improved teaching.

Primary School Textbook Program

USAID/Costa Rica undertook this project to provide a set of textbooks for each primary school student. These texts were in the areas of math, science, Spanish, and social studies. One million textbooks and 75,000 teachers' guides for grades 1-3 were ready to distribute for the 1985 school year. Some 800,000 textbooks and 60,000 teachers' guides for grades 4-6 were distributed in 1986.

For the first time, Costa Rica had texts for all its primary school children, which were written and produced one hundred percent by Costa Ricans. They were based exclusively on Costa Rican reality and distributed to the farthest corner of the Republic. Additionally, they were printed in Costa Rica by private printing companies which generated local employment, and demonstrated Costa Rica's capacity to compete with foreign printers. As a result, other Central American countries are interested in having their textbooks printed in Costa Rica. In fact, one of the printers involved in the Project has recently been awarded the printing of over one million textbooks for schools in Honduras.

Agriculture, as noted earlier, is the largest of the economic components in the nation. The sector has, however, suffered from insufficient funding for new investments and improvements. With the successes registered in the USAID projects to renovate the banana plantings and to eradicate rust from coffee, new projects were developed with the government and the private sector.

Northern Zone Infrastructure Development Project

The project area consists of the counties of Upala, Guatuso, and the district of Santa Cecilia in La Cruz, containing a population of about 40,000. The project area has extremely low standards of living in comparison to the rest of the country. The lack of adequate internal access roads increases the risk to crop production and results in farmers limiting the area in production and the use of agricultural inputs.

The purpose of this project is to provide the basis for the efficient and equitable socioeconomic development of the area. The project is comprised of four components. The first, road improvements, finances the upgrading of approximately 100 kms of existing roads to all weather status. The construction of the road sections is progressing satisfactorily. The second component, community development, provides grants to partially finance 65 social infrastructure community development projects such as schools, wells, small bridges, and community centers. The third component is for project coordination and area development studies. This finances the establishment and operating costs of the GOCR's project coordinating office located in Upala. The fourth component, land acquisition and titling, involves the purchase of land by the Agrarian Development Institute for the eventual settlement of approximately 800 families and will provide land titling for about 1,000 small and medium farms.

Coffee Technification and Diversification

Coffee is the most important crop in Costa Rica. In 1982, coffee produced almost 40% of the foreign exchange earnings of the country. There are approximately 48,500 coffee farmers that employ more than 90,000 outside workers during peak harvest periods.

The appearance of coffee rust disease in 1983 caused widespread concern in the country because of its potential economic and social impact. Experience in other countries has shown that it is impractical to attempt to totally eradicate the disease once it has become established. The most effective means of confronting the problem is to adopt new production techniques which will minimize the damage.

USAID established a trust fund under the project that provides a one billion colons loan to be used to assist some 7,300 small farmers to participate in the technification/diversification program. Fifty million colons in grant funds will also be made available by USAID for a program of direct technical assistance. The project is progressing well, already increasing coffee yields as well as introducing profitable substitution crops.

Oil Palm Cooperative Project

The importation of edible oils by Costa Rica has been on the increase. To help Costa Rica become self sufficient in edible oils, a project in collaboration with the Compania Bananera de Costa Rica (CBCR) was developed. The CBCR, a wholly owned subsidiary of United Brands, is conscious of this problem and agreed to a USAID/Costa Rica proposal to transfer ownership of 1,680 hectares of an oil palm plantation to a worker owned cooperative to be formed to manage the plantation.

USAID/Costa Rica considered this as a project of great economic and social impact and financed it with local currency generated under the Economic Support Fund (ESF) program with the government of Costa Rica. USAID/Costa Rica established a colon equivalent of a $6 million loan fund to be used by the cooperative for the replanting of the plantation, development costs, and operation of the cooperative. The CBCR provided the colon equivalent of $2.3 million in land purchase financing to the cooperative on real but attractive terms. The cooperative is operating on a sound financial basis and the palms are growing well. Nearly 500 families are benefitting from the project.

This chapter has already made many references to the private sector portfolio, especially to funds for business, industry, and private educational institutions. The portfolio has also included help to smaller, less visible components in the economic system that have long term, far reaching implications. One example is given here as an illustration of impact in the sector.

FEDECREDITO

The Credit Union Strengthening Grant was signed in July 1982. The grant was to the National Federation of Savings and Loan Cooperatives (FEDECREDITO), in response to the severe economic difficulties being faced by this important member of the Costa Rican cooperative sector.

The purpose was to strengthen the Federation's administrative, operational, and institutional capacity to expand its services to the affiliated cooperatives. In addition to financial assistance, it also offers technical expertise in the form of a resident consultant from the Confederation of Savings and Loan Cooperatives of Latin America and the Caribbean (COLAC).

The project has been highly successful. FEDECREDITO was virtually bankrupt in 1982, with only C74.9 million in total assets. At March 30, 1986, the Federation's assets totalled 613.1. Loan defaults went from 39% in 1982 to 1% this year. Too, the accumulated savings are financing a wide range of business, farm, and home investments which will add strength to the economy.

Democratization projects in Costa Rica have generally assisted the voter registries, leadership seminars, and local governments. In a democratic nation, these were usually deemed to be sufficient. There was a sector of the population, however, that was not participating to its full potential. This example is overcoming that lack through a double thrust, economic and institutional capability.

Union Development and Agrarian Services

This grant to the American Institute for Free Labor Development (AIFLD) assists the Costa Rican Agrarian Union Movement. The project includes a program of strengthening agricultural unions and credit, developing the institutional and financial capacity as well as the self sufficiency of the National Workers Confederation (CNT) and its agricultural department.

The program enlarges the delivery system for agricultural services established under a previous project, providing technical assistance and training, credit, agricultural inputs, and marketing services for members of the agricultural unions of the National Workers Confederation. The successful services continue in Perez Zeledun, Rio Fro, and in project areas near Cartago. They will also be extended to areas of San Carlos and Upala. By the end of the project, the persons affiliated with the unions will increase from its present level of 1,700 members to more than 5,000 in the five years.

These are, of course, only a few examples of the many projects carried out in Costa Rica in cooperation with the United States. In addition to these more descriptive inclusions, a few summary numbers illustrate the breadth and depth of the program during the five year study period.

New employment generation	11,820 jobs
Upgraded skills	8,216 workers
Professional improvement	1,118 persons
Export increases	17%
Divestiture of state owned enterprises	2 large plants
Land titles	2,014 farms
Improved instructional capacity	4 public and 5 private universities
Small businesses begun/improved	318 businesses

Less tangible, but of consequence in the general betterment of the socioeconomic status, the projects for roads, potable water systems, health clinics, secondary city infrastructure, and import-export facilitation add significant dimensions to US-Costa Rican cooperative efforts.

4. Program Activity Parity with Needs

An examination of the USAID/Costa Rica activities from FY 1983 to FY 1987 shows a generally balanced program in comparison with the needs as expressed in the socioeconomic indicators. Those of major import, in relation to program components, include the following:

Indicator: 1985/86	Percentage of Program	
Total GOP rate = 1.3	Business/industry	44%
Literacy = 90+%	Education	1%
Infant mortality rate = 18	Health/water/sewer	2%
Unemployment = 23%	Strong component in business/industry	

Because of the low world prices for coffee, sugar, and bananas, and diseases in coffee and bananas, agriculture has had a negative growth rate over the period. USAID has invested nearly 16% of its local currency funding to help remedy this situation. Similarly, 6% was spent on roads and other transportation improvements which will also help increase revenues from agriculture.

No housing indicator for recent years was discovered but rural housing, particularly, has been in sore need of improvement. The Mission's 8% investment in that sector will add to the standard of living and better health, as well as generate employment.

5. Impact on Host Government Budget

Costa Rica, like all governments, prepares budgets to meet a wide variety of service needs; they also arrange their budgets in categories that fit their structures. The study team, in consultation with Mission officers, examined the budget and decided that direct comparisons of USAID inputs even to ministry categories, shed little light on the importance of the funds. Several useful conclusions could be drawn:

- Costa Rica's education budget stretches resources to the limit; government funds for the major USAID projects were impossible:

  - Costa Rica has never been able to furnish textbooks to the students; USAID furnished books for every primary student in the nation.

  - The resources have not permitted additions and renovation of many rural schools; a US project repaired many classrooms, especially in one room schools.

  - Similarly, special training for multigrade teachers could not be done; USAID gave them help on instructional management, a manual, and basic materials.

- Costa Rica's agricultural growth has suffered from low prices, crop diseases, and low investment in infrastructure and inputs:

  - USAID/GOCR built an important network of access roads, facilitating input, transport, and marketing.

  - US projects to remedy banana and coffee diseases, plus integrated pest management, markedly improved yields.

  - The crop diversification and non-traditional crop stimulation have broadened Costa Rica's farm production and export bases, reducing its dependence on traditional crops and increasing its hard currency.

  - The Mission has assisted universities with agriculture and agribusiness so that more technical applications work can be done.

  - Agricultural credit lines were substantially increased from USAID activities.

- Although Costa Rica had strong entrepreneurs, these were hampered by insufficient credit, information gaps, and inadequately trained personnel in several fields:

  - Business credit lines were augmented by Mission inputs.

  - Policy and agency reforms facilitated imports and exports.

  - Intensive vocational, business, and professional training was provided through USAID projects.

  - Divestiture of two state owned factories strengthened the private sector as well as reducing government losses.

- While Costa Rica's expenditures on health are relatively high, some areas had minimal nearby facilities:

  - Additional rural and other marginal area clinics vastly improved services to them.

  - USAID investment in potable water systems and sewers enhanced the health environment for those residents.

- Costa Rica is and always has been a democracy but the shortage of funds for counties and municipalities limited their ability to provide their share of the services:

  - US assistance to municipal infrastructure improved conditions in many secondary cities and towns.

  - Management training for municipal employees and elected officials will enable them to function more effectively.

In general, therefore, the Mission activities have been directed toward the most pressing needs. While some of the activities would continue without the Mission efforts, they would be at such a reduced level of funding that short/medium term economic improvement and long term stabilization would be almost impossible. The study team found that substantial benefits had accrued from the USAID program and, further, that many of these accomplishments favored the rural and small city populations.

III. HONDURAS

Honduras, after decades of mostly military rule, enjoyed civilian governments during the study period. During this period, however, its neighbors -- Nicaragua, El Salvador, Guatemala -- were in almost constant turmoil. The tensions created by the Nicaraguan government and the rebels in El Salvador caused Honduras to spend much higher amounts for defense. The internal problems in all three of the adjacent nations brought about a flood of refugees to Honduras and most of them are still there. While UNHCR and other agencies assist some refugees, others have swollen the ranks of the unemployed, filled many schools beyond their capacity, and created many other burdens on the Honduran efforts to effect rapid development.

USAID/Honduras does not work directly with refugees but the violence on the borders and the economic drains occasioned by the refugees have both influenced the Mission's program. Too, Honduras suffered from insufficient government revenues even before the violence began. Land reform without sufficient training and credit, lower world prices for Honduran products, coffee and banana diseases, inadequate credit for business and industry, a low education level of the majority of the populace - all contributed to economic stagnation and problems with the balance of payments. The USAID/Honduras programs must be seen within this context.

A. Financing for the Honduran Program

The USAID/Honduras programs have been, for most years, relatively conservative and surpassed by those in Costa Rica and El Salvador. The Honduran government was reluctant to increase its debts, strove to keep inflation down, and tried to avoid devaluation. While none of these was totally successful, they brought about delays in development assistance.

Additionally, electricity was scarce during the first years even though some was purchased from El Salvador. The completion of El Cajon Dam and generators quickly remedied that problem, permitting much more expansion of light industry. USAID's assistance to private industry was then able to progress rapidly, partially accounting for the larger increases beginning in 1985.

1. The Financial Picture for the Period

The USAID assistance to Honduras totalled $730,112,000 for FY 1983 through FY 1987, with almost 30% of that sum programmed in FY 1985. During that time, the local currency (Lempira) funding accounted for 65.6% of the total, equivalent to nearly $479 million. (Table III.1) The five year total for the Lempira inputs masked some variation when examined by year, from a low of $55 million, in 1983 to a high of $162.5 million in 1985. (Further details are contained in Annex Table A.2.)

Table III.1: Local Currency (Lempiras in US$ equivalents) and Dollar Denominated Assistance by USAID/Honduras, FY 1983-1987

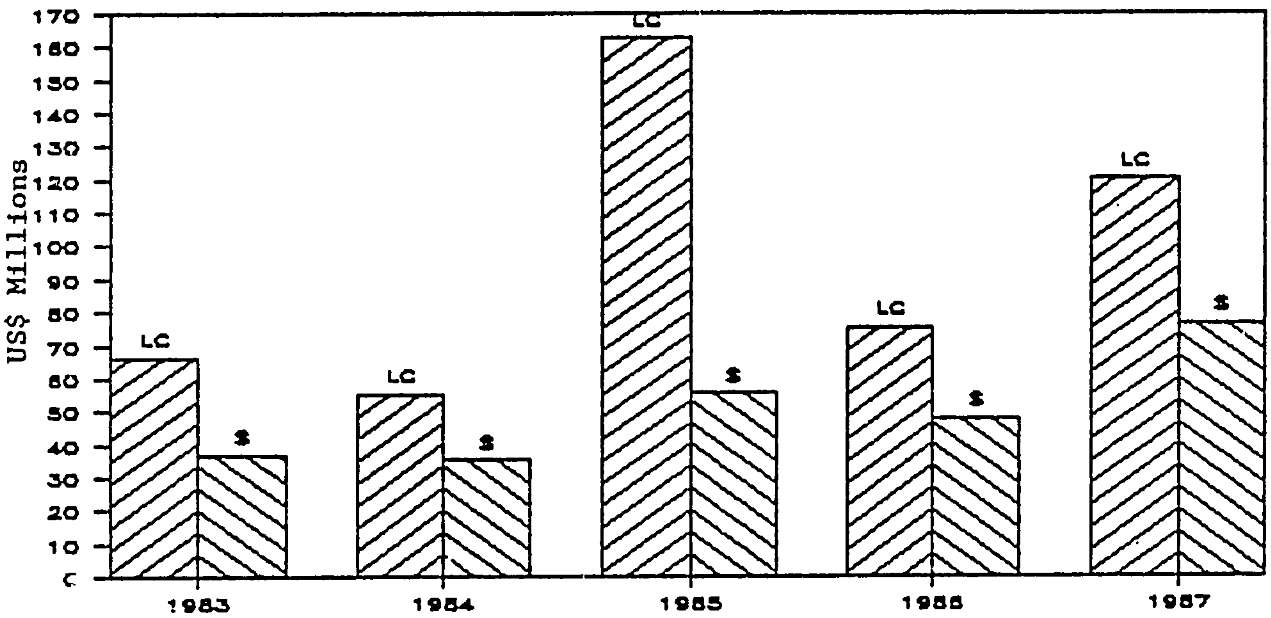
(US$ 000)

Type/Source	1983	1984	1985	1986	1987	TOTAL
Local Currency						
1. ESF	56,000	40,000	147,500	61,248	100,000	404,748
2. PL 480 Title I	10,000	15,000	15,000	13,900	12,000	65,900
3. Section 416					8,300	8,300
Total Local Currency	66,000	55,000	162,500	75,148	120,300	478,948
Dollars						
1. Development Assistance	31,226	30,995	51,833	44,308	41,671	200,033
2. Title II Grant*	5,467	4,319	3,557	3,334	3,313	19,990
3. ESF Projectized					31,141	31,141
Total Dollars	36,693	35,314	55,390	47,642	76,425	251,164
GRAND TOTAL	102,693	90,314	217,890	122,790	196,425	730,112

* These include interest from earlier two stage loans.

The relative proportions of Lempira (in $) to dollar denominated funds are graphed by year in Figure III.A. In general, the percentages of local currency in the total aid package were similar except for the unusual 1985 fiscal year: 1983 = 64.3%, 1984 = 60.9%, 1985 = 74.6%, 1986 = 61.2%, 1987 = 61.2%.

Figure III.A: Relative Proportions of Local Currency and Dollar Funding in the Honduran Portfolio: FY 1983-1987



The local currency equivalent in dollars always exceeded the amount available in dollar denominated funds. They were important amounts and vital to the total effort in joint programming by the two countries, allowing for more direct assignment to the development activities while maintaining control of the hard currency resources. The dollar denominated funds were important as a control factor and also to facilitate the importation of the necessary equipment and supplies from outside Honduras.

The high investments in 1985 and 1987 represented substantial new programming for business, industry, and agriculture. The latter marked the beginning of the intensive efforts to control coffee disease problems and renovate the plantings, together with land titling activities for small farmers.

2. Public and Private Sector Investments

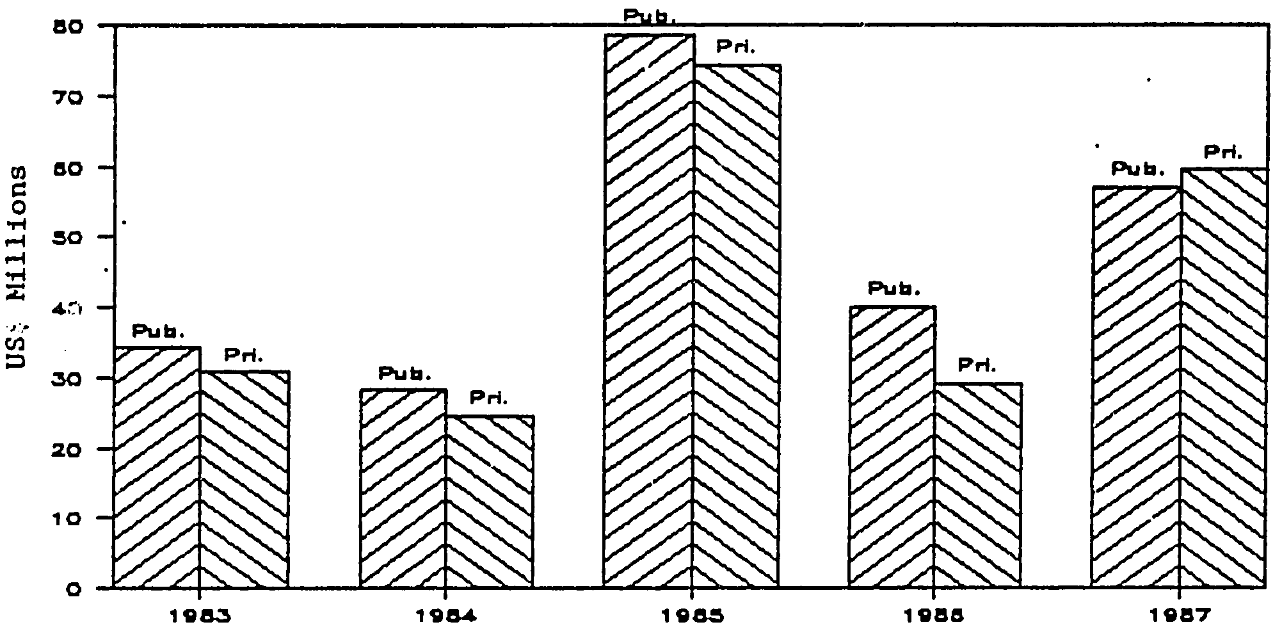
The USAID/Honduras activities were split almost evenly between the public (52%) and the private (48%) when operations and program expenses, and CUPs are ignored. That proportion remained relatively stable during the first four years; in 1987, the private sector received slightly more funds than did public. The private sector as ultimate user tended to receive its funds as pass through from the public sector rather than directly. (See the details in Table III.2 and the graphed comparisons in Figure III.B.)

Table III.2: Local Currency Programmed Funds (stated in US$ 000) by Source, Sector and Year, USAID/Honduras, FY 1983-1987

Source/Sector	1983	1984	1985	1986	1987	TOTAL
1. ESF						
a) Public sector						
Straight public	29,375	20,276	74,260	30,624	38,735	193,270
Pass to private	24,000	14,099	23,890	16,150	51,915	130,054
b) Private sector	2,500	4,200	40,700	10,001	6,850	64,251
c) USAID						
OE		650	5,500	2,000	1,000	9,150
Program	125	775	3,150	2,473	1,500	8,023
Total ESF	56,000	40,000	147,500	61,248	100,000	404,748
2. PL 480 Title I						
a) Public sector						
Straight public	4,800	7,829	4,268	9,498	10,050	36,445
Pass to private	2,200	739	4,500	1,000		8,439
b) Private sector	2,000	5,432	5,232	1,902	750	15,316
c) Currency Use Payment	1,000	1,000	1,000	1,500	1,200	5,700
Total PL 480	10,000	15,000	15,000	13,900	12,000	55,900
3. Section 416						
a) Public sector						
Straight public						
Pass to private					8,300	8,300
Total Section 416					8,300	8,300
GRAND TOTAL	66,000	55,000	162,500	75,148	120,300	478,948

Much of the private sector funds was used for lines of credit for business, agriculture, and industry or as loan guarantee funds to aid with collateral requirements. Training, technical assistance, and import/export facilitation received needed support. Private education assistance, apart from training, was small in total but very useful to the individual institutions.

Figure III.B: Amounts of Local Currency (in US$ Equivalents) by Recipient/Ultimate User Sectors, FY 1983-1987



Public expenditures concentrated on roads (especially farm to market and access), airports, health, public education, and democratization. The agricultural services (research and extension), community development, and general budget stabilization support received lesser amounts, but these were vital for continued improvement.

3. Projected Local Currency Availabilities

It is expected that the PL 480 Title I assistance will continue in 1988 at the 1987 level (about $12 million). That probably will drop to $11 million in 1989 and remain at that level through 1992 (Table III.3). That loss would not be substantial to the programs.

ESF funds are projected to drop 25% between 1987 and 1988, with just $75 million for programming. A small increase is anticipated in 1989, a drop to $66 million in 1990, then again to $40 million each for 1991 and 1992. The overall effect would be a 60% decline between 1987 and 1991. Obviously, such a radical shift will require a great deal of planning for the Mission in conjunction with the Government of Honduras, and perhaps with other donors. The latter will be particularly affected if those reductions involve counterpart funds for large, international agency projects.

Table III.3: Projected Local Currency Availabilities for Honduras by Source and Year, FY 1988-1992 (US$ 000)

Source	1988	1989	1990	1991	1992	TOTAL
1. ESF	75,000	76,500	66,000	40,000	40,000	297,500
2. PL 480 Title I	12,000	11,000	11,000	11,000	11,000	56,000
TOTAL	87,000	87,500	77,000	51,000	51,000	353,500

B. Program Operations and Management

Since the initiation of the ESF Cash Transfer Program in 1982, the Central Bank has converted all Cash Transfer dollars into Lempiras at the 2:1 official rate (the only legal rate in effect in Honduras) and has placed them into a non-interest bearing special account. (GOH law does not allow for interest bearing accounts at the Central Bank, where all GOH owned local currency funds must initially be deposited.) By joint USAID/GOH agreement, one half of the local currency has been utilized for public sector development activities, the other half for private sector activities and certain special activities beyond direct GOH control. While the ratio has remained unchanged since the early days of the program, there has been some movement between categories.

1. Economic Support Funds

The public sector portion has been programmed for the following types of activities, in order of USAID's stated priorities: (1) counterpart funds for AID-financed projects, (2) counterpart funds for projects financed by IDB, World Bank, and other international financial institutions (IFIs), (3) budget support for GOH projects in which USAID is involved in project design and/or implementation but which are managed by the GOH (e.g., the Employment Generation Program), (4) budget support for other GOH public sector programs which are in accord with GOH and AID development strategies and objectives, and (5) support for PVOs which receive GOH budget contributions (e.g., the Red Cross, special education schools). Also, the public sector portion has advanced local currency funds on a rotating basis to AID funded projects which would otherwise suffer from delays due to slow AID or GOH procedures in disbursing funds.

The private sector and special activities portion is normally programmed for the following types of activities (the first three being private sector activities, the last three special activities): (1) credit, channelled through specialized rediscount lines to such beneficiaries as small and medium businesses, agricultural cooperatives, independent coffee producers, firms increasing exports, small farmers purchasing land, and small agro-industries, (2) PVOs and other NGOs, (3) support for privatization, free zone expansion, and other economically important activities of benefit to the private sector, (4) an AID trust fund, which covers certain USAID operating expenses, technical support and audit expenses for AID funded projects, participant training expenses, and SDA funds available for Peace Corps in Honduras to utilize, (5) an Emergency Assistance Relief Fund, to be drawn on in cases of disasters, and (6) certain non-GOH elements of the Employment Generation Program and other special activities.

In general, the programming initiative for the public sector lies with the GOH, specifically the subsections of the various ministries. At the project management level, a request for inclusion of funds in the Ministry budget is prepared and sent up through the budgetary hierarchy to the Secretary for Planning and Budget (SECPLAN) for presentation to the Congress for approval. The requests cover both counterpart needs and GOH project needs. Once the budget is approved, the implementing agency prepares a supplemental request to cover any counterpart needs for projects not approved in the budget. These requests go to the Planning Secretariat and to the Ministry of Finance, specifically the Technical Advisor to the Minister. These two offices review all the requests, prepare a consolidated request which is submitted to USAID for approval. USAID reviews the list and suggests changes, deletions, or additions. The list is reviewed jointly by USAID, the ministry of Finance, and the Planning Secretariat and approved jointly. The approval is documented by a Project Implementation Letter issued by USAID and countersigned by the Minister of Finance and the President of the Central Bank. Since this process, programs funds needed for a particular Honduran fiscal year, rather than funds available from a specific ESF agreement, several PILs will be issued, programming funds over several years.

This description may leave the impression that USAID is called upon to approve post hoc a GOH proposal. This is not the case. USAID technical officers will have been in contact and dialogue with their opposite numbers in the specifying agencies since before the budget process began, in about March or April of the preceding year. The USAID technical officers are aware that, to assure access to local currency funding, a line item budget request must be made. On the Honduran side, the programming is fully integrated into the budget process, a very important assurance for AID that funds and projects are appropriately managed, monitored, and accounted for. An important AID controller function is to make certain that, according to reports received from the Central Bank, sufficient funds are available in the Special Account to cover the public sector program. Finally, it should also be noted that the Technical Advisor to the Ministry of Finance and the person in the Development Finance Office of USAID charged with management of the ESF local currency resource are in constant discussion concerning both process and impact of these local currency uses.

For private sector activities, three types of procedures are utilized. Credit funds are normally programmed in the same PILs or same type of PILs as public sector funds, countersigned by the Minister of Finance and the President of the Central Bank. Detailed mechanisms and procedures for the utilization of the funds are also spelled out in countersigned PILs, with the Central Bank having the responsibility for rediscounting the funds to the respective credit institutions.

For PVOs and most other private sector activities, the procedure is that overall levels are established in the countersigned programming PILs, usually without naming the specific PVOs/NGOs. USAID then notifies the GOH by PIL when it is ready to approve a grant, providing a summary of activities and expected funding levels over the life of the activity. The GOH then has a 10 day period in which it can object to the activity or request changes or more information. If no such objection or request is forthcoming, USAID may begin to issue PILs to the Central bank, requesting issuance of checks to cover incremental spending needs in the name of the PVO/NGO. The Central Bank normally issues such checks within a week. This system meets the needs of both the GOH and the PVOs. The current system thus limits the GOH role to concurrence and disbursement. USAID enters into an OPG-like grant agreement with the PVOs/NGOs and takes responsibility for monitoring, including requiring the submission of expense vouchers.

For the trust fund, the GOH disburses the funds to USAID, which handles them similarly to its own funds. Earmarks, obligations, and commitments are made as with AID's own funds, through PIOs, contracts, and purchase orders. There are, however, some differences between the trust fund and AID-owned funds; for example, non-expendable property purchased under the trust fund becomes the property of the GOH.

The USAID Controller's Office tracks the expenditure of the entire local currency program, based on reports from the GOH and various USAID documents. It issues detailed computerized tracking reports every month. USAID's Development Finance (DF) Office is in charge of overall local currency programming and monitoring, and has assigned this as a part time responsibility to one USDH, assisted nearly full time by an American PSC. Other personnel from DF and USAID's technical offices also dedicate considerable time to the management of the program.

The implementation process on the public sector side begins with the executive agency's receipt of notification that its project is included in the approved program. A formal budget allocation process still has to be followed and purchase/payment orders processed through the Treasury. On the private side, USAID follows standard procedures for committing and spending funds and accounting for them. In both cases, executing agencies (public) or implementing organizations (PVOs and NGOs) are required to submit financial and implementation plans, justify expenditures, and report progress. The USAID Controller uses project and/or trust fund monies to contract for audit services. Each side reports to the other. Consequently, both USAID and GOH, specifically the Ministry of Finance, are in a position to track the use of funds, control and re-program balances, and generally manage and monitor the resource.

2. <u>PL 480 Title I and Title I/III</u>

Proceeds from the sale of PL 480 Title I (loans) and Title I/III (mixed loan and grant) commodities finance public and private sector agricultural programs such as the National Agrarian Institute (land titling for small farmers), the Honduran Agricultural Research Foundation, consolidation of rural cooperatives, GOH rural and agricultural development programs, and the counterpart needs of agricultural projects financed by International Development Financial Institutions or other donors. These funds are programmed in a manner similar to ESF funds except that they are programmed on the USAID side by the Mission Rural Development Office. The priority in programming is still counterpart for AID rural development projects, followed by counterpart for other donors and projects, and ultimately mutually agreed selected programs of the GOH. Programming is by Project Implementation Letter. The PIL in its body will indicate broad categories of program; an annex then breaks the broad categories down into specific projects contained in the GOH budget.

The following standard language is quoted from a PL 480 PIL describes the implementation philosophy, the monitoring responsibility, and the level of financial and other review assumed by USAID:

"AID has reviewed the GOH systems and procedures for programming, disbursing, managing, monitoring, and supervising the use of these funds and finds them adequate for carrying out the activities in Attachment II. Project design, management, and monitoring of the funds programmed for GOH Budget Support is the responsibility of the Government of Honduras. As these are GOH programs, AID is not involved in the design, implementation, evaluation, or disbursement of funds for these activities. Nevertheless, AID reserves the right to review and audit GOH documentation pertaining to these activities. The GOH will submit a report of disbursements of the activities listed in Attachment II to AID on a monthly basis. AID may request additional program documentation to conduct financial reviews, as is deemed necessary. Furthermore, the ministry implementing units will submit project reports to the Ministry of Finance and Public Credit as required. These reports will summarize ongoing project activities vis-a-vis the development objectives of the P.L. 480 Program.

"The funds programmed in this PIL will be used only for goods and services necessary to implement the activities listed in Annex II. No changes may be made in the amounts allocated in this PIL without written agreement of the Parties. Funds remaining from previous programmings may continue to be used for their originally designated purposes, with prior authorization from the Ministry of Finance and Public Credit.

"The Ministry of Finance and Public Credit will notify each implementing unit, in writing, of the amount programmed for each project, under this PIL."

None of the Section 416 local currency generated, or to be generated, from the $8,000,000 grant to Honduras in 1987 has as yet been programmed, much less allocated, committed, or spent. However, it is expected that the local currencies will be handled in accordance with the procedures established for Title I proceeds of local currency. Programming will involve primarily the Rural Development Office of the USAID and the Ministry of Finance, support will be given to line items in sector budgets, the GOH will have major management, monitoring, and accounting responsibility. The USAID Controller will generally follow on the basis of required GOH reporting but will use spot checks and will have right of audit as necessary.

3. Processing Summary

The programming procedures and the implementation methods seem to provide USAID/Honduras and the Government of Honduras with the following desiderata:

- Local currencies can be and are assigned to specific projects within agreed sections. PL 480 local currencies are concentrated on rural and agricultural development activities including increased production and other self help measures;

- Adequate counterpart fund availability is assured for AID and other donor assistance projects; and

- Funds are used, and their use is assured, in support of both executive branch goals and the goals and purposes mandated by the US Congress.

C. Program Impacts

The growth of USAID assistance to the people of Honduras, even though not absolutely progressive from 1983 through 1987, was substantial and enabled a strong developmental program. Recovery from agricultural production and earnings reversals were well underway although not completed by the time of the study. During the period, Honduras increased its export of non-traditional food exports to the United States such that it stood fourth after Mexico, Canada, and Chile - a gain from an almost negligible standing previously. Even greater achievements were expected from the systematized privately managed applications research program just getting into full operation.

Light industry began slowly and suffered some reverses. The credit combined with training and technical assistance was having a salutory effect on the USAID and other donor assisted project beneficiaries.

The overall view at the conclusion of the five years is one of quiet optimism. In addition to these private sector improvement indicators, the government had slowed its expenditure rates and was investing more in long term benefit infrastructure. The possibility of a stable economy is on the horizon.

1. Potential Service Sector Impacts

The five year total examination of the sectors benefitted, without regard to the public-private split, is shown in percentage in Table III.4. In that context, agriculture received the highest proportion, nearly 21%. Coffee and banana disease control and rehabilitation, credit lines, land titling, and technical support made up most of the amount. (See Figure III.C. for an illustrated presentation.)

Roads accounted for the second largest sum, just over 13%. This was closely followed by education (excluding agriculture and business/industry educational activities) at 12.6%. Business and industry, together, used about 12%. Health and potable water/sanitary facilities each accounted for just under 11%. The other sectors were apportioned lesser but important percentages of the USAID local currency resources.

Table III.4: Percentage of Local Currency Programmed, FY 1983-1987, by Sector, in Honduras*

Sector	Percent
Agriculture/natural resources	20.79
Housing	2.07
General education	12.61
Health/social services	10.74
Water/sanitary systems	10.94
Transport/roads, trails, bridges	13.20
Airports	6.16
Community/urban development	4.11
Business and industry	11.94
Civic improvement/democratization	5.31
GOG budget support	2.12
TOTAL	100.00

* The sector uses include all public and private channel activities intended to benefit the sector, including credit lines, training, agency improvement, and the proportionate share of operational and program expense costs.

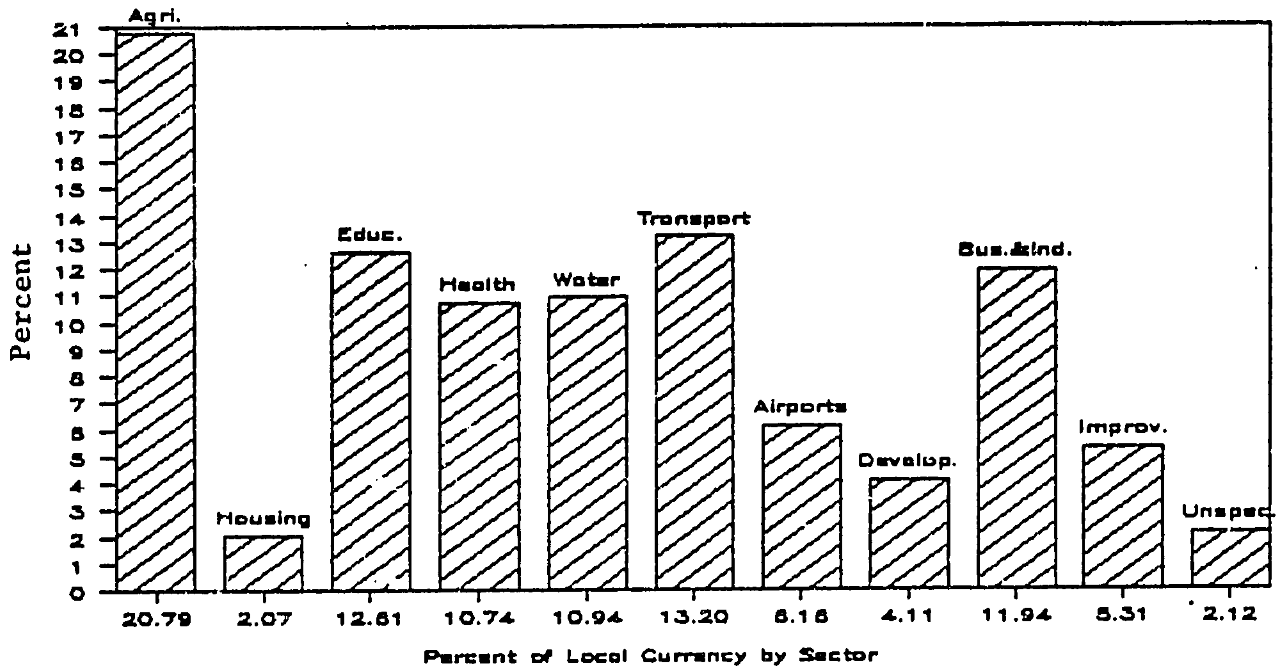
2. CAI and Mission Objectives

The USAID/Honduras Action Plan clearly delineated its objectives within the context of the four Central American Initiatives. Naturally some activities/projects addressed more than one. Rural Technologies, for example, emphasized agriculture and health, but also contained government institutional strengthening, PVO activities, public pass to private loan mechanisms, and housing. The Employment Generation project, while stressing training, was almost equally applicable to the reduction of unemployment through counseling and placement, and a strong measure to strengthen private business (including agribusiness) and industry.

While these combinations often occur -- and, indeed are encouraged -- they resulted in an almost incomprehensible table. It was deemed more useful, therefore, to list the major objectives and the principal activities in support of them. These are, as follows:

Economic stabilization: general GOH budget support; measures that helped with the balance of payments; private; policy dialogue to facilitate private sector growth; all projects for the private sector.

Figure III.C: Percentage of Local Currency Uses by Service Sectors for Honduras for FY 1983-1987



Private sector strengthening: nearly half the expenditures of the Mission were designed for this end; almost all the programs in agriculture, business, industry, and employment generation were in the majority, private sector oriented; the strong activities on roads and the airports were specifically carried out to facilitate private sector activities; strengthening private schools and universities was viewed as long term assistance through improved training.

Broaden the benefits of economic improvement: employment generation; small farmer titling and coffee renovation; access roads; improvement of rural schools and regional universities; rural technologies; rural health activities; housing; strengthen cooperative services to members; union assistance; CAPS; women's business development.

Democratization: assistance with elections; small farmer titling; help to secondary cities and towns; CAPS.

The USAID/Honduras portfolio strongly supports the CAI, Jackson Initiatives, and the Mission's own Action Plan strategies. Not only was none ignored - all of them were addressed in multiple ways, attempting to assure their accomplishment. Some were more successful than others, contributing to, or are in process toward, the stated objectives. There were no projects with extravagant expenditures, none that was extraneous, nor even any that was peripheral to the major Mission thrusts.

3. Examples of Beneficiary Impacts

The Honduras Mission was not only cognizant of the desirability to know about impacts, it viewed impact as a major planning input. External and internal evaluations had been conducted, all with beneficiary impact sections. The Mission also worked with the public agencies involved in projects to help them to collect and analyze impact data.

Obviously, a Central American report cannot contain volumes of individual Mission information. This impact section on Honduras therefore presents illustrative examples, together with some capsule indications of others.

The gains in agriculture, briefly described earlier, are impressive but they have been achieved through great Mission efforts in policy dialogue, reformation of some public institutions, and hard field work. Money economy agriculture was previously in the hands of a few. The agrarian reform distributed land to farm workers without accompanying it with training and technical assistance. Most of the farmers are on small holdings for which they do not have the title, and thus are unwilling to make long term investments. Transportation into many farming areas was on foot or mule.

Most small farmers were illiterate. They had no access to credit. Except for some larger and more accessible farms, the prospects for agriculture were bleak, especially with diseases rampant in coffee and bananas, low prices for Honduran products, and inadequate attention by government institutions.

In reality, agricultural progress began with some USAID/Honduras efforts prior to the 1983-1987 study period, but they have either continued or built a base for present activities. Some of the outstanding examples in the five years are described briefly herein.

Small Farmer Titling

The negotiations to agree that titling should be done, and the subsequent dialogue to actually achieve it, caused early implementation delays. In spite of the delays, the project goal has almost been reached: 32,000 small farmers have obtained full legal title to nearly 38,000 parcels of land. They are now eligible for bank credit because they have collateral. They are making important improvements on the properties, including technical renovation of their coffee plantings and intensifying the production of other crops. Enhanced standards of living will be achieved.

A corollary benefit was also attained via the project: desultory cadastre services have been improved to the point where that government agency is considered the best in Central America. Other GOH agencies call on it for many kinds of services. Other Central American governments consult with it. The funds expended to modernize this agency not only made it possible to efficiently map the titling project, but also greatly enhanced its general utility.

The present project was restricted to small coffee farmers. USAID/Honduras, based on this success, seeks to broaden the work to other farmers and regions. The effort should be supported since it has the potential to increase agricultural production, improve the standard of living, and broaden the democratic base in Honduras.

Small Farmer Coffee Improvement

A complementary project to the titling efforts, this project, while not restricted to those seeking title, came at the right moment. It, too, has suffered delays, but a great deal has been accomplished. Coffee plants had not been adequately pruned and were thus ripe for the diseases sweeping across Central America, older low yielding varieties were still in use, spray controls and fertilizers were employed minimally. The prospects for greater and higher quality production, and thus exports, were dismal. Within that beginning context, the accomplishments by the end of 1985 were extraordinary.

Activity	Goal	Accomplished
Improve IHCAFE ability to help farmers	3,000 new coffee farmers farmers serviced	About 4,584 new farmers had been helped
	3,000 new farmers receive training	Same 4,125 have received training informally
Technology improved	6,000 Mz. using improved varieties	About 5,784 Mz. using improved varieties
	6,000 Mz. fertilized	About 5,205 Mz. fer-utilized
	6,000 Mz. treated for pests	About 5,205 Mz. treated for pests
Farmer management strengthened	6,000 Mz. under improved cultivation	About 5,784 Mz. under improved cultivation
	6,000 Mz. pruned coffee	Techuified areas just now need pruning
	6,000 Mz. fertilized	About 5,205 Mz. fer-utilized
	6,000 Mz. under proper shade	About 4,000 Ms. under shade program
	6,000 Mz. at optimum plant density	About 5,784 Mz. at optimum plant density
Viable self sus-taining system in place	By 1985, reflows begin to finance farmers beyond original participants	Reflows from nursery loans held in reserve. Other reflows just beginning

More work is necessary, and some of it continues. IHCAFE, the semi-government coffee agency, must still improve its functioning. More farmers must be helped. USAID/Honduras continues with both efforts but substantial improvement has been attained.

Rural Technologies

USAID/Honduras has assisted the Rural Technologies Program since 1982 and continues because of its outstanding accomplishments with the rural poor, many living in abject conditions. The approach is to first offer improvements, usually in the home, that are easily perceived as useful: Lorena stove that reduces smoke and saves firewood, a more comfortable bed, and others they can build at very low cost. With that entry, the technicians then introduce farming technologies. The approach has been very successful because both the home and farm technologies are simple, inexpensive (about $24 each), and helpful. The added incentive of being able to obtain small loans for the work propels the improvements forward. The statistics through the phase that ended in 1985, included:

- 9,450 families had installed the Lorena stove.
- 8,532 had adopted one or more farm technologies.
- 778 farmers constructed high quality grain storage.
- 697 farmers constructed/improved small irrigation systems, many with water wheels instead of electricity or fuel driven pumps.
- 998 small shop businesses were trained to and are producing the technologies.

PVOs are an important vehicle in disseminating the technologies; roughly 90% of the adoptions come from their work, accounting for most of the 90% of the beneficiaries that were the rural subsistence poor. An earlier evaluation found a 97% acceptance rating of the technologies by the beneficiaries. The Mission plans a 1988 evaluation to update the statistics.

Cattle Improvement Credit

A relatively small credit fund was set up to enable cattle farmers, especially dairymen, to improve their herds and management. By mid-1987, 486 cattlemen, mostly small landholders, had used the credit line to buy better stock, particularly bulls, renovate pastures, renew old equipment, and improve their facilities. While production impact data have not yet been collected, an immediate clue is evident: less than 5% of the loans is in arrears, and even those for short periods.

Democratization is a vital objective in the program. The effects are difficult to quantify since they are largely internal. Some indications, however, are evident.

- The last elections went quite smoothly and the transfer of power from one president to another was effected.
- The vote by small farmers and other marginal segments of the population approached 100%.

- The Mission endeavors to include the poor in the CAPS program were successful:

  - 77% of the trainees was at poverty level.

  - 60% resided outside the two metropolitan areas.

  - All of the trainees participated in the orientations to federal, state, and local governments in the United States.

The CAPS program effects, while mostly in the future, are expected to enfranchise the participants.

- The courts received training, technical assistance, and some funds to improve their efficiency. Much earlier trial dates are already apparent.

USAID/Honduras is confident that its relatively low expenditures have had an effect in strengthening democratic processes.

As noted in several parts of this chapter, the private sector has been a major thrust in Honduras, which is also expected to reduce unemployment at the same time. A few examples of the activities and some impacts are included to illustrate the impacts. Some individual as well as businesses, are briefed.

Employment Generation

This joint USAID/GOH project has a dual intention: improve the health and living conditions in the small cities and towns through almost entirely local worker employment. It concentrates on potable water and sewer systems, both rare outside Tegucigalpa and San Pedro Sula. The municipalities must contribute funds and actively participate. By the end of 1987, achievement statistics included:

- 35 potable water systems completed or in progress.
- 2 sewer systems installed.
- 26,002 man/months of employment utilized.

While not strictly a training project, two effects have been realized: 278 persons have learned salable skills by working as apprentices; most municipalities have acquired the ability to detail project plans, schedule work effectively, and supervise projects instead of relying on central government bureaucracies.

Although in capsule form, the following cases are important because ordinary, very small businesses have been greatly improved, better products have resulted, and employment generated.

Commercial Erika
(Furniture Maker)

- L50,000 loan in April 1985.

A loan of L28,000 to improve plant; L22,000 for working capital was made.

- Employees were 6 and annual sales were L80,000.
- FIA also provided a line for up to L40,000 to rediscount accounts receivable.

Now the company has 18 full time employees and the annual sales are about L500,000.

Nancy
(Shoe Factory)

In August 1986, a L31,000 loan was made: 19,000 for fixed assets and 12,000 for working capital.

- Employees then were 28, annual sales were L420,000.

Now Nancy has annual sales of about L600,000 and 38 full time production employees.

Confecciones Enamorado
(Garments)

A working capital loan of L21,400 was made in February 1987.

- Employees were 6 and annual sales were L100,000.

Now employees are 12 and annual sales are about L200,000.

Tienda de Calzado Siloe

Roberto Medina was a 28 year old lab technician. However, he was not satisfied with his job and wanted to make more money. When he was a teenager, his father had taught him the art of shoe making, thus he decided to enter this trade. Roberto started with a L500 capital and used this to purchase material and rent a machine. His initial weekly production was 12 pairs of shoes.

Status: The success is reflected in that Roberto manages his own production unit well. He has his own store, employs seven people, and is a good entrepreneur.

Honduras National Industrial Association

To date ANDI has approved the equivalent of $1,054,677 of training and TA projects in support of 20 PVOs working with small and microentrepreneurs. This assistance resulted in approximately 7,487 jobs of which 5,102 are jobs maintained and 2,385 are new. To date ANDI has benefited 2,600 small and microentrepreneurs and by the project Assistance Completion Date, it plans to benefit 3,000 entrepreneurs in all.

Industrial and Agricultural Development Agency (FIA)

To date FIA has loaned the equivalent of $3 million to 65 companies, resulting in about 315 new permanent productive jobs and the maintenance of approximately 700 existing jobs. By the end of the Project, in May 1988, FIA expects to have disbursed in total the equivalent of $5 million, for a cumulative job creation effect of 500 new jobs and 1,100 jobs maintained.

A Small Clothing Factory

Blanca Rivera, a 56 year old married women with five children, now owns her home where she has installed her sewing shop.

For four years, Ms. Rivera has been making women's clothes under the EYBI trademark. She has three industrial machines in her shop and nine simple sewing machines. Three employees assist her in production and her daughter is in charge of the accounting.

Most of her products are sold in a stand in the Central Market of San Pedro Sula and in Tegucigalpa. Forty percent of the clothing is sold under a 30-day maximum credit basis.

FUNADEH gave her a L3,500 ($1,500) loan payable in 12 months, starting May 1986, for the purchase of raw materials. Since then she has been able to hire one more employee, increase her sales and the number of clients, and make her loan payments in a timely manner.

The Honduras Mission has vigorously pursued privatization of money losing state enterprises. Fortunately, GOH has come to agree with this activity and progress can be reported.

In May of 1986, the Honduran Forestry Parastatal, COHDEFOR, entered into a lease/purchase agreement with a private firm for one of its companies, FIAFSA. During the first seven months of operation in the hands of the private sector, production increased from 6.3 to 11.3 million board feet or 80 percent. Exports increased from 1.3 to 8.8 million board feet, a 577 percent increment over the same period the year before under COHDEFOR management. Net revenue for COHDEFOR increased from L475,000 to L1,695,000, a 257 percent increase. The employment generated by FIAFSA's operations under COHDEFOR amounted to a total of 340. Under private management, FIAFSA generated employment for 510 persons in that 7 month period.

The other parastatal which is carrying out privatization activities is the National Industrial Development Corporation (CONADI), which has sold two companies in the past few months. Both of these companies had been closed for years and now will once again become productive enterprises, providing new employment opportunities. One of the two, INHOMSA, a furniture manufacturer, plans to export its production, thereby bringing much needed foreign exchange to the GOH coffers. Another divestiture of CONADI which has been approved but not yet concluded is FUCENSA, a foundry that never operated. This company will now produce steel castings for the US market and expects to export around $10 million per year and provide employment for over 200 people.

Local currency funds have been used to finance various components of the Privatization Project. These include severance payment for the workers of FIAFSA prior to turning it over to the private sector, payment for appraisals of assets, legal work and the salaries on the local staff of the Technical Working Group that provides technical assistance to the GOH in its privatization activities.

These few examples demonstrate a considerable impact on individuals and institutions. USAID/Honduras, with its zeal of insistence on impact and the collection of the facts, was exemplary in the Central American study; they not only provided the described information but also nearly 50 others that except for report length constraints, were worthy of exposition.

4. Project Activity Parity with Needs

As a generality, the USAID/Honduras portfolio spoke adequately to needs in its activities when those were compared to the socioeconomic indicators. Taking GOH investments into account, the major components can be summarized as follows.

- Agriculture sector GDP rate was negative at the beginning of the period; USAID's largest percentage of funds was spent in this sector. Growth has been slow but has been positive for three years.

- Manufacturing GDP rate began very negative in 1982-1983, then showed a strong surge. It has slowed but the USAID private sector development strategy had a substantial effect on the recovery.

- Unemployment was as high as 40% in rural, small town Honduras. The level is still too high but the strong business, industry, and agriculture, plus the employment generation project, components have helped halve that figure.

- Literacy and school attendance rates were the lowest in Central America: the GOH adult literacy programs, school construction, and teacher training are improving the situation. The USAID funding supplemented GOH efforts and thus added to progress.

- The infant mortality rate is high and the other health factors are in serious proportions. USAID expended moderate funds directly in health and also chose to attack some of the root causes with substantial investment: potable water, sewers, latrines, the Lorena stove (near elimination of smoke in the dwelling), and housing. The end result will have a salutory effect on the nation's health.

- Honduras has traditionally had much of the wealth concentrated in relatively few hands. A principal endeavor of the Mission was to effectively help a wider distribution of economic benefits: rural technologies, small former titling and coffee renovation, small business development, the employment generation project, and CAPS all concentrated on this objective.

5. Importance of USAID Portfolio to the National Budget

As was the case in Costa Rica, the national budget of Honduras grouped its investment mostly by ministries, and even the line items within these usually encompassed aggregations of activities. It must be emphasized that the defense provisions were very high in the budget because of neighboring violence. Too, the pressures attendant with a very high birth rate and the refugees not receiving assistance from the United Nations, resulted in strong budget demands.

The USAID/Honduras contributions to the several sectors and in favor of economic recovery and development were unusually important to Honduras. The government kept its own investments high in these sectors, even increasing most of them. The USAID financing thus was in addition to the GOH efforts, not in substitution for them. The combination of GOH, USAID, and help from some other donors made it possible to move development forward rather than remain static. All of the USAID activities contributed to overall improvement but some, because they helped geographic areas or special sectors that would not have been attended, are noteworthy:

- USAID heavy investment in farm to market and other access roads.
- Creation of the private sector applications research in agriculture organization to improve the production and export of non-traditional crops.
- Continuation of the vital rural technologies dissemination to small farmers.
- Land titles to 32,000 small farmers.
- Renovation of deteriorated coffee plantings.
- Development of nearly 2,000 profitable small businesses.
- Divestiture of two tax draining state enterprises.
- Improvements to the inefficient port facility.
- Potable water and sewer systems for several secondary cities that had never had them.
- Credit lines and collateral guarantees for housing, facilitating vast improvements in living conditions.
- Technical training in management for businesses and industry.

These by no means exhaust the list but they illustrate the developmental vitality of the USAID/Honduras local currency program, conducted in conjunction with dollar and GOH funding. While the US funds represented less than 2% of the Honduran budget, without them, the country would have progressed very slowly if at all.

IV. EL SALVADOR

El Salvador is a very small country with a relatively high population density bordered by Guatemala and Honduras, with the narrow Gulf of Fonseca separating it from Nicaragua. Until the late 1970s, this previously agrarian nation had progressed rapidly toward industrialization. Although the per capita income had increased exponentially in 20 years, its distribution was very unequal, leaving a high proportion of the population in dire poverty and illiteracy. A small middle class had formed, primarily from the industrialization and the commercial business spurred by it.

During the last half of the 1970s, sporadic violence occurred in the rural areas and small towns. It was of little consequence at the beginning but grew steadily until by 1978, it was considered a revolution. Help to the rebels grew in volume, reportedly from the Sandinista government in Nicaragua or through it by Cuba and the USSR. The fighting intensified and early in the 1980s, large portions of El Salvador were held by the revolutionaries at least part of the time. After the election of the present government and with help from the United States, government forces began to get the upper hand, slowly recovering much of the territory held by the resistance forces. At the present time, much of the country is free of continuous domination by the rebels although sporadicallly they strike in almost any section of the nation.

During approximately this same period, world prices fell on El Salvador's major export crops: coffee, cotton, and sugar. Diseases swept through the coffee plantations, not only in El Salvador but also in the neighboring countries. The plague reduced the quantity of Salvadoran agricultural exports and that same problem in the rest of Central America diminished the neighbors' buying power; they had been a major market for El Salvador's industrialized goods.

The economic recovery tasks were made even more difficult because wealthy Salvadorans fled the country, taking their talents and capital with them. Agrarian reform broke up many of the productive farms into plots for new land owners but without giving them enough training and technical assistance to produce profitably; production plummeted. The war torn areas were often untilled or subsistence activities were carried out. Factories in the rebel areas lacked inputs and maintenance, thus many of them shut down. Some factories in the capital, San Salvador, and nearby areas remained in operation but with many disruptions because of violence, lack of electrical power, or inadequate maintenance.

Salvadoran refugees poured into Honduras and Mexico, seeking haven from the violence. Many other residents were displaced as they crowded into the government protected areas. This translocation occasioned many problems - housing, food, clothing, jobs - since the government was ill prepared and poorly financed because of falling revenues. Social services to the populace already living in the safe areas had stretched the few resources past the limit.

To add to the difficulties, a disastrous earthquake caused a great deal of damage to the capital and some surrounding areas during the middle of the period. The Mission was faced with the additional burdens of immediate relief and subsequently with the reconstruction.

It is within these contexts that USAID/El Salvador undertook its economic recovery and social support activities. As would be expected from this combination of events, planning was complex and often had to be redone to meet new emergencies. The use of local currency (colon), in conjunction with dollar denominated funds, varied widely across the five years but, throughout the period, remained a valuable asset.

A. Financing for the Salvadoran Programs

The Salvadoran government, as would be expected from the description of the several problems, experienced a great deal of difficulty in meeting its foreign and internal debt payments. Hard currency income from exports fell radically. Inflation was rampant. A careful balance was required from the United States and other assisting countries to assure, in so far as possible, that economic stabilization was engendered, not hindered.

1. The Financial Assistance for the Period

The total USAID funding was about $250 million for 1983 and 1984. As government gained more control of the country, and with the earthquake, the total rose to $444 million in 1985, declined to $321 million in 1986, then climbed again in 1987, $424 million. (See Table IV.1.) Local currency (calculated from US$ equivalents) accounted for the following proportions: 1983 = 62.3%, 1984 = 61.8%, 1985 = 61.7%, 1986 = 60.2%, and 1987 = 46.9%. That is, except for the last year in the period, the relative importance of the local currency funding remained high and nearly constant.

The generally greater investments across the five years, both in dollar denominated and local currency funds, roughly corresponded to the programming for the earthquake relief and reconstruction, and to the improved climate for investment in the economic sectors suffering lessened violence. Figure IV.A, which graphs the relationship between the two currencies, reflects the changes that occurred.

Note also in Table IV.1 that relatively small variations occurred across the years in the contributions of local currency generated from the PL 480 operations. The most important differences were from the ESF contributions to the total assistance. (Also see Table A.1 in Annex A for further details on the amounts and sources of funding.)

2. Public and Private Sector Investments in the Program

As would be anticipated from the situation, the Salvador Mission invested heavily in the public sector: 64.8% for the period. A high proportion of these public designated funds went for the replacement of infrastructure, for the resumption of services, and to enable improvements in benefit of business, agriculture, and industry. The relative positions of investments in the public and private sectors are graphed in Figure IV.B and the details of amounts are shown in Table IV.2.

Table IV.1: Comparison of Local Currency (expressed in US$) and Dollar Denominated Funds, USAID/El Salvador by Source and Year, FY 1983-1987*

(US$ 000)

Type/Source	1983	1984	1985	1986	1987	TOTAL
Local Currency						
1. ESF	120,000	100,000	225,000	147,000	157,000	749,000
2. PL 480 Title I	39,000	49,000	49,000	46,000	38,000	221,000
3. Section 416					4,100	4,100
Total Local Currency	159,000	149,000	274,000	193,000	199,100	974,100
Dollars						
1. Development Assistance	58,927	41,468	91,158	85,860	82,431	359,864
2. CCC 5,467	19,335	30,533	19,070	6,310	20,000	95,428
3. Projectized	18,000	20,234	60,000	35,445	123,312	256,991
Total Dollars Denominated	96,262	92,235	170,228	127,615	225,743	712,283
GRAND TOTAL	255,262	241,235	444,228	320,615	424,843	1,686,383

* These quantities do not include CUP amounts.

Figure IV.A: Relative Proportions of Local Currency and Dollar Funding in the El Salvador Portfolio: FY 1983-1987

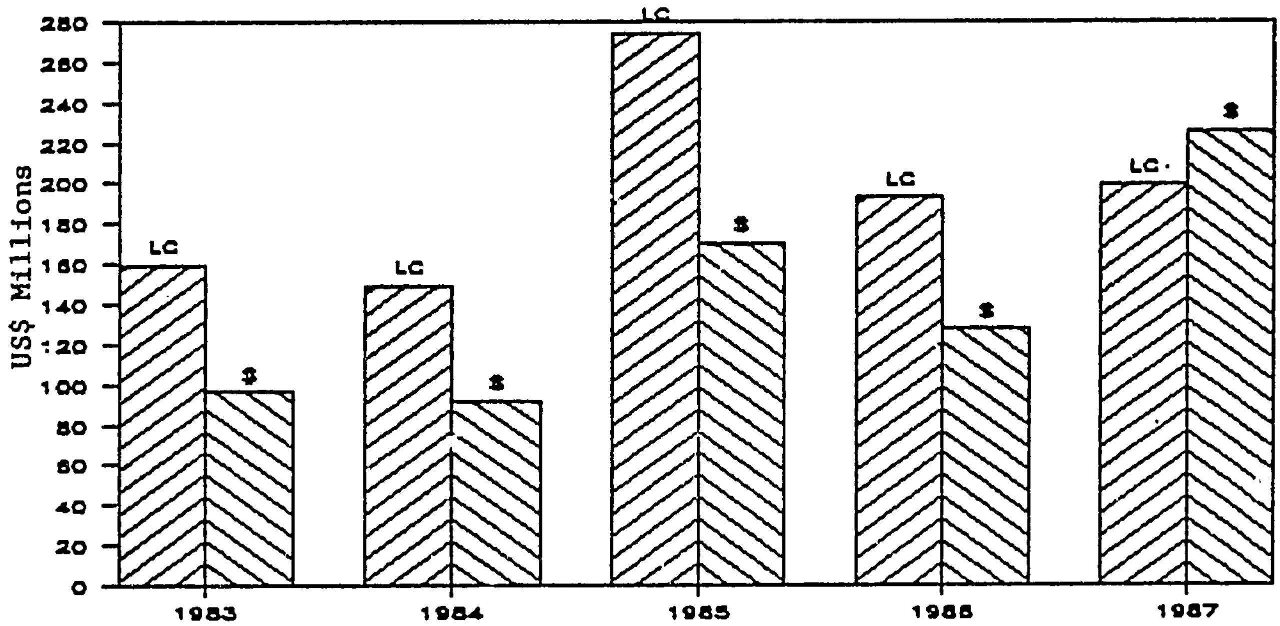
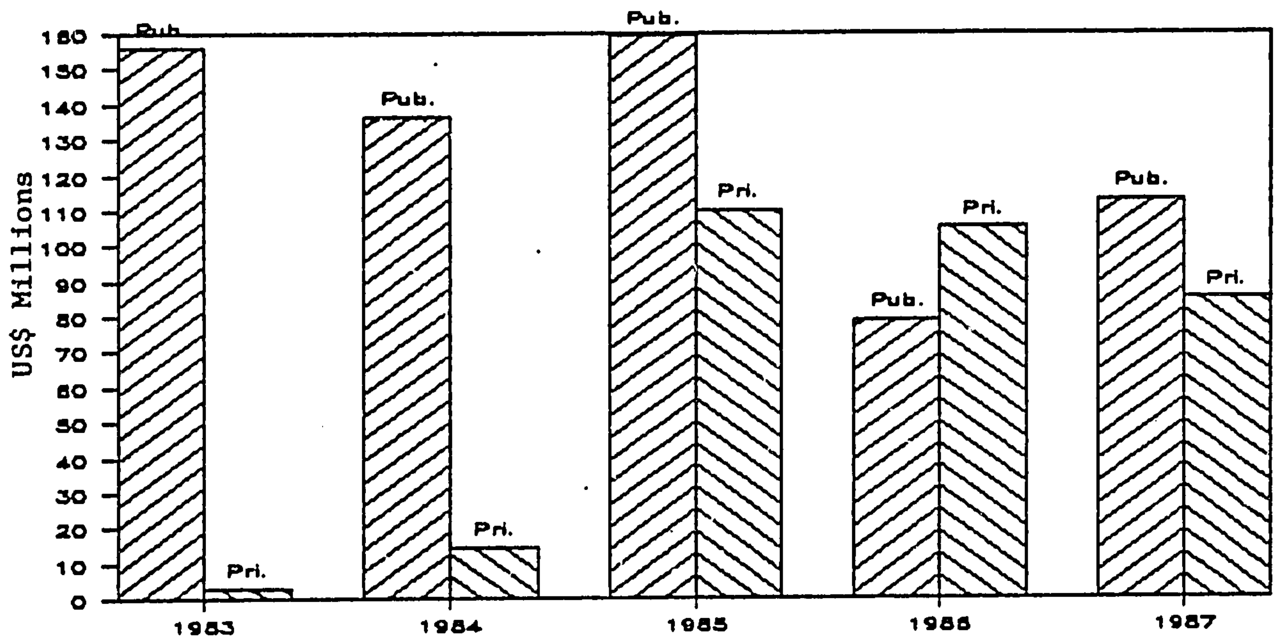


Figure IV.B: Amounts of Local Currency (in US$ Equivalents) by Recipient/Ultimate User Sectors, FY 1983-1987



An important observation from Figure IV.B, and quantified in Table IV.2, is that the amounts devoted to the benefit of the private sector increased rapidly from 1983 to 1985; they declined somewhat thereafter but remained quite high in comparison with the early years. Emphasis was being given to the improvement of the private sector as a vehicle for effecting economic recovery.

Table IV.2: Local Currency Programmed Funds (stated in US$ 000) by Source, Sector and Year, USAID/El Salvador, FY 1983-1987

Source/Sector	1983	1984	1985	1986	1987	TOTAL
1. ESF						
a) Public sector						
Straight public	118,800	100,000	110,200	38,000	78,000	445,000
Pass to private	1,200	2,000	110,000	100,000	78,000	291,200
b) Private sector						
c) USAID						
OE			4,440	9,000	1,000	14,440
Program			360			360
Total ESF	120,000	102,000	225,000	147,000	157,000	751,000
2. PL 480 Title I						
a) Public sector						
Straight public	37,200	36,600	49,000	40,930	31,000	194,730
Pass to private	1,800	12,400		5,070	7,000	26,270
Total PL 480 Title I	39,000	49,000	49,000	46,000	38,000	221,000
3. Section 416						
a) Public sector						
Straight public					4,100	4,100
Pass to private						
Total Section 416					4,100	4,100
GRAND TOTAL	159,000	151,000	274,000	193,000	199,100	976,100

Because of Salvadoran restrictions, no local currency funds went directly to the private sector - all of them were channeled through a public sector institution and then passed to designated users within the private sector. The nation's central and development banks often served as this conduit but other agencies were used when appropriate. Note that even with this pass through mechanism, in 1983, less than 2% was designated for private usage. That increased to 9.5% in 1984 and to 40.9% in 1985. In one year, 1986, the private sector received more than did the public: 57.1%.

The Salvador program devoted a higher proportion of its local currency to the public sector than was the case in Costa Rica and Honduras. Some of this emphasis on the public sector, as noted previously, was due to the enormous needs for almost continual reconstruction in the Salvadoran situation. This, in turn, provided some additional help to the private sector because of the relatively high dollar denominated expenditures in the Salvadoran programs.

3. Projected Local Currency Availabilities

As with the other Central American countries, a decline in the amounts of local currency available in the future is anticipated. The general pattern discussed for the other countries is forecast for El Salvador: a relatively small drop in the food commodity assistance funds but a substantial decline in the amount to be derived from Economic Support Funds.

Table IV.3: Projected Local Currency Availabilities for El Salvador by Source and Year, FY 1988-1992 (US$ 000)

Source	1988	1989	1990	1991	1992	TOTAL
1. ESF	125,000	125,000	125,000	100,000	55,000	530,000
2. PL 480 Title I	47,000	39,000	37,000	37,000	37,000	197,000*
3. Section 416	7,900					7,900
TOTAL	179,900	164,000	162,000	137,000	92,000	734,900

* This includes Section 108 (sugar quota offset) funds of $5,000,000 for each of the four years 1989-1992.

An overall decline from the $199 million in 1987 to $180 million in 1988, is approximately 10%, but a portion of the 1988 funds will come from the sugar quota reduction offset, a payment for that year only. The ESF generated local currency is forecast to remain the same for 1988 - 1990, $125 million, but then drop to $100 million in 1991 and again to $55 million in 1992. The next five year period may see 25% less local currency for programming than was utilized in the last five. No projections for dollar denominated development assistance were made for the coming years, thus the general levels of assistance cannot be estimated. The reduction in local currency, however, must be accompanied by modifications in the programming process between the two governments.

B. Program Operations and Management Organization

The programming, commitment, disbursement, control, and accounting for local currency made available for programs in El Salvador from Economic Support Funds, PL 480 Title I and Section 416 programs are generally the same with little distinction as to the source of the funds. Certain basic principles apply including: all funds are programmed together; most funds are channelled through an extraordinary budget, and managed by the organization responsible for that budget. The programming process starts at the working level; program priorities are established at the highest bilateral levels; all funds in the extraordinary budget are managed in accordance with approved Action Plans; and, a system of pre-audit and post-audit is in place.

1. General Provisions

There are four organizations that channel the local currency funds to the different programs and projects mutually agreed upon between the GOES and AID. The organizations and relevant programs are as follows:

ORGANIZATION	PROGRAMS
Technical Secretariat for External Financing (SETEFE)	Extraordinary Budget
Ministry of Finance	GOES Ordinary Budget and Agrarian Perform Compensation
Central Reserve Bank (BCR)	Private Sector Support
AID	AID Operating Expense Budget

The following shows a three year distribution of funds including the prospective distribution for 1988. This advance planning is designed to avoid delays in the commitment and expenditure of funds after they become available.

	1986 Allocated Million	%	1987 Allocated Million	%	1988 Allocated Million	%
SETEFE	281.5	31%	495.3	49%	474.8	44%
Ministry of Finance*	240.0	26%	190.0	19%	100.0	9%
BCR	360.0	40%	300.0	29%	345.5	32%
AID	25.0	13%	25.0	3%	35.0	3%
Unprogrammed			5.2	0%	129.2**	12%
TOTAL	906.5	100%	1015.5	100%	1082.5	100%

Notes:

*FY 1986 and FY 1987 include C140.0 and C90.0 million for Agrarian Reform Compensation, respectively.

**Includes reserve of 10% of ESF funds (C295 million) as requested by Congress.

Those ESF and PL 480 funds that do not go to BCR for credit programs for the private sector, which tend to be allocated in large amounts to capitalize credit and guarantee funds, are mostly channelled through the extraordinary budget managed by SETEFE, a special unit in the Ministry of Planning.

SETEFE has been in existence since May 1983. Its specific responsibilities are to: (1) coordinate, monitor, and evaluate the activities that the various GOES implementing agencies undertake with funds allocated under the GOES/AID Fiscal and Monetary Program, including proceeds from all PL 480 commodity sales programs; (2) manage an Extraordinary Budget (which includes ESF, Section 416, and PL 480 local Currency generations and AID project funds), consult with involved GOES institutions on proposals to reprogram funds within that budget, and reprogram those funds subject to prior agreement between the GOES and AID; (3) incorporate within its structure, and administer within SETEFE, a delegation from the GOES Court of Accounts charged with the accounting and audit activities involving the use of local currency proceeds deriving from PL 480 commodity sales; and (4) submit to the GOES and AID, with the assistance of the relevant executing agencies, progress reports on implementation of the Extraordinary Budget Programs.

Recently, SETEFE has taken on similar responsibilities for management of other international donor projects, both multilateral and bilateral. It should also be noted that SETEFE performs a control function in the expenditure of Development Assistance funds for AID projects that are converted to colons to pay project local costs as distinct from counterpart local costs contributed by the GOES for Salvadoran institutions.

2. Deposit of Special Accounts

By legislation, the local currency generated through the sale of agricultural products or balance of payments support must be deposited in a special account and mutually programmed by the GOES and AID for development purposes. Local currency funds derived from the Balance of Payments Support Agreement are deposited by BCR within two days after each disbursement of dollar funds into a separate local currency account at the BCR.

Agricultural commodities imported under the PL 480 and Section 416 programs are internally sold by the commercial agents. GOES signs agreements with each of the commercial agents, under terms approved by the monetary board and satisfactory to AID, establishing administrative procedures and regulations.

Funds generated from the sale of PL 480 commodities are deposited by the commercial agents (Banco Hipotecario, Banco de Fomento Agropecuario, and Banco Agricola Commercial) to a separate PL 480 local currency account at the BCR. Funds generated from the sale of Section 416 commodities are deposited by the commercial agent (Banco Hipotecario) to a separate Section 416 local currency account at the BCR.

3. Programming

The funds made available to each of the four programs are allocated through a Memorandum of Understanding negotiated between the two governments. In 1987, both the USAID Mission Director and the President of El Salvador personally participated in these negotiations, with their staffs present. At a series of meetings, proposed uses of the funds were discussed and decision taken as to the inclusion or exclusion of line items and amounts assigned. This high level meeting was the culmination of a process that had started months before. In early September, SETEFE asks for proposals from the various implementing agencies for inclusion in the extraordinary budget. These are discussed with the Minister of Planning, the President, and other ministeries as needed. Out of these proposals, a GOES project list is developed.

A similar process goes on in USAID where the technical offices prepare their "wish lists" and submit them to the office of Development and Programming for review. The technical offices are already aware of the thinking and priorities of their opposite numbers in the GOES assistance and executing agencies. The diplomatic discussion in November and December result in an approved extraordinary budget that blends the two lists.

The important element in this process of developing the extraordinary budget is the "bubbling up" of project ideas that take place. The decision making prioritizes and approves a program to which the working level is already committed.

The same negotiations to approve the extraordinary budget also result in approval of the allocations of funds to the Central Bank for private sector credit programs, allocation of funds to the ordinary budget through the Ministry of Finance and the funds to USAID for operating expenses.

All of these allocations are consolidated into a Memorandum of Understanding between the two governments. This memorandum also sets forth certain management rules and reporting responsibilities. Signed in January, it covers allocations for the coming calendar year which is the GOES budget year. It also provides for reprogramming of unused funds.

4. Management

Funding of the items in the ordinary budget is by reimbursement to its Ministry of Finance. USAID approves the transfer of funds from the BCR special local currency account to the National Treasury Account via implementation letters. Agrarian Reform Compensation payments are made from a fund for that purpose in the Central Bank, against lists of recipients prepared in the Ministry of Finance.

For Private Sector Support, AID and the BCR sign agreements on the use of allocated funds. The BCR transfers funds to separate accounts for each activity. The BCR report to AID monthly on the use of the funds.

For AID operating expenses, transfer is from BCR to the US Treasury Regional Account at the Banco Cuscatlan.

Disbursement is based on the liquidation of expenses presented by the implementing agency. The Court of Accounts has to certify the validity of the expenditure documents presented in order for an implementing agency to receive more funds.

The financial department of SETEFE monitors the financial transactions of all the activities and reports them, on a monthly basis, to AID. A copy is sent to all AID divisions for their information and review. Each technical office monitors the progress of the activities for which it is responsible through regularly scheduled field trips. If there is a problem, they can inform DPPO and request an audit.

The Court of Accounts is the supreme audit agency of the GOES. In SETEFE it performs the following functions.

- approves every disbursement of the Extraordinary Budget.
- checks every document presented for reimbursement by the implementing agencies.
- checks on the contracting of personnel, except for those institutions mentioned below.
- certifies, based on the work of its six full-time auditors, the validity of the audit reports presented by private firms on any implementing agency.
- inspects the physical execution of any activity.

The financial department of SETEFE is in charge of executing the annual audit process that monitors the implementing agencies receiving financing from the local currency program. It contracts private firms to carry out the audits of an implementing agency with the purpose of checking on the procedures used to carry out the activity, the type of accounting kept, the utilization of funds, and the physical work accomplished.

The private firms present an audit report indicating the results of their audit. The internal auditors of the SETEFE delegation of the Court of Accounts certify the validity of the report. SETEFE sends a copy to the AID Controller's Office for its review.

If the results of the audit indicate that there are problems in the administration of funds, SETEFE requests the delegation of the Court of Accounts to check on the implementing unit.

The Court of Accounts does two types of checking:

- Validity of documents.
- Confirmation of the progress of an activity.

The importance of the extraordinary budget as a management tool and the usefulness of SETEFE as a management entity is obvious.

5. Reservation of Funds

No sterilization of dollar resources occurred, i.e., a failure to convert dollars to local currency. In the case of PL 480, local currency generations may lag behind dollar disbursement but that is part of the commercialization process and is reflected in interest charged to importers or processors of the products.

In El Salvador, some funds are managed in a way that delays the monetization of the local currency, i.e., leaves it in a reserve account rather than making it immediately available for the purchase of goods and services. Funds have been set aside to capitalize a business credit guarantee fund and an investment insurance against acts of terrorism fund. Both of these have resources in excess of immediate needs and no funds have been disbursed for either bad debts or investment losses. In the absence of some actuarial data and experience, these funds seem prudent and, moreover, temporarily reduce rapid monetary expansion.

C. Program Impacts

In a volatile situation such as that experienced in El Salvador during the past years, impact is more difficult to discern than in more peaceful circumstances. Sometimes, several investments were required when infrastructure was destroyed repeatedly. And it is not just the added costs for replacement, but also the loss of earnings because the facility was integral to production. The destruction of power lines and transformers is a case in point. Too, an important factor in the early years was the discouragement felt by some entrepreneurs and their subsequent abandonment of enterprises. For those that persisted, survival was indeed an impact, but one that is difficult to measure.

Nevertheless, the Mission has realized some important impacts, especially during the last two years. There are definite signs of progress: light industry is increasing its production, some businesses are operating at a higher level, and, although slow, agriculture has improved its output.

1. Potential Service Sector Impacts

As the descriptions of the violence and the earthquake suggest, the highest investment within the USAID/El Salvador portfolio was for community and urban development, largely the construction and reconstruction of infrastructure: almost 37%. (Table IV.4) This service sector received greater local currency assistance from the middle to the latter part of the period when it was possible to build with some confidence, as well as in replacement of the earthquake ravaged structures.

Table IV.4: Percentage of Local Currency Programmed, FY 1983-1987, by Sector, in El Salvador*

Sector	Percent
Agriculture/natural resources	9.83
Housing	14.57
General education	4.60
Health/social services	3.27
Water/sanitary systems	3.62
Transport/roads, trails, bridges	2.30
Community/urban development	36.70
Business and industry	14.39
Civic improvement/democratization	1.67
Disaster relief/services	0.82
Unspecified GOG budget support	8.23
TOTAL	100.00

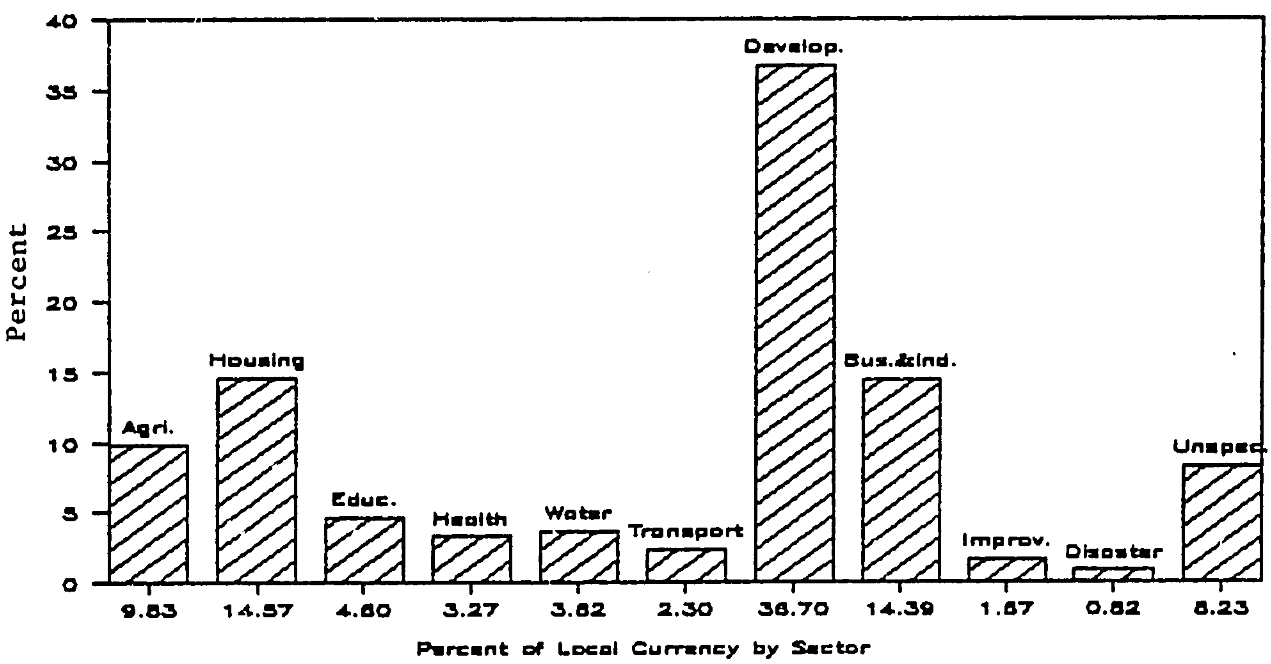
* The sector uses include all public and private channel activities intended to benefit the sector, including credit lines, training, agency improvement, and the proportionate share of operational and program expense costs.

The Table IV.4 sector categories included all of the programmed funds that could be directly or indirectly attributed to them; agriculture, for example, includes direct assistance, public entity strengthening for it, agribusiness, training, credit lines, and its proportions of the operations and program expenses due to that sector. While some of these necessarily involved estimates, they give a more complete picture of the investment in each one.

Housing was the second largest service sector among those funded, again, not a surprise considering the circmumstances. As more and more of the country is freed from violence, that investment must be continued, probably even increasing its five year 15%, especially for rural and small town reconstruction.

Business and industry was in third position with just over 14%; a very high proportion of this occurred during the last three years. Increased safety and a wider geographic area enabled this important financing.

Figure IV.C: Percentage of Local Currency Uses by Service Sectors for El Salvador for FY 1983-1987



Agriculture with nearly 10% and GOES budget support with 8%, followed in relative importance across the period. All of the others, although small in percentages, were vital to the safety net of social services and living conditions. Their proportional contributions are easy to discern in Figure IV.C. Note particularly that transportation, including roads, was smaller than in the other countries, due primarily to the inability of access because of the violence.

As a generality, the USAID/El Salvador service sector components for the period were about as would be expected from the circumstances. They varied from those in the nations less torn by violence. They reflect two overall programming principles: what had to be done for survival and what could be done within the limits of the situation.

2. CAI and Mission Objectives

Despite the circumstantial difficulties, the USAID/El Salvador portfolio addressed all the Central American and Jackson Initiatives, as well as its own Action Plan objectives. These were not necessarily in the proportions stated as goals, e.g., 50% to the private sector, but they approached the goals. The emergencies precluded absolute adherence to general quantity specifications given for Missions worldwide.

The Mission's records of objectives addressed within its operations, by year and sector, were as follows:

Sector	1983	1984	1985	1986	1987
Public	9	6	3	4	1
Mixed	0	3	2	3	3
Private	10	8	5	4	3

The smaller numbers across time do not necessarily reflect differences in attention to a sector, rather, they primarily denote the integration of several activities, or projects, into a more unified approach to programming. The El Salvador configuration is that common to the other Missions in Central America.

The basic objectives received the attention possible:

- Measures to prevent further economic destablization were taken; some recovery efforts were made.

- The private sector was aided substantially; while somewhat less than anticipated, the long term investments in credit lines, training, and technical assistance will have positive effects.

- A safety net of social services was maintained within those areas amenable to the work.

- The benefits from the local currency funding were spread quite widely among the income levels of the population; these tended to favor the metropolitan area but for much of the time, that was the only region that could be served.

Efforts toward increasing the production and export of non-traditional crops received considerable impetus. The ground work was laid for future results. Some growers, including those in the agrarian reform sector, have made excellent progress; several companies aiding them through technical assistance, processing the crops, and exporting the products. The prospects are optimistic.

3. Examples of Beneficiary Impact

Many of the impacts described herein are impressive in and of themselves; they are even more noteworthy considering that much of the progress was accomplished during the past three years. As with most country programs, all of the impacts cannot be described for El Salvador in the limited reporting space. The examples provided, then, while among the more successful, are but an illustrative indication.

The misfortunes of the agriculture sector have been fully stated earlier in this report. Despite the problems, the exigencies of increasing agricultural production have led the Mission to exert a considerable effort in the remediation of problems and the construction of a firm base for the future.

Agribusiness

Trophy de El Salvador, a subsidiary of a Texas company, has invested a half million dollars in the canteloupe production and export business, and is adding $1 million more. While its sales figures were not released, it has already created 150 direct jobs and 600 indirect positions.

Papaya, Inc., already exports peanuts, cashews, and snack foods to the United States. It has helped small farmers plant hundreds of acres of papaya and pineapples, and as these go into production for export, over 500 farm laborers and 80 processing/transportation workers have received employment.

The first year of operations of a shrimp growing group resulted in $51,000 in product to the US. The forecast for the present year is at a half million. Over 10,000 man days of labor were utilized in the preparatory stages, and much of that will be maintained annually.

Quality Foods, a Salvadoran corporation, is a stellar operation in two ways: it has for three years exported frozen okra and some other vegetables to the United States and made a profit; second, almost all of its production is on agrarian reform cooperatives' land where, through technical assistance, the company has succeeded in helping these farmers make a profit by growing the vegetables.

The El Salvador Mission officers know that Salvadorans have a high reputation for hard work, and they recognize that the way the land reform was conducted was counterproductive: land without training and technical assistance to persons who had never managed their own production. USAID has, therefore, invested heavily toward the remediation of the problems. Two of its major efforts were:

Land Titling

Earlier, and still true today for many cooperatives, the government owns the land and manages it. Little progress was noted. The Mission programs emphasized the titling aspect, expecting it to have salutory effects on investment and production. By mid-1987, 233 of the 317 cooperatives had received land titles in the Phase I program.

Land in the Phase III program was granted to 48,000 individuals. With strong policy modification and funding inputs from USAID, the controlling organization has now issued more than 26,000 titles, allowing collateral possibilities for improvements and working capital loans.

The Mission is also working hard to see that management skills are taught to the agrarian reform participants. It has assisted the government agency to upgrade its own services and, through a local contract, has directly furnished training in production, accounting, and farm management to a sample of the cooperatives.

Education in El Salvador has, until recently, been considered as a luxury for the general population. Its literacy rate was cited by a 1960 World Bank report as 32%, almost all of that in the urban areas. The 1970 Salvadoran statistical reports gave 46%, but many professionals doubted that figure. The latest IDB report listed 66% and narratively credited the adult programs for the rise. In any event, a nation that expects industrialization to revitalize its economy must make prodigious efforts, not only in literacy, but also to have high percentages its population enrolled not just in primary but also in secondary and post secondary education. Certainly during the war years, that was not the case.

In recognition of the need for industrialization - a large population on a small space - USAID has worked hard on a major effort, revitalization of the school system. For various reasons, the main project was delayed but several parts of it are now in full operation. Even with the slow start, progress can be recounted.

- 205 new classrooms constructed.
- 406 classroom reconstructed/repaired.
- Maintenance programs established and equipped in 850 communities.
- Trained 28 teams for major school repairs.
- Printed 2,000 school maintenance manuals.
- Provided student desks and chairs to all of the built/repaired schools.
- Published, and mostly distributed, 300,000 primary textbooks.
- Trained 7,902 teachers to use the texts.
- Constructed/added facilities for 3 regional office/training complexes in the decentralization component and provided furniture, equipment, and transport.

A second project, USAID cooperation in the National Plan, has also been a direct benefit to education. In it, the communities must participate actively, providing land, labor, and some of the materials. The project furnishes the technical advice, planning, some materials, and through its employment generation objective, some wages for the labor. A new project, it has nevertheless been of enormous assistance to rural areas, agrarian reform communities, and small towns. In education, directly, it has: 293 schools amplified/repaired/or constructed. These stand as a major advance for the outlying areas of the country.

The CAPS program in El Salvador is also having a substantial impact on the educational system by providing short and long term training. It has not yet been evaluated and the totals of trainees separated by sector. However, just the number of educators sent to New Mexico State University for upgrading in the program conducted in Spanish there, guarantees effects, particularly on school administration and curriculum development. Health and sanitation conditions in rural El Salvador were never adequate. The violence further deteriorated them. The implementation of pro-health projects includes:

- The Urban Housing Institute has installed potable water systems in 43 communities, benefitting 764 families.

- It has also provided sewage disposal in 17 communities for 1,188 families.

In addition, the National Plan project has added to those totals:

- 179 newly constructed or rehabilitated potable water systems.

Since these are self help activities, the communities have also gained in employment and in learning how to help themselves. These infrastructure activities are vital to improved health conditions.

Much of the rest of the health portfolio has gone for emergency support activities: medicines, equipment, and supplies; staff training, partly in conjunction with other donors; child survival programs; direct assistance to displaced persons and their later relocation; and an emergency program to eliminate malaria and dengue fever.

The recent major thrust to help develop private business and industry has required a considerable negotiation and policy dialogue, but it is finally functioning. One of the principal efforts was that of providing specific credit for the important operations:

- General industry
- Special reconstruction
- Coffee renovation
- Rehabilitation/reconstruction of industry
- Export funds and services

These will have a stimulating effect on industrial progress and on exports. Two regional credit programs were also established, one for the Central and another for the Eastern regions.

Small businesses, too, are assisted. Under a project begun by the International Development Bank and continued by AID, more than 100 small business have been established or rehabilitated through a program of training coupled with credit. The number of enterprises helped is expected to double this fiscal year.

Democratization activities are of major concern in El Salvador and the Mission has responded rapidly and effectively. It helped set up a system for accurate registration of voters and for balloting in the last election. Widespread publicity on the systems aided in obtaining the high voter turnout, despite the threats against registration and voting.

The unwieldy and painfully slow justice system in the country, as well as many stories of corruption and injustice, brought the Mission to begin a Judicial Reform project:

A strong and effective judicial system is key to the strengthening of democracy. Considerable progress has been made toward improving Salvadoran judicial administration through a program in 1987 financed from local currency resources. Seventeen public defenders were funded in the Solicitor General's office to defend low income individuals charged with offenses. The additional staff members were able to increase the number of consultations from an average of 349 per month to 609. Approximately 5,290 people were attended and 1,304 new cases initiated. As a result of the consultation or through speedy trial, 234 persons were either released or found not guilty. These benefits were attained in a three month period!

The program also contains components that will ultimately be far reaching within the system: Revisory Committee for Salvadoran Legislation, a Judicial Protection Unit, a Commission for Investigations, Judicial Administration and Training. The system is developing so fast that the government has not been able to house the additional services; to avoid delays in implementation, USAID furnished a tent for its public defender program.

These are only a few examples but they illustrate the intensity and effectiveness of the programs funded wholly or in part by local currencies. The flexibility that exists in this type of funding allows, generally, for more rapid initiation and thus execution of projects.

4. Program Activity Parity with Needs

Necessarily, the report on the USAID/El Salvador uses of local currency has described conditions that influenced the programs instituted on behalf of the country and its people. Brief reiterations are given in this section.

Infant mortality rates are very high and were even higher in El Salvador; the Mission has attacked the problem directly through its PL 480 Title II feeding program, through its child survival project, and via health strengthening projects in potable water and sewers. The displaced persons activities have given further assistance, as has the Mission's malaria and dengue fever projects.

Although the indicators are disputed, the years of violence have damaged education, not only because children could not go to school but also because school buildings were decimated. The Mission has embarked on strong plant construction and repair, on the provision of school furniture and textbooks, and on training administrators and teachers, together with maintenance activities for the buildings and equipment.

Agriculture growth rates have been negative for some years; the emphasis given in this Mission's programs are already having a salutory effect, as well as helping increase incomes through the introduction of non-traditiional export crops.

Manufacturing was stagnant; the industry investments and training, plus credit lines, have begun to revitalize the sector. The problems of justice in El Salvador are well known. The Judicial Reform project, plus the efforts made to ensure free elections, have had an impact.

In summary, the USAID/El Salvador local currency portfolio has addressed the most urgent needs - in the face of war and natural disasters.

5. Impact on the Host Country Budget

Most officials would not hazard a guess on the percentage of impact of the local currency programming on the national budget. Two gave estimates, both in the neighborhood of 5%, but they confessed that these were guesses. Certainly, the combination of local currency and dollar denominated funds has made it possible for the government to continue in operation through the stabilization activities of the Mission - even with that help, the nation faces major debt repayment problems. It can be said with confidence that many of the projects conducted by the Mission would simply not have been done without the assistance, including that of the local currency resources: school construction and furniture, textbooks, most of the potable water and sewage systems, financial assistance to the private sector, much of the road and other transportation rehabilitation. Quite obviously, the reforms to the justice system, the systematization of the elections process, and help to the displaced persons would not even have been considered.

As with the other countries, the study team recognized the problems involved in determining impact on the national budget. It concurred with the Mission and government officials that without the local currency funding, the living conditions in El Salvador would have remained intolerable, very likely contributing to the continued success of the rebels with the population, especially in the rural and small town areas. The nation, as a beginning democracy, probably owes much of its existence to the US programs.

V. GUATEMALA

Guatemala is the largest Central American nation in extension of land but its population density is less than that of El Salvador, its neighbor. It is also bordered by Belize (which it claims), Mexico, and Honduras. Its territory ranges from sea level to some of the highest mountains on the isthmus. Much of the lowlands are too dry for continuous cultivation, but irrigation, the warm climate and relatively good soils allow for double cropping. Some of the mountainous terrain is too steep and has thin soils, limiting agricultural production to less inclined valleys and terraced land. Too, rainfall, although sufficient in spring and early summer, is nearly non-existent during the other seasons. The climate is temperate, allowing for a wide variety of crop and fruit production.

Guatemala is also divided between the mestizo and Hispanicized Indians on one hand, and those indigenous, mostly in the mountains, who cling to their languages, dress, and traditions. Communication is quite difficult with older members of the tribes, but bilingual education is helping create youth who can speak Spanish.

Just as was the case with two of its neighbors, Guatemala has had difficulty in maintaining a democratically elected civilian government; often during this century, the military governed the nation. Problems developed between the military and the man who was president at the beginning of the study, and he was ousted. A civilian president is now in office, apparently enjoying general confidence of most segments of the military and business groups.

The nation's economy has had a sporadic history in recent decades. During the strong Central American Common Market period, agriculture and industry made some positive progress. Tourism, too, began to flourish with the wider publicity given to Tikal, other ruins, and the picturesque Indian mountain areas. With the near dissolution of the Common Market near the end of the 1970s, renewed government interruptions, and some disfavorable private sector laws, the economy declined substantially. At about that time, petroleum products rose in price while coffee and sugar declined. The combined effects caused greatly reduced government investment in infrastructure and services, causing further problems. The unrest discouraged tourism. Rebels began strong activity at about the same time and although they have never held any great portion of the territory, have by sporadic attacks and terrorism caused internal defense costs to rise and investors to use great care in expensive operations.

A. Finance for the USAID/Guatemala Programs

Concerns about political problems, despite the Central American Initiatives, relegated the Guatemala AID program to a very low level in 1983, the beginning of the study period. Negotiations had for some time been conducted on a bilingual education program and some activities had taken place. A few other projects, rather modest in funding, were in place. The overall picture was mostly one of discussion on policies.

1. The Financial Picture for the Period

As noted earlier, the 1983 portfolio contained relatively small sums in development assistance dollar denominated funds. (Table V.1) The food assistance program contribution in local currency was zero and only a small Economic Support Fund, equivalent to $10 million dollars, was approved and programmed. The total assistance was $36.7 million.

The dollar denominated and local currency funding plummeted to less than half its 1983 level in 1984, aggregating to only $15.7 million. ESF was eliminated, but there was a small sum in PL 480 generated local currency. The dollar denominated funds, too, were slashed.

Conditions improved and some of the negotiations bore fruit in late 1984, so that the 1985 combined program increased three fold, $93.6 million. Local currency and dollar funds grew by about the same proportions as did the overall program funding. Increases were evident during each of the last two years for the overall funding but the dollar component decreased while the local currency equivalent in dollars rose to more than $124 million by 1987.

Table V.1: Local Currency (in US$ equivalents) and Dollar Programmed Funds, USAID/Guatemala by Type, Source and Year FY 1983-1987*

(US$ 000)

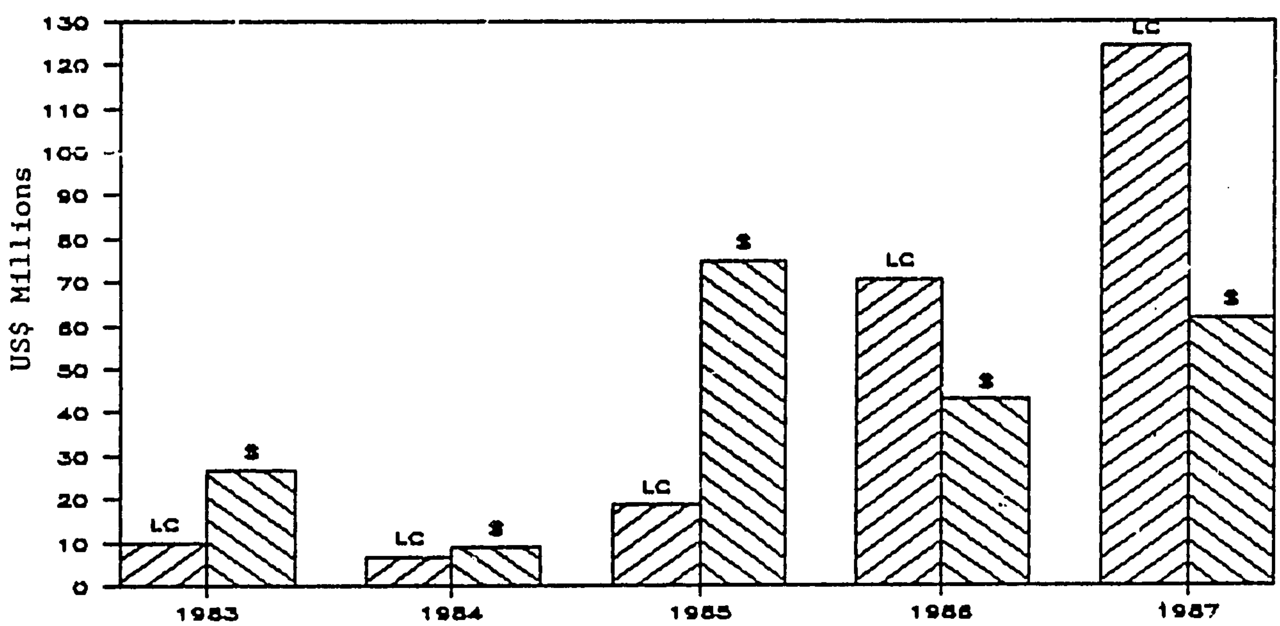
Type/Source	1983	1984	1985	1986	1987	TOTAL
Local Currency						
1. ESF	10,000			47,350	90,750	148,100
2. PL 480 Title I		6,644	18,635	15,580	20,900	61,759
3. Section 416				7,900	12,600	20,500
Total Local Currency	10,000	6,644	18,635	70,830	124,250	230,359
Dollar Denominated						
1. Development Assistance	22,311	4,500	58,033	36,881	34,870	156,595
2. PL 480 Title I	4,375	4,600	4,396	5,467	8,492	27,330
3. Projectized			12,500	500	18,545	31,545
Total Dollars	26,686	9,100	74,929	42,848	61,907	215,470
GRAND TOTAL	36,686	15,744	93,564	113,678	186,157	445,829

* These quantities do not include CUP amounts.

Most of the increase in the 1986 and 1987 local currency amounts came from ESF. PL 480 decreased and then increased slightly in the last year. (Also see Table A.4, Annex A, for more details on the type of funding that was available.) It is also important to notice that the projectized funds varied a great deal during the period, related by Mission officials to the need for more control than the local currency arrangements afforded.

The discussion of the variations is much easier to comprehend from Figure V.A, which graphically portrays the local currency to the dollar denominated funds. The differences obvious in that illustration, coupled with the variable amounts shown in Table V.1, show the thrusts initiated once the political situation appeared to be reasonably stable.

Figure V.A: Relative Proportions of Local Currency and Dollar Funding in the Guatemalan Portfolio: FY 1983-1987



2. Public and Private Sector Investments

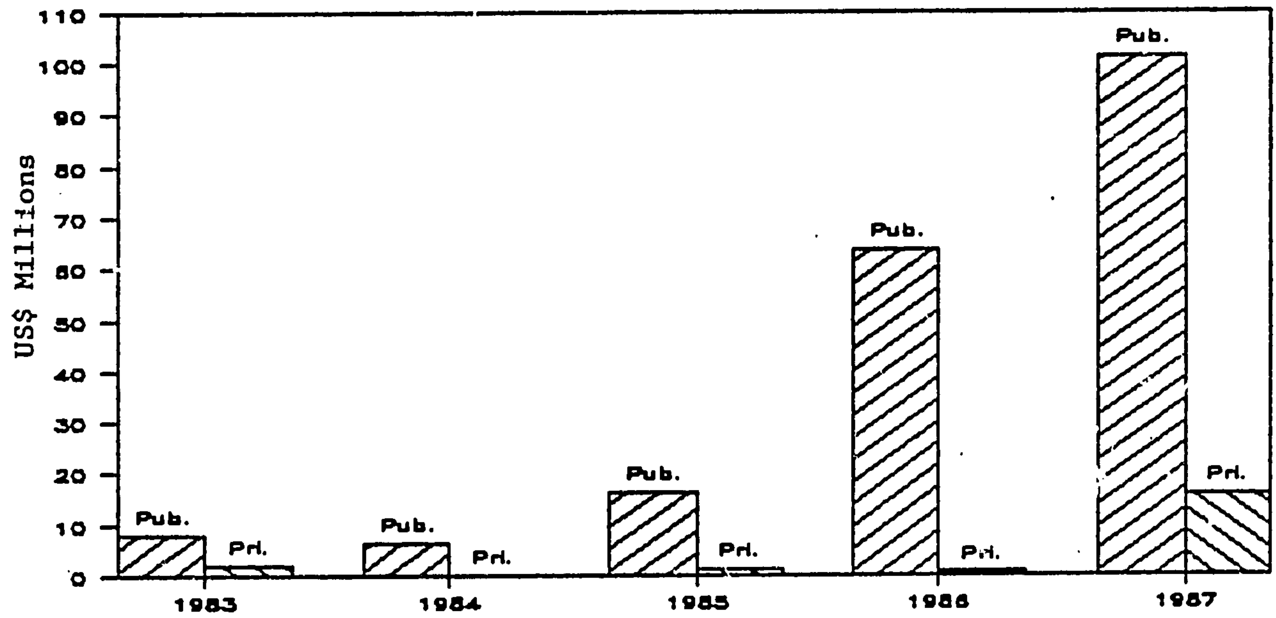
The total local currency investment during the five years was just over $216 million when operations and program expenses, and the Currency Use Payments are ignored. Of that sum, the public sector received slightly more than $119 million equivalent, 90.7%, far more than in any of the other countries. The details by source and year are displayed in Table V.2 and the graphic illustration is given in Figure V.B. The amounts varied from zero (1984) to a high of $16 million in 1987; the other three years contained only modest amounts for private sector development.

Table V.2: Local Currency Utilization Programmed Funds (stated in US$ 000) by Source, Sector and Year, USAID/Guatemala, FY 1983-1987

Source/Sector	1983	1984	1985	1986	1987	TOTAL
1. ESF						
a) Public sector						
Straight public	8,000			46,248	71,300	125,548
Pass to private	2,000			352		2,352
b) Private sector					13,700	13,700
c) USAID						
OE				750	5,700	6,450
Program						
Total ESF	10,000			47,350	90,700	148,050
2. PL 480 Title I						
a) Public sector						
Straight public		6,317	16,438	14,360	17,536	54,651
Pass to private			1,265	400	2,320	3,985
b) Currency Use Payment		332	932	820	1,044	3,128
Total PL 480 Title I		6,649	18,635	15,580	20,900	61,764
3. Section 416						
a) Public sector						
Straight public				3,320	12,600	15,920
Pass to private						
Total Section 416				3,320	12,600	15,920
GRAND TOTAL	10,000	6,649	18,635	66,250	124,200	225,734

Mission officials noted that the very deteriorated state of the public sector, cumulated for several years, mandated that a high proportion of the funds be invested there. Further, they stated that the private sector had suffered much less during the decade, and that the increases for the public sector were necessary before heavy investment in the private sector would pay dividends. By 1987, conditions were beginning to show enough improvement so that funds for the private sector could be usefully increased. The Mission was convinced, however, that continued funding for the public sector was necessary to the economic recovery of Guatemala.

Figure V.B: Amounts of Local Currency (in US$ Equivalents) by Recipient/Ultimate User Sectors, FY 1983-1987



As will be shown in the impact section of this chapter, the public sector investments concentrated on infrastructure. Irrigation dams and systems, roads and other transport activities, and community/urban development consumed high proportions of the funding by local currency. The dollar denominated funds were similarly programmed. The intent, then, was to reconstruct/construct that infrastructure necessary to enable the economy to function adequately.

3. Projected Availabilities of Local Currency

The anticipated local currency funds for 1988 through 1992 are contained in Table V.3. The total is forecast to decline from a 1987 high of more than $230 million to $98.4 million in 1988, then slide downward to $33 million by 1992. Probable Development Assistance and other dollar denominated funds were not provided, so no absolute level of program assistance can be indicated.

The funds accruing from PL 480 over the next five years are in a quite different pattern from the other three countries examined. Instead of a general decline, the 1987 level will dip only about 10% to $18 million, remain there through 1990, and then rise again to the 1987 level and above. No explanation was given for this differing configuration.

Table V.3: Projected Local Currency Availabilities for Guatemala by Source and Year, FY 1988-1992 (US$ 000)

Source	1988	1989	1990	1991	1992	TOTAL
1. ESF	75,400	69,000	40,600	20,000	10,000	215,000
2. PL 480 Title I	18,000	18,000	18,000	22,000	23,000	99,000*
3. Section 416	5,000					5,000
TOTAL	98,400	87,000	58,600	42,000	33,000	319,000

* This includes Section 108 (sugar quota offset) funds of $4,500,000 for each of the three years 1988-1990, $5,500,000 for 1991, and $5,750,00 for 1992.

The ESF monies, however, will decline markedly as was predicted for the other Central American countries. The 1988 amount was set at $75.4 million, down from $90 million in 1987. During the rest of the period, the drop is dramatic, ending in 1992 at $10 million. That would calculate to only about 9% of the 1987 ESF amount. Obviously, with these declines, as noted in the other country chapters, the differences in local currency must be accompanied by rather radical planning processes by the host government and by USAID since local currencies have been considered Guatemala owned and available for joint programming.

B. Program Operations and Management

The principally responsible office in the Government of Guatemala for the programming and management of local currency proceeds is the Directorate of External Finance (DFEF) in the Ministry of Public Finance. This is the main point of contact, and major source of information and report for USAID. This organization plays much the same role as the Office of the Technical Advisor in Honduras which is also in the Ministry of Finance or the External Financing Secretariat (SETEFE) in the Planning Ministry of El Salvador, both described in previous chapters. The key element in the programming and management of the local currency is that all expenditures must be included in the national budget. The funds themselves come from the special account in the Central Bank to which deposits are made in Quetzal equivalent to the dollars made available under the loan and grant agreements.

1. Economic Support Funds

Various line items in the budget are identified as eligible for financing with ESF local currency. The DFEF uses the budget to prepare a list of activities proposed for financing which is transmitted to the USAID, specifically to the USAID Program Office. The Program Office prepared a draft Letter of Implementation (PIL) showing which activities the USAID is prepared to approve and in what amount. This draft PIL is circulated to all USAID offices staff and line for comment and for proposed additions, deletions, or changes. The Program Office reviews the input from other offices, reconciles them, and brings in the top management of the Mission for decision making as necessary.

The approved list is then further discussed with DFEF until a mutually agreed list of activities is developed. This list is formally approved by the finished PIL transmitted to the Ministry of Finance. This PIL also approves the transfer of funds from the Special Account in the Bank of Guatemala to the account of the National Treasurer.

It would appear that the programming exercise is one in which the Government of Guatemala proposes and the USAID subsequently approves. This is only in appearance. In the original agreement are established the priority uses of local currency. In the 1986 agreement, for example, emphasis was placed on agricultural production of basic grains and export crops, infrastructure in rural areas supporting production such as access roads and small scale irrigation, training and technology transfer for lower level economic groups and industrial production in small and medium enterprises. By a separate exchange of notes, the eligible executing agencies were identified at the sub-department level, but without specifying amounts. This last was done in the process described above.

Moreover, the technical officer in USAID, as in the other Missions covered in this report, maintain close contact with their sectoral colleagues in the GOG, and the budget list received contained few surprises.

However, the Guatemalan ESF program is relatively new and processes are changing. A new programming concept is now being introduced to bring the USAID into the programming earlier and to emphasize the mutuality of the program process. The Program Office maintains a "register" of development proposals prepared in the various USAID offices. As the time for negotiation of a new agreement approaches, these proposals, in a series of meetings chaired by the Program Officer, are used to prepare a USAID proposal for a "Cone Development Budget." This is the development budget which has the highest priority but, at the same time, cannot be funded within 909 budget limitations. The 909 institutions are doing the same thing. During the negotiations on the ESF agreement, the Cone Development Budget is also agreed and becomes the basis of the detailed list which DFEF will submit for later year budgets. This system is introducing into Guatamala the programming from the bottom up which has already been noted in other countries.

The implementation by the GOG of the funds approved by the USAID for specific projects follows standard GOG funds management procedure but with the introduction of two additional elements. For most projects, a Rotating Fund is set up from which disbursements are made by checks drawn by the National Treasury or to which reimbursement are made by the Treasury. Moreover, DFEF has been added to the process and reviews all purchase/payment requests submitted by executing agencies, approves them and sends them on to the other Ministry of Finance offices (budget, accounting, treasury) for approval and processing. This permits DFEF to carry out two of its other main responsibilities, monitoring and reporting to USAID.

Monitoring is carried out by DFEF by review of expenditures. Two recommendations for improvement are now under consideration: strengthening of DFEF data processing capability and more frequent meetings with the USAID. Within the USAID, monitoring responsibility is shared between the Program Office and the Controller. The Controller has prepared a first design of a report on ESF, agreement by agreement, that will serve as a part of the local currency Management Information System of the USAID. A recently established FSN position in the Program Office will support coordination of physical monitoring of projects by the technical offices.

In addition to adding a FSN position for financial monitoring, the Controller proposes to use Trust Funds to contract for audit and evaluation services of local CPA firms.

Based on the ESF Agreement signed with GOG in 1986, the Mission entered into a trust fund (deposit account) agreement with the GOG on June 6, 1986, which was amended on April 13, 1987, to use local currency funds deposited into the US Disbursing Officer Account for operating expenses (both USAID and ROCAP), technical support, audits, and support of private sector project activities.

The Operations Expense Trust Fund Account allows the Government of Guatemala to share the cost of maintaining the AID Mission in Guatemala. The present O.E. Trust Fund is governed by the Separate Deposit Account Agreement. In general, the O.E. Trust Fund is used for the same general purposes as the Mission dollar appropriated Operating Expense funds and will comply with regular Mission clearance processes. Nevertheless, the general risk will be that this account will only be used to purchase locally supplied goods and services (i.e., for payments in Quetzales only).

This account is managed by the Controller's Office. After funds are deposited into the US Disbursing Officer Account, they are obligated using standard AID documentation, e.g., purchase orders, travel authorizations, contracts. The O.E. Trust Fund is an integral part of the annual Mission Operating Expense Budget and clearance of funding documents follows normal Mission procedures. These trust funds are incorporated into the Mission Operating Expense Annual Budget which is approved by AID/W. The O.E. Trust Fund does not represent additional funding over and above the approved O.E. level for the Mission.

Any non-expendable property purchased with trust funds will be titled in the name of the host government and should be so identified in the property records and on the individual items.

The Technical Support Trust Fund will complement the Mission's Program Development and Support funds by financing technical and support services provided by Guatemalans and international personnel to cover local costs of conferences, studies, workshops and other appropriate USAID program or project related activities.

The Technical Support Trust Fund is coordinated by the Program Office and implemented by other Mission Offices in the same way that DA funds are utilized, managed and approved to support similar activities.

"Local Currency Trust Fund/Technical Support Fund" should be written in block 4 of a PIO/T or PIO/C, and block 16 of a PIO/P. There should be no reference to "PD&S" or other language that may be confusing in determining the origin of the funds. The PIO/T, PIO/P, or PIO/C must be cleared by the originating office as well as the Controller's Office, Executive Office, Project Development and Support Office, and Program Office prior to submission to the Mission Director or Deputy Director for final approval. The facesheet must be accompanied by a budget, scope of work, and other required supporting documentation.

As stated in General Policies and Procedures on Local Currency Programs, as a matter of AID policy but not law, the Mission will apply the FAR and AIDAR to any contract performed by the Mission with such funds, pursuant to part 701.372(A) of AIDAR. However, as was also pointed out in this same section, the Mission Director may authorize a deviation from this policy if it is deemed essential to effect necessary procurement and when special and exceptional circumstances make such deviation clearly in the best interest of the U.S. Government.

The Audit Trust Fund will support the Mission's oversight responsibility for all local currency programs in Guatemala including ESF, PL 480, and Section 416 programs. These funds may be used for contracts with either private accounting/management firms in Guatemala, or personal services contractors to carry out the Mission's responsibilities for local currency activities. This fund is not meant to subsitute for principal post-audit responsibility which is vested in the GOG under the terms of the ESF and PL 480 Agreements, but is meant to supplement the GOG's efforts. This fund is also not meant to finance those audits which should normally be included in each project's financial plan.

Requests for audit coverage will be directed to the Controller's Office, which will be responsible for preparing the required documentation and monitoring performance. In addition to specific requests, an annual schedule of random audits and/or financial reviews will be developed and implemented by the Controller's Office, with Mission management concurrence.

In order to permit management by the USAID of projects in support of Private Voluntary Organizations or other Non-Government Organizations, a Private Sector Trust Fund has been proposed. However, agreement between the USAID, AID/W and the GOG on the establishment and procedures of this Trust Fund has not yet been reached, and, as a consequence, implementation of certain PVO activities has not proceeded.

2. PL 480 Title I and Section 416

For PL 480 management responsibilities an In-Country Policy Group has been created consisting of a representative from the Office of the Agricultural Attache in the Embassy Economic Office and the Chief of the USAID Office of Rural Development. This group is chaired by the U.S. Ambassador or his designee. The following is quoted from the Mission Order of November 23, 1987, on the Management of Local Currency Funds.

> "In the use of any sales proceeds generated by PL 480 Title I and Section 416 Agreements, emphasis will be placed on the use of such proceeds for purposes which directly improve the lives of the poorest and their

capacitv to participate in the development of Guatemala. Greatest emphasis is required to use such proceeds to carry out programs of agricultural development, rural development, nutrition, health and population planning, while also focusing on special areas such as support for pest eradication/control and quarantine development implemented by and which benefit both the U.S. Government and the GOG. The final plan for programming of such proceeds will be approved by the GOG/IPG (in close coordination with the Mission Local Currency Committee). Monitoring of specific activities financed by local currency generations will be the responsibility of the agency (USDA or AID) or originally proposing the project."

As a matter of practical fact, a substantial change has occurred in the programming of PL 480 generated funds. In 1984, uses were formally negotiated at Ministerial Level with the Ministries of Finance, Economics, Agriculture and the Central Bank. In 1985, the negotiating level dropped down to Vice Ministries. For 1986, 1987, and 1988 programs, negotiating the uses that are included in the agreement were and are at the working level and programming by the "bubble-up" principle is more apparent. Negotiations generally start in November: hence the 1988 PL 480 agreement will probably be signed at the end of May or in early June, like the previous agreement of 1986 and 1987.

In both 1986 and 1987, Currency Use Set Asides were provided for but as already noted, these are not country owned local currencies. In 1986, local currency use were described generally in the agreement and later developed in more detail. In 1987, a fairly detailed list of uses was included in a separate Memorandum of Understanding.

Implementation generally followed the system described for ESF funds. Proceeds on local currency are deposited in a special account in the Bank of Guatemala (Central Bank). These funds are then transferred to a National Treasury Account denominated as the PL 480-86 on PL 480-87 account. The DFEF then issues instructions to the executing agencies as to how to process expenditures through DFEF, budget, accounting and treasury using the purchase order/payment order documentation.

The system also produces the monitoring and financial data transmitted to USAID. The USAID Rural Development Office supplement report received with a proposal of physical observation of project progress.

It should be noted here that a system for passing funds to private entities has been worked out for some PL 480 local currencies using local umbrella organizations as pass-throughs.

As far as the USAID ability to provide financial oversight, the Controller's current schedule of quarterly financial reports seems quite adequate in that it covers all local currencies, ESF, PL 480 Title I and Section 416. The proposed use of local audits under contract will strengthen this oversight.

C. Program Impacts

Most of the project activities funded with local currency in Guatemala are relatively new, having been put into operation in the last three years. Some kinds of impacts are evident very early in a project's life but most take some time before they can be measured. Evaluations, too, are seldom conducted during the early period of a project, and that was the case in Guatemala. For this reason, the study team spent more of its study time on field trips, directly observing early effects from infrastructure and exploring potentials with the beneficiaries and the implementing agencies.

1. Potential Service Sector Impacts

The early discussions on the problems that had accumulated in Guatemala, emphasizing neglected infrastructure, and the USAID responses, are borne out in the distribution of the local currency programming among the service sectors. (Table V.4 and Figure V.C) Nearly a fourth of those resources was invested in community and urban development, almost entirely in infrastructure. Further, that proportion was nearly constant across the five years.

Table V.4: Percentage of Local Currency Programmed, FY 1983-1987, by Sector, in Guatemala*

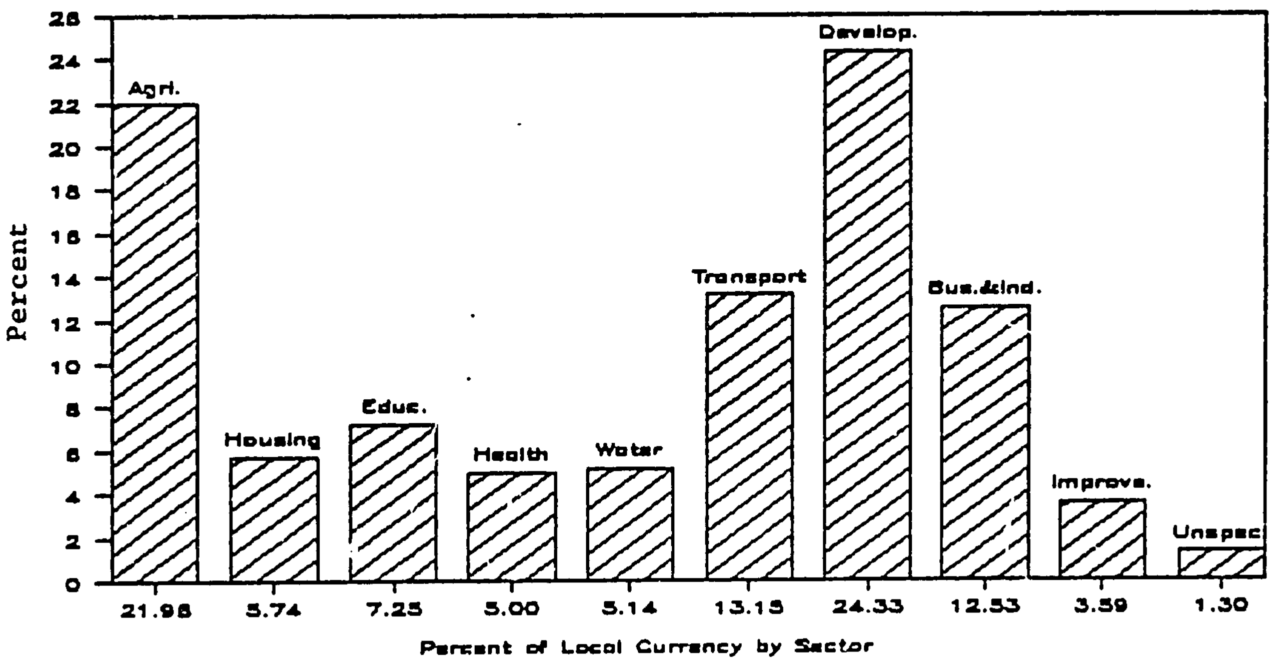
Sector	Percent
Agriculture/natural resources	21.96
Housing	5.74
General education	7.25
Health/social services	5.00
Water/sanitary systems	5.14
Transport/roads, trails, bridges	13.15
Community/urban development	24.33
Business and industry	12.53
Civic improvement/democratization	3.59
Unspecified GOG budget support	1.39
TOTAL	99.99

* The sector uses include all public and private channel activities intended to benefit the sector, including credit lines, training, agency improvement, and the proportionate share of operational and program expense costs.

Agriculture was a close second, accounting for almost 22% of the investment. Infrastructure was important in this sector also, but many other capacity building activities were undertaken, especially those of strengthening vocational and university agricultural education. Much of the expenditure in this sector occurred during the 1985-1987 assistance concentration time but some work was carried out during the first part of the study period.

Transportation, primarily an infrastructure investment, was considered a major base component to the other sectors. The 13% programmed for roads, bridges, and repairs to existing structures, was large, but still more will be needed. The study team inspected several access and farm to market roads in one of the mountain regions and was impressed by what had been attained through a combined ministry and local community participation project to build access roads. Much of the terrain was rugged and some heavy machinery had to be used; nevertheless, a large portion of the work was done by the community people with simple tools. The labor aided in creating local employment; the villages were made to feel responsible for the maintenance of the road; and, in so far as the villagers were concerned, the sight of the first vehicle to ever enter their village was, they felt, a triumph resulting from their efforts. Community development is almost always associated with rural areas - even though the category in Table V.4 is stated "community/urban" - but USAID/Guatemala, in conjunction with a PVO, CARE, has been able to organize portions of the capital city into self help groups accomplishing drainage, sewers, street paving, and sidewalks.

Figure V.C: Percentage of Local Currency Uses by Service Sectors for Guatemala for FY 1983-1987



Business and industry accounted for almost 13% of the investments through local currency, but, as was pointed out in an earlier section, the great majority of the funds was programmed to strengthen the bases for this sector rather than direct aid to it. The private sector had, in many ways, maintained itself through the troubled times, but the infrastructures and mechanisms for further progress were in need of much improvement.

Education, with 7.25%, stood next in order of programming. While the statistics for overall educational achievement in Guatemala are among the lowest in the region, the situation is actually far worse than the figures portray because a large segment of the population, especially the indigenous peoples, participated very little in the educational system in the past. Although in repetition, the bilingual education project and that for rural schools generally, were important to broadening the education base in the country.

Three service sectors - housing, health, and water/sanitation - each received from 5 to about 6% of the local currency funds. Each had been sorely neglected during the past, and the improvements, especially in the rural areas and small towns, were overdue.

Civic improvement and democratization received assistance, too. While the amount was not high in relation to the other sectors, the previous discussion of political problems underlines the necessity of the activities. It must also be mentioned that some of the other projects - rural roads, urban improvement, small municipality benefits - added to the other democratization work. Unspecified government budget support was the smallest percentage of the total program of any of the Central American countries, barely 1.3%.

2. Central American and Mission Objectives

The very conservative program in the first two years of the USAID/Guatemala activities was characterized as "holding the line" by investing only in those elements that would provide a safety net of social services and those seen as a base for future improvements. That is, the Mission had adopted special goals and objectives for the period. Subsequently, with a more favorable political and developmental climate, the Mission was able to address the CAI and Jackson Plan objectives more appropriately.

The last three years, and, in conjunction with the smaller program of the first two, included projects that directly fit within the general objectives:

Broaden the benefits of development: the projects for roads, potable water, employment generation, education, health, and community/urban development spoke specifically and successfully to this objective.

Provide a safety net of social services: those listed for the previous objective appropriately addressed this impmortant goal; their double function allowed for at least a basis for future developments.

Economic recovery and stabilization: this objective was included as a part of many of the activities: road improvement and construction, increased technical and professional education, and the overall assistance designed to underpin private sector betterment. The Mission emphasized that this objective was less urgent in Guatemala than in the rest of Central America, but some activity was called for as an improvement measure.

Democratization: although of major potential import, this was difficult to address in the first two years; the base broadening activities were vital to eventual improvement. Later assistance with the elections, results of the CAPS program, and the policy dialogues all added to a potentially strengthened democracy.

The configuration of the activities in favor of the several objectives was different from those in the other countries. The obvious change is within the ways utilized to strengthen the private sector, almost all public sector oriented. Another variatin is the relative proportions of the sector investments, emphasizing infrastructure as a means toward the later achievement of the CAI objectives.

3. Examples of Beneficiary Impact

One of the characteristics of the USAID/Guatemala program activities is that they emphasize self help endeavors. An example of this was already discussed previously as a part of the description of the road construction and community/urban projects for improvement of towns and even the metropolitan area. Wide paved highways are more visible than narrow gravel roads in the countryside, but they are no less important in achieving impact for the people. The study team not only inspected some of these projects but also attended formal meetings and interviewed many local residents on this approach to development projects. The team was convinced that an important impact was being engendered: poor residents had already discovered that they could make a difference in their lives through their own efforts instead of waiting for the federal agencies to come and help them. Municipal governments were also beginning to adopt this idea.

This attitude does not happen accidentally; the personnel of.the municipality development and rural roads projects, and those of CARE had carefully encouraged it. It stands as a major impact, one that will be of importance for many years to come.

The rural roads project also utilized the self help provisions; the observations showed some impressive impacts, particularly because of the urgent needs and the potentials for increasing agricultural production and improved marketing.

Access Road to Chuacacay-Palama

This seven kilometer gravel road is now partially constructed. It will provide all weather access to five small villages in a fertile agricultural zone in the mountains of Chimaltenango and will serve 800 residents. The village councils participate actively, acquiring land for right of way (at their expense), planning and carrying out almost all of the labor, and coordinating the work among the villages. Four of the villages have never had vehicle access, the other only via a rough track during dry weather.

The population of this area is 100% indigenous, of the Cakchiquel language group. The men dedicate their time entirely to farming and the women to the making of ceramics. Education, including bilingual, has been available only through the sixth grade; access to secondary school was essentially impossible, but now transportation will make attendance possible. The residents formerly carried sick persons out of the area on slings carried by men, a slow and dangerous task; rapid arrival at better medical facilities is now feasible.

Rural Road Mejoranas-Parajbey

This gravel road of 8.2 kilometers will link six villages with the all weather highway, and will serve 1,175 inhabitants, all Cakchiquel Indians. This, too, is an agricultural area, producing temperate crops (wheat among them) and a high volume of fruit (apples, pears, peaches, plums). Since the fruit, especially peaches, is perishable, the road will materially aid the marketing. Already some farmers are increasing the number of dairy animals from just enough for family subsistence to enough for cheese production.

Mediterranean Fruit Fly Control

Guatemala is cooperating with the USDA on three important insect control programs: the Mediterranean fruit fly, the Africanized bee, and the screw worm. All three are vital to United States interests.

The fruit fly program is especially noteworthy because it is jointly funded by the United States, Mexico, and Guatemala. All three governments contribute expertise, advice, and materiel to the program. The main approach is the raising of millions of fruit flies, then sterilizing them, and releasing them into the affected areas, to mate with native flies, and thus reduce the effective population.

The operation is handled very professionally; the grounds and laboratories are scrupulously clean and all the needed control measures are taken. The production of flies for release is unusually high for the relatively modest size of the operation. The release is handled with acumen. The program is credited with the virtual elimination of this dangerous pest in several parts of Guatemala and Mexico. When more resources become available, the eradication program in Guatemala can become essentially complete, thus protecting that country, southern Mexico, and guard against infestations into the United States.

Santa Apolonia City Improvement

This secondary city was nearly destroyed in an earthquake a few years ago. International donors and the Peace Corps aided a great deal in the reconstruction of the basic infrastructure: a primitive sewer system, streets (mostly gravel), the church, and many homes. The municipalities project has now enabled the city council to obtain some of the materials and planning assistance to allow it to construct a municipal hall, meeting rooms for the community, complete the sewer system and improve the streets, including paving some of them with blocks. The council members with whom the team talked were enthusiastic about their accomplishments and began immediately to relate their plans for the future. This city of 10,000 is being transformed through USAID projects and self help dedication.

While these are but small examples of the work being attained by the projects in rural roads and municipal improvement, they are indications of impact that is of present and future utility to the residents of the areas. Food commodities from the Food for Work program are used in some of these projects; since most of the participants are very poor, the improved nutrition is a major benefit. They will improve agriculture, health, education, business and, perhaps most importantly, a feeling of participation in the democratic process, seldom experienced by the indigenous and the other marginals in the Guatemalan population.

Education, as specified earlier, has been neglected in the nation, especially schooling for the marginal populations. The record was never good in some parts of Guatemala, and the mountain areas, that experienced severe earthquake damage, had had little repair done on their schools. An emphasis within the education project was on repair and reconstruction, plus increasing the number of classrooms, in those areas poorly served. The Ministries of Education and of Communications and Public Works collaborated on this work and reported a one year achievement of:

- 190 new schools constructed
- 74 schools repaired
- 362 others received added and repaired classrooms

In addition, in the GOG/IDB school project, for which USAID provides the counterpart, 167 more schools were under construction.

The USAID funded education project has also been active in upgrading the quality of education in the schools, notably those in the rural areas and small towns. The Ministry of Public Finance reported, in addition to the construction activities:

- 127,000 primary textbooks printed and distributed
- 283,000 workbooks prepared
- 16,500 curriculum guides issued
- 20 schools received furniture, supplies

For most of the children in the schools receiving materials, it will be the first time they have ever had books and supplies for study. For the children, their parents, and the teachers, these relatively inexpensive supplies seem almost a miracle.

The health activities, including potable water and sewage systems, are also making substantial progress for the short time the project has been in execution:

- 21 water systems were completed, each for from 200 to 2,000 residents
- 22 new systems were begun
- 3 new hospitals are under construction
- 5 hospitals are being repaired
- 11 rural health clinics are being built or repaired

While the numbers for the previous years were not available, if the present pace existed then, the total number is impressive.

In general, there were impacts already in evidence, and the projects underway gave promise for many more. Those expected for agriculture are expected to substantially raise production and increase exports. Efficiency raising activities with the government agencies, while only starting to have an effect, can make decisive differences in the services to business and industry, as well as to the sectors discussed herein.

4. Program Activity Parity with Needs

The Mission recognized that the few activities that could be conducted during the first two of the five year period did not address all the needs. That simply wasn't possible at the time. The more vigorous last three years' programming of local currency was much more productive in need fulfillment. The overall picture, nevertheless, demonstrates some important activities begun in remediation of some low socioeconomic indicators for Guatemala.

Literacy (56%) and primary education enrollment (76%) were the second lowest in the region; secondary enrollment (17%) was the lowest. Furthermore, the statistics for the rural and indigenous areas were far worse. The projects in bilingual education, school construction and repair, textbooks and other supplies, and teacher preparation, mostly conducted for these most needy areas, are already making sizable impacts.

As one example of impact to need, it used to be extremely difficult to find anyone in an Indian village who could communicate in Spanish. In an inspection visit, the children were observed to do very well in Spanish. A mathematics class student was asked if he could recite the "times 3" multiplication tables and he said, "In Spanish or Cakchiquel?" The future for Indian participation in the economy and political process is bright.

Life expectancy in Guatemala was listed by the World Bank at 60 years, again the second lowest. The infant mortality rate was calculated at 65/1000, far worse than Costa Rica with a figure of 19/1000. As with education, the health statistics in the rural areas show the effects of the poor attention to them. The past and present efforts, described in the previous section, attest to the struggle to change these indicators.

An earlier exposition talked of the Mission decision to invest more heavily in the public sector than in the private. In addition to their own appraisal of the private sector status, some of the statistical indicators suggest they were correct.

The per capita gross national product is figured at about $1,250, the second highest in Central America. This amount is very unevenly distributed. While the Mission invested heavily in the public base for business, industry, and agriculture, it also concentrated on the rural areas to assure a greater benefit to that segment of the populace.

It must also be emphasized that much of the infrastructure also was of more benefit to the rural and small city areas than to the better endowed capital: rural roads, connecting links between the secondary and major cities, irrigation, and the improvements for the small municipalities. The Mission was channeling the benefits to the sectors that most needed it.

5. Impact on Host Country Budget

Across the study period, the local currency portion of the USAID portfolio was a fraction of a percent of the Government of Guatemala budget. That should not be interpreted as "unimportant." Many of the activities carried out by the projects funded by the Lempira accounts would not have been done otherwise. Government priorities (including heavy investment in internal defense and concerns with the Salvadoran rebels), placed the money elsewhere. A simple listing of the activities that would not have been done include, certainly, the following:

- Bilingual education
- Provision of textbooks and other supplies
- Construction and repair of rural schools
- Potable water to villages and towns
- Rural access roads
- Health clinics in the rural areas

During the first government in the period, the officials were not interested in most of the items in the previous list. They even opposed bilingual education for some years. Only strong pressure from the Mission, and support from a minority of the political and business leaders, made it possible. Previous government budgets had all favored the capital and a few other large cities, notably those that drew large numbers of tourists. There was no reason to assume that the expenditures would be otherwise in the future; USAID officers had to struggle hard to obtain permission, much less obtain cooperation, on many of the projects. The attitudes now are quite different; many people in government and elsewhere support the development of rural Guatemala.

VI. CENTRAL AMERICAN SUMMARY

Although some local currencies were available for Mission funding for many years, the amounts have grown rapidly in the last decade and have become important in the programming efforts. Some of the basic concepts about the local currencies have also changed, especially that of their ownership. Earlier, they were generally treated by the Missions the same as dollar denominated funds and were programmed almost entirely by Mission personnel. Recently, interpretations of the regulations have stated that they belong to the host governments and that they must be jointly programmed with officials of the two governments. Provisions are made for Mission control of some of the monies in order to facilitate payment of certain obligations. The latest modification is for the case of PL 480 Title I Section 108 funds, allowing an agreed upon percentage to be set aside for Mission programming.

While there is little disagreement about the general principles involved, some Missions have expressed reservations about the process, citing specific constraints in the usage of the monies. Some of the problems arise from constitutional provisions in some countries that prohibit the governments from directly funding private sector activities. While an accommodation has usually been possible, future actions could jeopardize the goal of private sector development. The timely management of funds has also been cited, especially when the funds revert to the national budget and become subject to lengthy approval processes through the national congress and other control agencies. The funding delays have sometimes prevented project implementation for so long that they could not be effectively conducted.

There have also been some controversies about the amount of controls that the Missions should exert over the accounting, implementation, and evaluation of the effects of local currency use. Some feel that those responsibilities are the host governments' while others insist that the Missions must always be prepared to answer any questions about such monies.

Finally, there are indications that the amount of funds for conversion into local currencies may be sharply reduced in the future. There are advocates, however, for maintaining a high level of this source. The latter group suggests that there is more flexibility in local currency programming, and that since many Missions suffer from insufficient personnel, the shift of some of the responsibilities of control to the host governments allows for more activities.

Because of these and some other internal concerns, AID/Washington has begun a series of studies about local currency funding, its programming and implementation, and the impact it engenders. The present report is one of the series. In broad terms, it was designed as an inquiry into three phases of the local currency configuration in Central America:

- Amounts of local currency by source, and its relation to dollar denominated funds.

- Processes through which the Missions and the host governments plan, program, and control the monies and project implementation.

- Impact of the uses of local currencies on the beneficiaries, the implementing agencies, and in relation to the stated objectives and the needs of the countries.

The previous chapters detailed the individual factors involved in the local currency utilization. This summary examines them in relationship to each other, particularly their similarities and differences.

A. Local Currency Finance

Although sometimes Central America is perceived as a collection of very similar nations, the four in this study are, in fact, radically different from each other. Their geographic, climatic, population, and development characteristics vary widely. Too, the violence that is often discussed as the "Central American" problem, affects each one in distinctive forms. All of these variations were important in the study of the local currency uses in the region; they temporize what otherwise might be a "uniform program."

The total amounts of local currency (expressed in US$) programmed across the five years was, in every country, greater than the dollar denominated funds. That was not true in every one of the five years, but the overall calculation shows that to be the case. (Figure VI.A.) The proportion varied among the countries. In Guatemala, the two currencies were almost equal. In Costa Rica, local currency was more than double the dollar denominated funds. The proportions in Honduras and El Salvador were between those extremes.

The total funding in the four countries differed widely - from just over a half billion in Guatemala to nearly $1.7 billion in El Salvador. There was a slight tendency for higher local currency financing when the overall level was greater but there was no proportional relationship between the two figures. Indeed, the dollar denominated funding variations were small among Costa Rica, Honduras, and Guatemala; the dollar amounts for El Salvador almost equalled those of the other three countries combined.

The reasons for the great variations between the local currencies and the dollar denominated funds were explained by the Missions as:

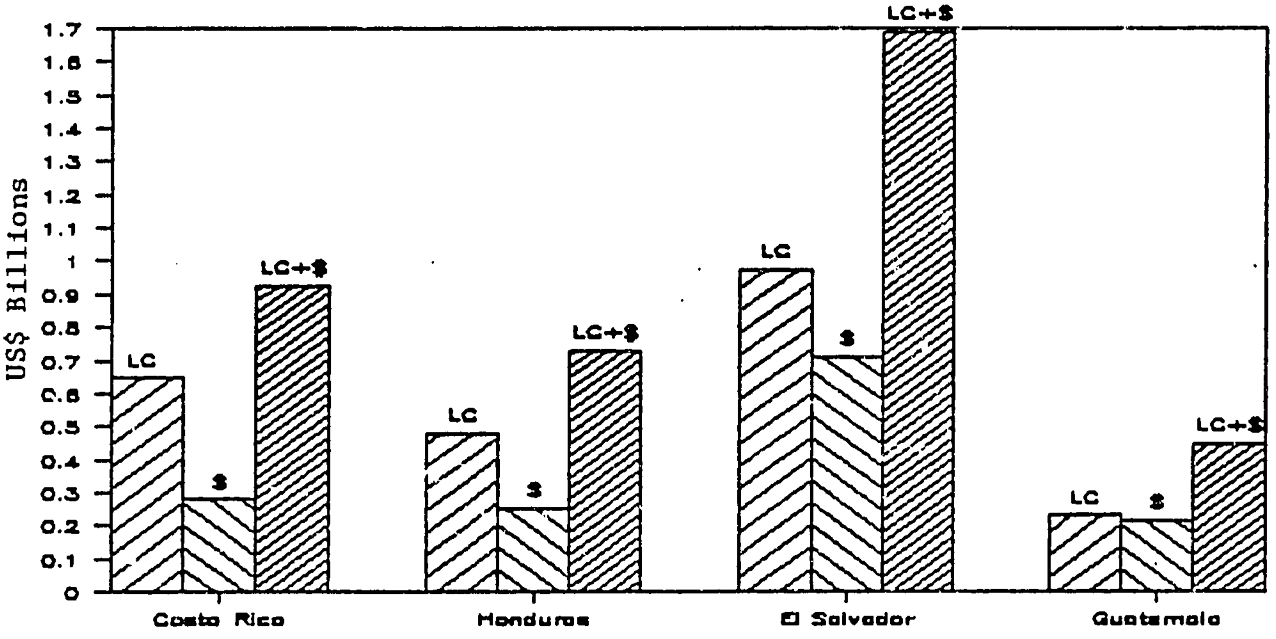
- Some kinds of activities legally must be funded in dollars; other program components are better funded through the local currency because of its flexibility.

- When strict controls over some investments are essential, dollars are preferrable since the Mission maintains practically all of the management functions over dollars.

Both reasons have implications related to the ownership of the local currency funds and the joint programming processes but those were not given as the direct reasons for the selection of the type of currency requested for programming.

Attention to the private sector has been one of the goals during the last few years and a 50-50 split between public and private has been mentioned as the ideal. Figure VI.B presents the five year aggregates of funding to the two sectors. Only one country, Honduras, divided the programming of its local currency resource evenly between the two sectors. In the El Salvador and Guatemala Missions, the public designated funds far exceeded those for the private sector. Both had sound reasons for the dominance of the public sector: El Salvador because of the violence and the earthquake, and Guatemala because of the years of neglect of the public sector infrastructure and some services.

Figure VI.A: Graphed Comparisons of Local Currency (in $), Dollar Denominated Funds, and Total Funding by Country for the FY 1983-1987 Period*



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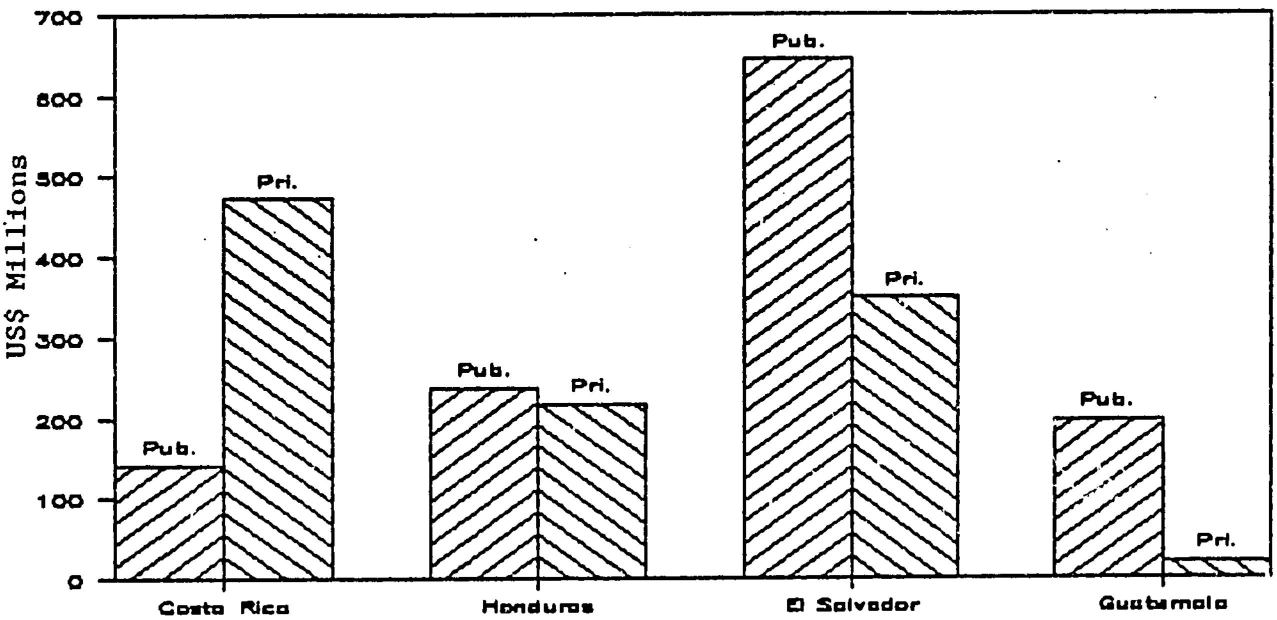
* These do not include those designated for operations and program expenses, initial or currency use payments. In two countries, small amounts of interest earnings had already been programmed and were also excluded.

Costa Rica, on the other hand, expended nearly three times as much local currency on private sector development as on the public sector activities. The Mission reasoned that the assistance given to the public sector was sufficient in light of the government investments. The private sector, however, was said to require much more attention. It must also be noted that the Mission, in conjunction with the host government, also chose to expend quite large sums in three private sector institutions: a regional university, a training and investment center, and in divestiture efforts through a state corporation.

In review, there was little congruence perceived in the Central American funding, either through local currencies or dollars. Nor was there any absolute guide to the expenditures on the public and private sectors. The single principle across both of these configurations was:

- Missions seek local currencies and/or dollars as a function of the kinds of projects to be funded, and they channel these through either the public or private sector, whichever is deemed the most effective vehicle for achieving the goals.

Figure VI.3: Comparative Local Currency Expenditures on the Public and Private Sectors in the Four Nations, FY 1983-1987



It is clear, however, that the local currencies are perceived as very important in the total funding picture. An examination of the amounts and users shown in the two figures support this conclusion. The Mission officials consider them essential in many kinds of projects.

B. Program Operations and Management

The local currency programming exercises in the four countries presented two time frame differences:

- For some of the earlier years in the study period, the programming tended to be partially joint and partly Mission controlled deliberations.

- During the latter part of the five years, all of the Missions have, or are in the process of, mutual Mission and host government programming.

In the early years, and in general terms, the food assistance program funds were likely to be programmed by the agriculture division in consultation with the other divisions and with the appropriate host government agencies, usually the Ministry of Agriculture. That consultation, however, tended to be informal. That occurred, of course, because of the designated use of those funds and that historically the division had been charged with their programming and management. The agriculture (or rural development) division still has a major influence on PL 480 fund usage but programming is integrated into a general local currency programming function, most often centered in the program office.

The new arrangement, almost total mutual programming with the host government, differs only slightly in process from one country to another. The principal ingredients are that the host government has created or designated an oversight function to a special unit. That entity is normally in the Ministry of Finance but in two countries, the Ministry of the Presidency exerts strong influence over the actions. The names of the units differ but their essential programming functions are the same.

In every case, too, the designated unit has responsibilities beyond those of programming. They are involved in the reviews of proposals, budget preparation, some oversight of implementation, and certification of the appropriateness of documents requesting reimbursement. The Missions have all assisted with the creation or strengthening of these units and, for the most part, feel that those entities are functioning well.

Actual monetary controls are centered in the central banks of the republics. The local currencies, or dollars to be converted to local currencies, are deposited in special or in extraordinary accounts with specific uses fixed by agreements between the two governments. The funds are also listed in the government budgets, either in integrated or extraordinary budget formats. Within the broad central bank accounts, more specific delineations are made to set aside funds for particular projects or activities.

The actual issuance of funds, accounting, and audit functions lie in differing government entities but always arranged so that the operations are fully controlled. Each of the Missions has described the exact arrangement, including its own mechanisms for tracking, and when necessary auditing, the funds. Reports are submitted by the several agencies to their higher authorities and these are either directly forwarded to AID or summarized and then submitted to the Mission.

Implementation of the work to be accomplished varies greatly with each project and activity. Some funds are designated for the ministries and other agencies of the governments, others are passed through these via contracts to the private sector, and still others are passed to private voluntary or other non-governmental organizations for the realization of the work. In each country and Mission, quite careful controls on the selection, activity oversight, and accounting for funds had been formalized. Both USAID and the government retained the right of inspection of the work, examination of the expenditures, and outside audit should problems be perceived.

There were differences among the Missions as to actual inspections of the implementation. In two, technical staff made frequent visits to the sites and prepared observation reports on the work. In another, the appropriate technical office was expected to visit each site at least once during the year. In the fourth, the operations statement was that the technical officers met with the implementing agency to review progress; it did not say that inspections had to be conducted, but the offices noted that they did do so. A part of these variations occur because of the limited number of staff available in a mission. In part, however, the differing procedures depend on the amount of confidence the Mission has in the government oversight unit for the local currency activities.

As described in detail in the management section for each country, the arrangements appear to be very well designed and with appropriate checks and balances. No obvious gaps in the operations structures and processes were perceived by the study team. There were some complaints about delays and burdensome paper work but invariably these were said to be due to work loads or some inefficiency within an agency rather than a deficiency in the system.

C. Impacts from the Local Currency Funded Activities

The single greatest variation found in the processes of the mutual programming and management of the local currencies was that of the impact information available. In Honduras, evaluation was cited as an integral part of the planning process and that Mission demonstrated its concern by providing an enormous amount of both external and internal evaluation data. In the other countries, some impact data were always available but it tended to be for previous years and couched in terms of expectations of accomplishments rather than actual counts of impacts on beneficiaries. The amount of information found was explained by Mission officers as, in part, because the host government was responsible for implementation and therefore for the collection of impact data. They expected the government to supply certain kinds of information about the activities but did not insist on details. This is a part of the host government ownership of funds principle. In those cases, information was collected by the study team directly from the government agencies or the implementing organization; the quantity and quality varied considerably.

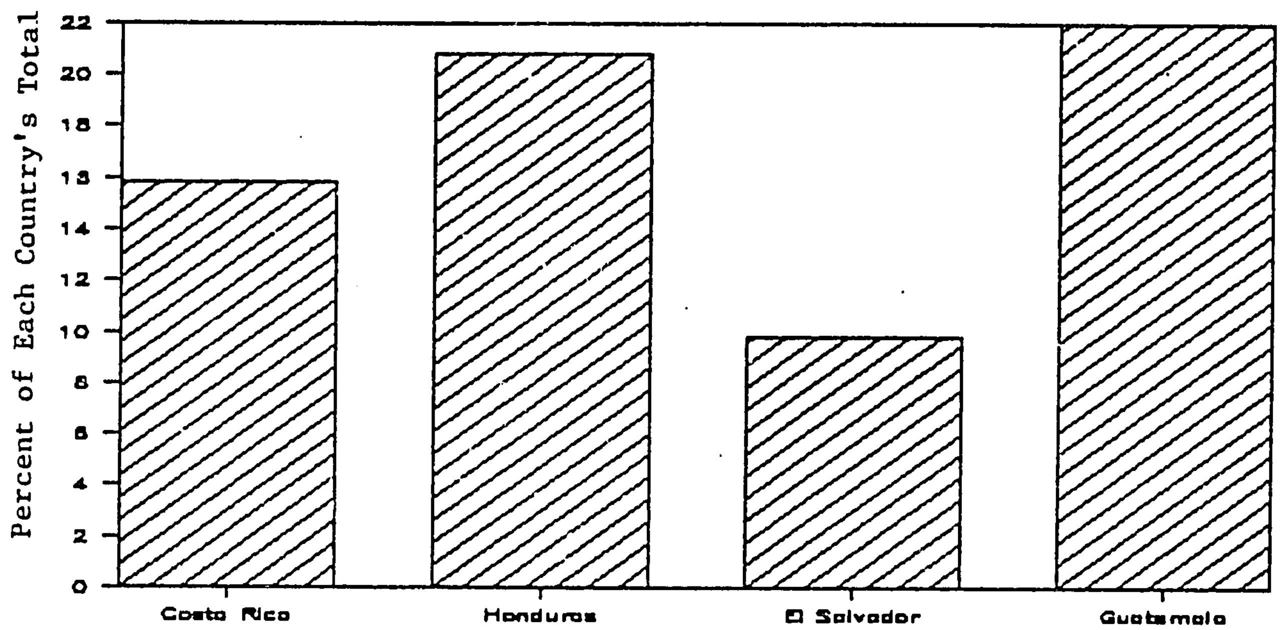
Despite these several arrangements, the study team was able to assure itself that impacts had, indeed, occurred, both from careful study of the documents provided and via physical inspections in the field. The examples in the country chapters attest to the impact existence.

The review across countries showed some important and common elements in the impacts.

Agriculture was a major investment in every country. Figure VI.C illustrates, graphically, the relative investment by each country in the sector. Except for El Salvador, which had such high investment in infrastructure, the percentages ranged from 16 to 22, clearly denoting its importance in the economy and its recovery. The final effects, higher production and profits, take some years to come to fruition. Despite this time related problem, there was evidence for successes.

Some specific impact indications in agriculture included irrigation systems; pest control; disease controls in coffee and bananas, already showing production effects; the opening of new regions for intensive agriculture in Costa Rica; increased production of non-traditional crops and the export of the products; animal improvement programs; and the improvement of the schools and universities preparing the technicians and professionals for the future. A special note must be taken of the tri-national (US, Mexico, Guatemala) program in Guatemala to control the Mediterranean fruit fly. Its effects on the fruit fly population, and thus on production, are obvious and as the controls succeed here, the problem is greatly lessened in Mexico and the United States. This example of three nations working in cooperation is, in itself, an impact.

Figure VI.C Comparisons of the Percentages of the Total Local Currency Programming for Agriculture for the Five Years, by Country



Still another facet of agriculture programs that needs to be noted is the attention of the Mission activities in all of the countries to the small farmer. Almost all of the programming is toward the improvement of this sector, and, since they make up the majority of farmers and control high proportions of the productive land, this attention is exemplary.

The proportions of local currency funds dedicated to business and industry in the Central American countries are depicted in Figure VI.D. It was just short of half the funds in Costa Rica but hovered just over 10% in the other three. The figure demonstrates that important sums are being spent on these two economic sectors, primarily to increase their productivity, stimulate exports, and to improve the base (policy and training) for future betterment. Credit lines were an important component in this part of the portfolio.

Some special achievements in the business and industry programming. One of these is the impact that small business development activities have had on the stimulation of this segment of the business community. Small industries, were described in the country chapters. Two Missions have succeeded in helping their host governments divest themselves of money losing state enterprises; this strengthened the private sector, saved tax monies, and, in every case, generated more employment than had the state managed enterprise.

Figure VI.E compares the proportions of local currency funds spent in favor of community and urban development. These were significant, but not large, in Costa Rica and Honduras. They included a wide variety of activities but concentrated on infrastructure and the improvement of services. One special note was deemed useful by the team, that three of the countries were devoting specific improvements to the secondary cities and municipalities; these had been badly neglected by the governments and the Missions in the past and needed the assistance. A side benefit from these projects, as found by the team, was that these local governments now feel they can improve their services and have a larger say in the matter of the utilization of tax funds.

Figure VI.D Comparisons of the Percentages of the Total Local Currency Programming for Business/Industry for the Five Years, by Country

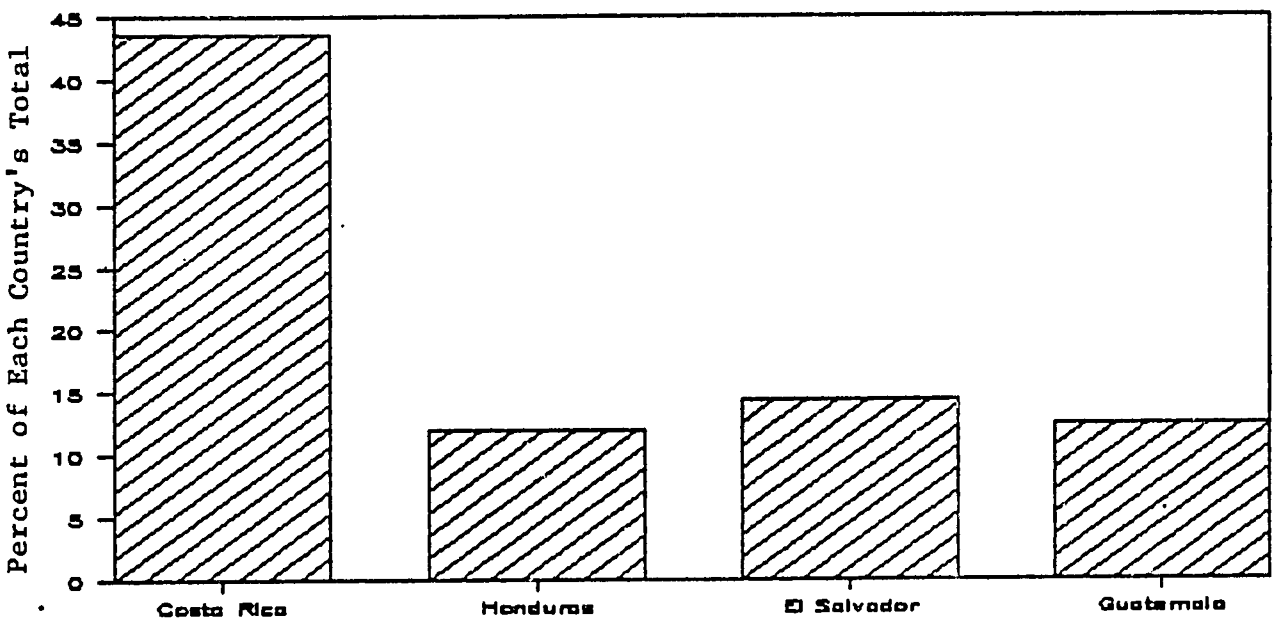
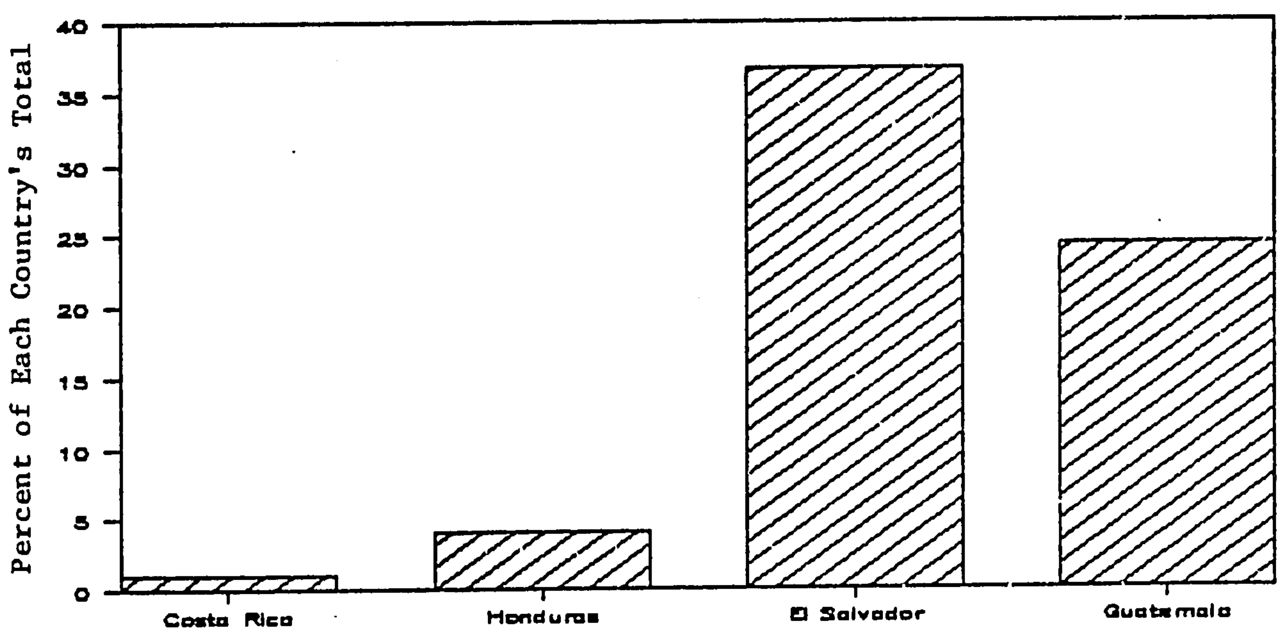


Figure VI.E Comparisons of the Percentages of the Total Local Currency Programming for Community/Urban Development for the Five Years, by Country



Some special notations are necessary in explanation of funding and impacts on the cities and towns:

- An enormous amount of developmental infrastructure had been constructed in Costa Rica, Honduras, and Guatemala; the most evident were access roads, schools, clinics, potable water and sewage systems, irrigation facilities, and improvements to ports and airports.

- The El Salvador Mission had dedicated large sums of money into infrastructure but that was somewhat less evident because it was in replacement of violence and earthquake damaged structures.

As was noted in the chapters on every country except Honduras, the percentage of the local currency funds dedicated to the general education sector did not seem large. A part of that appearance is due to extracting both agricultural and business/industry education and aggregating it into those sectors. Even then, however, there may be some question about the appropriateness of the proportion. In this case, the social indicators on education must be examined in conjunction with the spending. Costa Rica has the highest literacy in the area and dedicates 30% of its budget to that purpose. The Mission's activities supplemented those funds, adding what the nation could not. The indicators on education are very low in El Salvador, and the Mission tried for some years to inaugurate a major school revitalization program. Difficulties prevented that until recently; the proportion dedicated to education will rise there. Honduras and Guatemala have severe deficiencies in their educational performance, especially in the rural areas and in their enrollment per age group. The Missions there have made strong efforts to improve those situations. Special mention is needed for special efforts to achieve impact.

- In every country, education had benefited greatly even though the amounts of money spent were not necessarily large: the aforementioned school buildings, textbooks, supplies, teacher and supervisor training. The main emphasis in all of the nations was to improve rural education.

The relative proportions of local currency programming is closely allied with the health indicators of the countries. (Figure VI.G) Costa Rica's statistics show it to be far superior to the conditions in the other countries and less was spent on that sector by the USAID/Costa Rica Mission. Honduras and Guatemala have serious health problems and the amounts dedicated to the sector reflect those conditions.

Despite the relative congruity of health indicators and the local currency funding for health, some special notations must be mentioned:

- Health, too, received relatively lower amounts of funding than many other sectors but the investments, in conjunction with those made by the governments, were vital: clinics, hospitals, child survival programs, malaria control, innoculations, and nutrition. These direct health measures should not be viewed as the only Mission investments in the sector; those in potable water, sewage, and even housing add measurably to the health base, especially for the very poor.

Figure VI.F Comparisons of the Percentages of the Total Local Currency Programming for Education for the Five Years, by Country

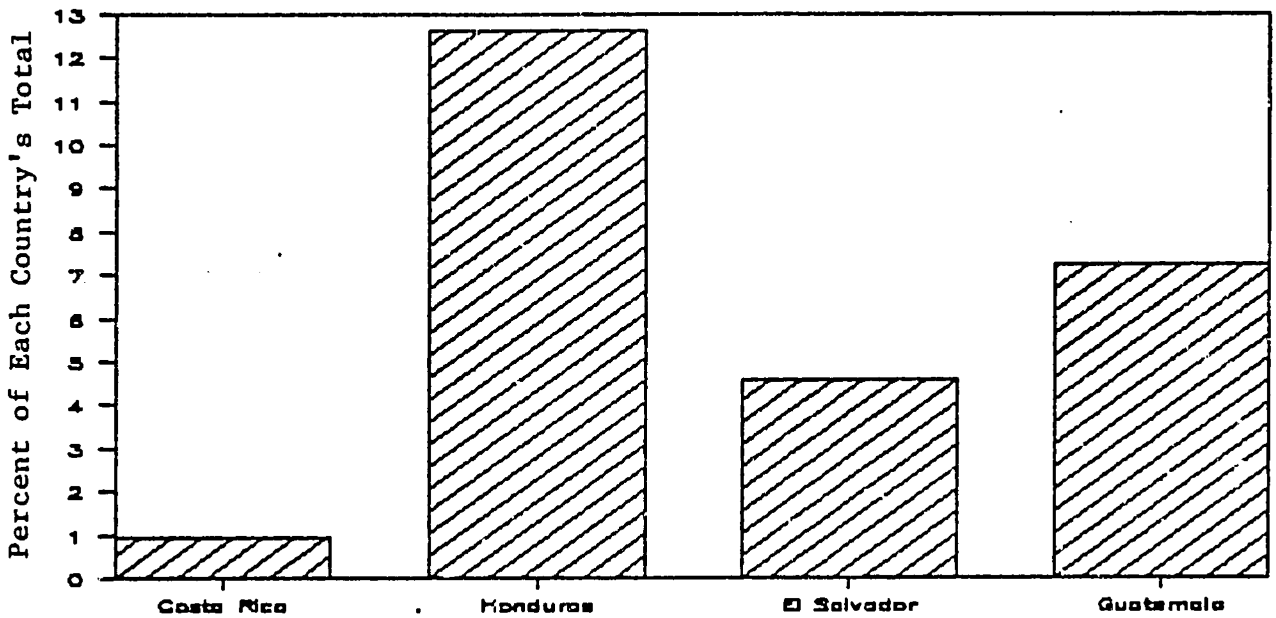
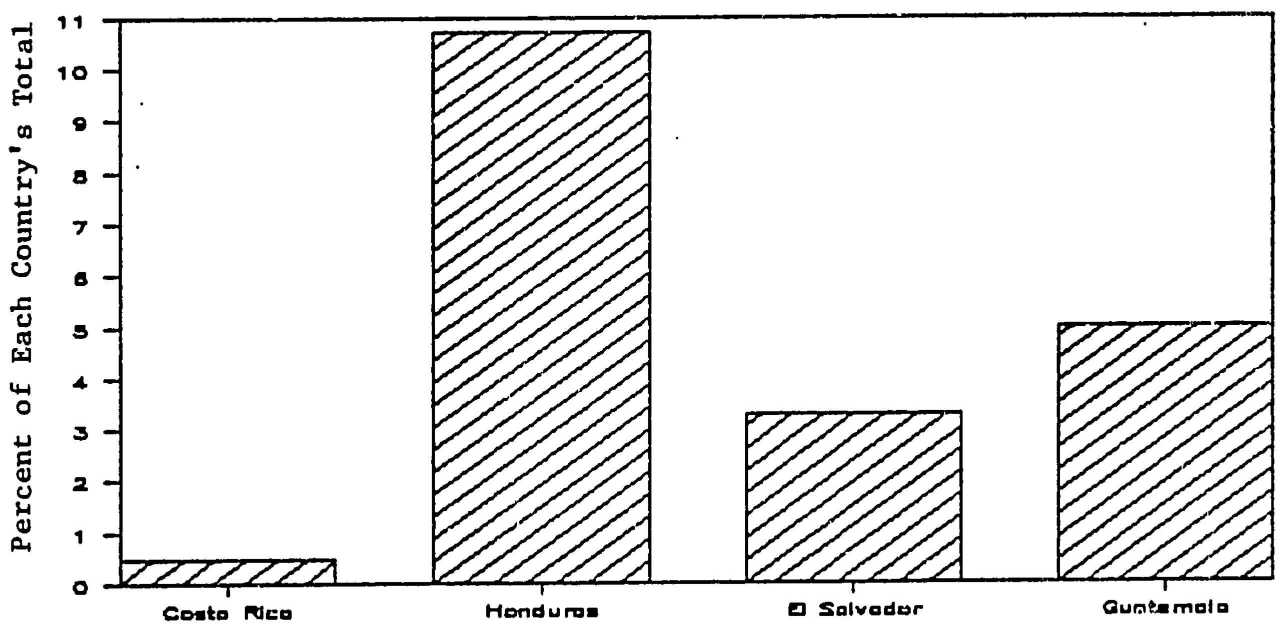


Figure VI.G Comparisons of the Percentages of the Total Local Currency Programming for Health for the Five Years, by Country



Unemployment is a serious problem in all four of these Central American countries. While the activities are appropriately mixed with the other sectors, especially agriculture, business, industry, and urban development, a considerable impact was found from the special emphases given to employment training and generation. No figure could be devised to show the proportions the Missions programmed for this activity because of the mix of activities but particular mention is warranted:

- Employment generation was emphasized in all four countries and there was a great deal of evidence to support its attainment.

The examples of beneficiary and institutional impact given in the chapters devoted to the individual countries are useful evidence of impact from the utilization of local currencies in the Missions' programming. Across Central America, a great deal of impact has been achieved from the programs. The relatively few examples possible within the constraints of report space should not be interpreted as paucity of attainment; quite the contrary, the successes are worthy of full research and exposition at a later time.

ANNEX A

SUPPLEMENTARY TABLES

Table A.1: Amounts of Local Currency (in US$ equivalents) and Dollar Denominated Funding by Source, Type, and Year in the USAID/Costa Rica Portfolio, FY 1983-1987

(FISCAL YEARS - US$ 000)

Type/Source	1983	1984	1985	1986	1987	TOTAL
1. Development Assistance						
Loans	20,200	11,600	10,700	6,250	8,282	57,032
Grants	8,265	4,325	15,154	6,609	8,922	43,275
Subtotal	28,465	15,925	25,854	12,859	17,204	100,307
2. Food Commodity Assistance						
PL 480 Food For Peace						
Title I (Loan)	27,145	22,414	21,100	16,100	16,000*	102,759*
Title II (Grant)	200					200
Section 416				4,828	5,600	10,428
Subtotal	27,345	22,414	21,100	20,928	21,600	113,387
3. Economic Support Funds						
Balance of Payments						
Loans	118,000	35,000				153,000
Grants	37,735	95,000	160,000	120,582	119,750	533,067**
Projectized and Other						
Loans					5,855	5,855
Grants				3,000	16,861	19,861
Subtotal	155,735	130,000	160,000	123,582	142,466	711,783
GRAND TOTAL	211,545	168,339	206,954	157,369	181,270	925,477

* This includes Section 108 (sugar quota offset) funds of $4,800,000 in 1987.

** This is the amount in ESF dollars which determines the local currency equivalent deposited by the Central Bank of Costa Rica in Special Accounts. The other ESF funds were disbursed as dollars for balance of payments support.

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Table A.2: Amounts of Local Currency (Lempiras in US$ equivalents) and Dollar Denominated Funding by Source, Type, and Year in the USAID/Honduras Portfolio, FY 1983-1987

(FISCAL YEARS - US$ 000)

Type/Source	1983	1984	1985	1986	1987	TOTAL
1. Development Assistance						
Loans	24,000	17,300	19,800	15,587	15,361	92,048
Grants	7,226	13,695	32,033	28,721	26,310	107,985
Subtotal	31,226	30,995	51,833	44,308	41,671	200,033
2. Food Commodity Assistance						
PL 480 Food For Peace						
Title I (Loan)*	10,000	15,000	15,000	13,900	12,000	65,900
Title II (Grant)	5,467	4,319	3,557	3,334	3,313	19,990
Section 416					8,300	8,300
Subtotal	15,467	19,319	18,557	17,234	23,613	94,190
3. Economic Support Funds						
Balance of Payments						
Loans	10,950	6,000				16,950
Grants	45,050	34,000	147,500	61,248	100,000	387,798
Projectized and Other						
Loans						
Grants					31,141	31,141
Subtotal	56,000	40,000	147,500	61,248	131,141	435,889
GRAND TOTAL	102,693	90,314	217,890	122,790	196,425	730,112

* Includes Title III grants amounting to $5,000,000 in 1983 and $2,451,000 in 1985.

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Table A.3: Amounts of Local Currency (in US$ equivalents) and Dollar Denominated Funding by Source, Type, and Year in the USAID/El Salvador Portfolio, FY 1983-1987

(FISCAL YEARS - US$ 000)

Type/Source	1983	1984	1985	1986	1987	TOTAL
1. Development Assistance						
Loans	47,600	32,155	21,025	8,000		108,780
Grants	11,327	9,313	70,133	77,880	82,431	251,084
Subtotal	58,927	41,468	91,158	85,880	82,431	359,864
2. Food Commodity Assistance						
PL 480 Food For Peace						
Title I (Loan)	39,000	49,000	49,000	46,000	38,000	221,000
Title II (Grant)	21,480	5,300	3,638	4,750	6,789	41,957
Section 416					4,100	4,100
CCC	19,335	30,533	19,070	6,310	20,000	95,248
Subtotal	79,815	84,833	71,708	57,060	68,889	362,305
3. Economic Support Funds						
Balance of Payments						
Loans						
Grants	120,000	100,000	225,000	147,000	157,000	749,000
Projectized and Other						
Loans						
Grants	18,000	20,234	60,000	35,445	123,312	256,991
Subtotal	138,000	120,234	285,000	182,445	280,312	1,005,991
GRAND TOTAL	276,742	246,535	447,866	325,385	431,632	1,728,160

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Table A.4: Amounts of Local Currency (in US$ equivalents) and Dollar Denominated Funding by Source, Type, and Year in the USAID/Guatemala Portfolio, FY 1983-1987

(FISCAL YEARS - US$ 000)

Type/Source	1983	1984	1985	1986	1987	TOTAL
1. Development Assistance						
Loans	17,500	4,500	30,200	5,871	1,720	59,791
Grants	4,811		27,833	31,010	33,150	96,804
Subtotal	22,311	4,500	58,033	36,881	34,870	156,595
2. Food Commodity Assistance						
PL 480 Food For Peace						
Title I (Loan)		7,000	21,000	19,000	22,000	69,000
Title II (Grant)	4,375	4,600	4,396	5,467	8,492	27,330
Section 416				7,900	12,600	20,500
Subtotal	4,375	11,600	25,396	32,367	43,092	116,830
3. Economic Support Funds						
Balance of Payments						
Loans	10,000			23,925		33,925
Grants				23,425	90,750	114,175
Projectized and Other						
Loans			9,500		5,500	15,000
Grants			3,000	500	18,545	22,045
Subtotal	10,000		12,500	47,850	114,795	185,145
GRAND TOTAL	36,686	16,100	95,929	117,098	192,757	458,570

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