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ESF Cash Transfer Assistance To LAC Region FY 1988-1991

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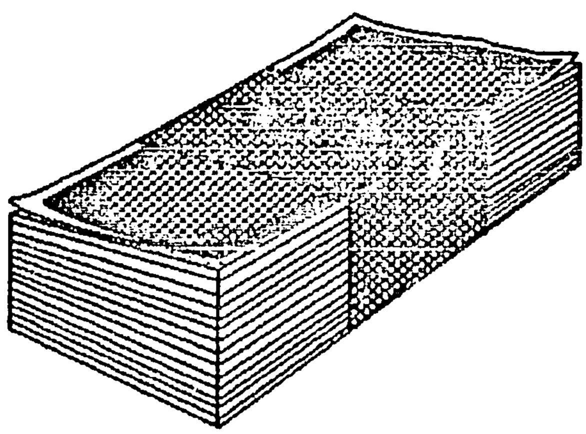

ESF CASH TRANSFER ASSISTANCE STUDY
LAC BUREAU FY 1988-91

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ESF CASH TRANSFER ASSISTANCE STUDY
LAC BUREAU

Executive Summary

The objective of this study was to present the ESF cash transfer programs of 13 LAC Bureau countries during the period 1988 to 1991. Specifically, the study focused on the fulfillment of ESF policy conditionality. This report includes 13 country summaries and pertinent information from host country yearly economic plans. The accuracy and quality of the information in these country summaries depends, to some extent, on the availability of documents from LAC/DR project support files, cables, and information supplied by the A.I.D. Missions. Those A.I.D Missions, represented in this report, have also included their comments and clearances with respect to this study.

We examined 3 country programs in South America, 6 programs in Central America, and 4 in the Caribbean. Five countries (Guatemala, Costa Rica, El Salvador, Honduras, and Bolivia) had programs throughout the four year period. One country (Jamaica) had ESF cash transfers for 3 years beginning in 1989. Three countries (Haiti, Guyana, and Nicaragua) had programs for only 2 years during the period. Peru, Ecuador, Panama, and the Dominican Republic had cash transfers for only one year.

In the process of compiling this report, we observed that specific conditionality was not presented in a uniform manner; some conditions referred to economic programs for specific years, while other conditions related to specific targets within economic programs. In general, ESF economic conditionality appeared to become more specific and more closely monitored with countries that had programs for more than three years. Those countries which commenced ESF cash transfers in fiscal years 1990 and 1991 (Panama, Peru, Nicaragua) also had more stringent initial conditionality than those whose programs began in FY 1988.

Haiti, Peru, and Bolivia were the only countries in the study that had conditionality strongly tied to areas other than macroeconomic issues; mainly counternarcotics, human rights and electoral process conditions. Programs in Peru, Guyana, and Haiti had ESF cash transfer programs suspended because of difficulties pertaining to democracy issues. Programs in Peru, Ecuador, Guyana, and the Dominican Republic were suspended because of reasons other than those specifically stated in the conditionality; of these only Peru has not resumed a program in FY 1992.

Reviewing the summary table of obligations, included in this study, the Central American countries had the longest and most consistent programs in the LAC Bureau. The country with the highest dollar obligations, during the period, was El Salvador ($451.46 million) followed by Nicaragua ($365.5 million) and Panama ($351.75 million). The countries with the lowest dollar obligations were Guyana ($1.296 million), Ecuador ($9 million), and the Dominican Republic ($13.035 million).

Overall, most Missions were satisfied with the accomplishments of their ESF cash transfer programs. While the USAID cannot take complete credit for the revolutionary economic reforms that have been occurring in the LAC region since 1988, the majority of Missions feel their ESF programs have been influential. Among the most notable accomplishments in most of the LAC countries are: the reduction of inflation; the introduction of market determined interest rates; a market determined exchange rate; the elimination of most price controls; the reduction of average tariff levels, and an overall improvement in net international reserves.

ESF CASH TRANSFER ASSISTANCE
Summary Table of Obligations

FISCAL YEAR OBLIGATIONS ($ 000)

COUNTRY	FY 1988	FY 1989	FY 1990	FY 1991	Country Totals
BOLIVIA	7320	17625	18000	59800	102745
PERU				50000	50000
ECUADOR		9000			9000
DOMINICAN REPUBLIC	13035				13035
JAMAICA		25000	13700	17000	55700
HAITI			10000	12000	22000
GUYANA			996	300	1296
COSTA RICA	85000	85000	60000	24000	254000
PANAMA			351750		351750
GUATEMALA	75000	69500	50000	20000	214500
EL SALVADOR	125000	138500	97960	90000	451460
NICARAGUA			178000	187500	365500
HONDURAS	75000		120000	58000	253000
FY TOTALS	380355	344625	900406	518600	2143986 GRAND TOTAL

CONDITIONALITY

FY 1988 TOTAL ESF OBLIGATION – $7,320,000

CONDITIONS PRECEDENT TO DISBURSEMENTS

A. Conditions are only tied to narcotics eradication.

B. Economic considerations are only mentioned as covenants.

FY 1989 TOTAL ESF OBLIGATION – $17,625,000.

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. A policy matrix, including the credit, fiscal policy, and international reserve guidelines that the GOB will seek to observe over the life of the agreement in implementing its economic stabilization and recovery program.

CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

A. GOB commitment to narcotics eradication.

B. Evidence that the total amount of dollar balance of payment assistance provided with FY 1987 and 1988 funds has been disbursed by the Central Bank.

CONDITIONS PRECEDENT TO THIRD DISBURSEMENT

A. GOB commitment to narcotics eradication.

B. Evidence that the GOB is in substantial compliance with the guidelines for implementation of the GOB's economic stabilization and recovery program established as an initial condition to disbursement.

CONDITIONS PRECEDENT TO FOURTH DISBURSEMENT

A. GOB commitment to narcotics eradication.

B. Evidence that the GOB has fully disbursed the first dollar tranche of funding provided under this Agreement.

FY 1990 TOTAL ESF OBLIGATIONS – $18,000,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. GOB commitment to narcotics eradication.

CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

A. GOB commitment to narcotics eradication.

CONDITIONS PRECEDENT TO THIRD DISBURSEMENT

A. GOB commitment to narcotics eradication.

FY 1991 TOTAL ESF OBLIGATION – $59,800,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

ACHIEVEMENTS

FY 1988

A. No economic conditions to meet

B. For 1998 as a whole, the fiscal deficit was 6.4% of GDP; inflation was 21.5%; GDP growth was 3%; and net international reserves fell by $28 million.

FY 1989 (First Tranche)

A. GOB developed economic policy matrix. Tranche disbursed March 1989.

FY 1989 (Second Tranche)

A. No economic conditions to meet. Tranche disbursed in Aug 1989. delayed by slowness of GOB to meet narcotics targets.

FY 1989 (Third Tranche)

A. GOB was in substantial compliance with the guidelines for implementation of its economic stabilization program; no specific economic targets were used as conditions precedent; disbursement was delayed, however, by lack of progress in coca eradication.

FY 1989 (Fourth Tranche)

A. No economic conditions to meet; disbursement delayed because of lack of progress in coca eradication.

B. For 1989 as a whole, the fiscal deficit of the non-financial public sector fell significantly to 5.1% of GDP; inflation (Dec.– Dec.) fell slightly to 16.5%; GDP growth fell slightly to 2.7%; and net international reserves fell sharply by $142.3 million.

FY 1990 (First Tranche)

A. No economic conditions to meet; funds disbursed July 1990.

FY 1990 (Second Tranche)

A. No economic conditions to meet; funds disbursed in Aug. 1990.

FY 1990 (Third Tranche)

A. The GOB was in substantial compliance with economic targets. The fiscal deficit of the non-financial public sector was reduced from 5.1% of GDP in 1989 to 3.3% in 1990, compared to the target of 3.2%. The GOB also missed two other major targets relating to Central Bank credit to the public sector, but the govt's performance was determined by AID to be substantially in complian with its economic program; funds disbursed Oct. 1990.

A. GOB commitment to narcotics eradication.

CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

A. GOB commitment to narcotics eradication.

B. Evidence that the GOB has remained in substantial compliance with the targets for the fiscal deficit of the consolidated public sector, credit expansion (overall and of the public sector) and net domestic assets of the Central Bank, set for the period July 1, 1990 – March 31, 1991 in the GOB agreement with the IMF.

CONDITIONS PRECEDENT TO THIRD DISBURSEMENT

A. GOB commitment to narcotics eradication.

B. For 1990 as a whole, the fiscal deficit of the non–financial public sector fell dramatically to 3.3% of GDP; inflation (Dec.–Dec.) increased slightly to 2.6%; and net international reserves rose sharply by $113.7 million.

FY 1991 (First Tranche)

A. No economic conditions to meet; disbursement occurs as scheduled.

FY 1991 (Second Tranche)

A. The GOB was in substantial compliance with economic targets. While the fiscal deficit as a percentage of GDP was above the target (3.5% versus the 2.6% target), the two other major targets–for credit expansion to the public sector and for overall credit expansion in the economy–were easily met; disbursement occurred as scheduled.

FY 1991 (Third Tranche)

A. The GOB substantially complied with its economic stabilization program targets; disbursement of 3rd tranche delayed until June 1992 because of GOB failure to meet coca eradication targets.

B. For 1991 as a whole, the fiscal deficit of the non–financial public sector rose slightly to 3.5% of GDP; inflation (Dec.–Dec.) declined to 14.5%; GDP growth rose to 4.1%; and net international reserves rose by $68 million.

Current Economic Status (1992)

A. The GOB economic program continued in a positive direction during the first five months of 1992. Preliminary data show that inflation and GDP growth have been in line with the GOB's economic program, as have net international reserves and net domestic assets. One problem area, however, has been the reduction in the fiscal deficit, which has not been within the GOB/IMF targets so far this year.

B. USAID has negotiated $66 million in ESF cash transfer funds, which would support, in part, the GOB's economic stabilization and reactivation efforts.

BRIEF SUMMARY OF USAID/BOLIVIA'S ESF PROGRAMS: GOAL AND ACCOMPLISHMENTS

The goal of the ESF programs is to support implementation of sound economic and counternarcotics policies in Bolivia.

The programs were aimed at providing balance of payments assistance in support of the GOB's stabilization, recovery and counternarcotics programs by:

1. providing foreign exchange to:

   a. import U.S. raw materials, intermediate and capital goods for the private sector;

   b. compensate for the Bolivian economy resulting from the fall in the prices of tin and natural gas;

   c. offset the foreign exchange losses and domestic multiplier effects resulting from the continuing disruption of narcotics trafficking; and

   d. strengthen the level of net international reserves, thus supporting the GOB's stabilization efforts and the expansion of exports through a competitive real exchange rate.

2. generating local currency funds to be used to supply counterpart funding required by key USAID and other donor projects.

Assistance to the GOB's stabilization and recovery efforts also helped advance USG narcotics and democracy-related goals. Thus, the ESF programs have also been important USG instruments for encouraging continued GOB cooperation in the area of narcotics control. The survival of the democratic form of government have depended, in large measure, on the success of Bolivia's economic and counternarcotics policies being pursued.

During the four-year period of implementation of the 1988 and 1991 ESF programs, the Bolivian economic performance has been outstanding:

1. The inflation rate (Dec.to Dec.) declined from 21.5% in 1988, to 14.5% in 1991; one of the lowest rates in Latin America, and the lowest in South America.

2. The average annual rate of economic growth of 3.14%, has expanded the economy by more than 13% during this four-year period.

3. Total deposits in the banking system increased at an average annual rate of 36%, from US$344 million in December 31, 1987, to US$1,183 million in December 31, 1991.

4. The real exchange rate has not only being maintained competitive, but has depreciated by 8%, in real terms, against the dollar.

5. Non-traditional exports increased at an average annual rate of about 25%, from US$108 million in 1987, to US$261 million in 1991.

6. Total merchandise exports increased fromm US$473 million in 1987, to US$766 million in 1991.

7. Bolivian imports from the U.S. increased from US$159 million in 1987, to US$215 million in 1991.

8. The balance of payments deficit declined from US$367 million, in 1987, to US$114 million in 1991.

9. The level of net international reserves increased slightly from US$189 million in December 31, 1987, to US$200 million in December 31, 1991.

10. Finally, owing mainly to prudent fiscal and monetary policies, the fiscal deficit of the consolidated non financial public sector declined from 8.2% in 1987, to only 3.5% in 1991.

CONDITIONALITY

FY 1991 Total ESF Obligation – $50,000,000

CONDITIONS PRECEDENT TO 1ST DISBURSEMENT– $20,000,000

A. A copy of the current Economic Stabilization and Reform Program of the GOP carried out in cooperation with multilateral banks and institutions, which are creditors of the GOP and which include objectives for quantitative targets and performance benchmarks amd a schedule for specific actions to be taken by the GOP during the year following signature of this Agreement in order to attain the objectives, targets, and benchmarks, and a commitment of the GOP to continue its Economic Stabilization and Reform Program and to use its best efforts to attain the stated objectives, targets, and benchmarks within the year following signature of this Agreement.

B. After the positive determination required under Section 4 of the U.S. International Narcotics Control Act of 1990 has been made, the GOP must show: that it has satisfactorily implemented programs to reduce the flow of cocaine to the United States; that it has maintained a satisfactory human rights record; that it has maintained effective control over police and military operations related to counter–narcotics and counterinsurgency activities; that it has continued such performance in these three areas, as demonstrated by specific actions taken by the GOP which A.I.D. may state in Program Operational Letters or similar documents.

CONDITIONS PRECEDENT TO 2ND DISBURSEMENT

A. That the GOP has continued to implement its program of economic stabilization and recovery, as described in the documents submitted in satisfaction of the conditions stated;

B. That the GOP has continued to vigorously implement its anti–narcotics programs to reduce the flow of cocaine to the United States, to maintain a satisfactory human rights record, and to maintain effective control over police and military operations, as required under the INCA and as demonstrated by specific actions taken by the GOP which A.I.D. may state in Program Operational Letters of similar documents;

C. That the GOP is otherwise in compliance with the terms and conditions of this Agreement.

CONDITIONS PRECEDENT TO 3RD DISBURSEMENT

A. Conditions are the same as for 2nd disbursement above.

B. Conditions are the same as for 2nd disbursement above.

C. Conditions are the same as for 2nd disbursement above.

ACHIEVEMENTS

FY 1991 FIRST DISBURSEMENT

A. Economic Conditions were met by GOP in 12/91 and are as follows:
1. GOP provided a copy of Peru's Rights Accumulation Program (RAP) with the IMF; in addition the GOP provided the targets and limits agreed to in 1991 under the RAP and the data that the GOP is periodically providing to the IMF to measure compliance with the RAP.
2. The GOP also provided USAID with the targets and conditions agreed to under the RAP for 1992, including the data required to monitor compliance.

B. Human Rights Conditions met by GOP on 12/91:
1. All interviews with detainees/prisoners have taken place alone, without prior notification, and in full accordance with ICRC guidelines.
2. The public prosecutors have been legally authorized access to all police and military prisoners since 9/3/91.
3. Regional public prosecutors have access to military barracks and installations.
4. Public prosecutors continue to enjoy open access to all police facilities.

FY 1991 2ND & 3RD DISBURSEMENTS

A. Political circumstances suspended the ESF program 4/5/92.

A. On April 5, 1992 President Fugimori suspended the Peruvian constitution, which, in effect, violated US foreign policy initiatives, and all new USG non–humanitarian assistance to the GOP was suspended.

CURRENT ECONOMIC ST .TUS (1991–92)

1991

A. Performance under the RAP program was satisfactory: Real GDP grew by nearly 3%. Inflation declined from more than 7,500% during 1990 to 140% during 1991. The overall deficit of the non–financial public sector was reduced from 5.4% of GDP in 1990 to 2.7% in 1991.

B. Current revenue of the GOP increased slightly in terms of GDP to 7.9%. Changes to the tax system included a tax on wealth, an increase in the rate of the value added tax from 14% to 16%, abolition of export taxes, and reduction of the tax on bank drafts.

C. Current expenditures of the GOP were reduced from 11.6% of GDP in 1990 to 9.2% in 1991.

D. During 1991, the GOP exercised a tight monetary policy.

E. External current account deficit widened from 3.7% of GDP in 1990 to 4.9% of GDP in 1991, and net international reserves increased by US$953 million.

1992

A. Performance under the RAP program:
Real GDP is expected to decline 3%; agricultural sector weakened mainly because of the drought; inflation is projected at 55% for the year; net international reserves are expected to grow to US$ 444 million.

B. Overall deficit of the combined public sector will be 3% of the GDP, GOP revenue is now projected at 9.1% of the GDP; current spending is projected at 12% of GDP in 1992 – slightly higher than originally planned.

C. The GOP intervened with respect to the exchange rate and in response the currency depreciated after the first quarter. During the third quarter, the exchange rate showed a real increase of 5%. Central Bank intervention in the foreign exchange market did not result in a deviation from monetary growth targets.

D. The external current account deficit is expected to widen from US $1.4 billion in 1991 to US$ 2.2 billion in 1992, which will be financed by long and short term capital inflows and help to increase the international reserve position.

ESF Cash Transfer Assistance to Peru

The objective of the 1991 Economic Stabilization and Recovery Program (ESRP) is to strengthen Peru's commitment and efforts to establish a sound economic policy framework and to carry out structural reforms that serve as the foundation for economic stability with sustained economic growth. The program also responds to the need for international cooperation in addressing the narcotics problem by encouraging the establishment of a macroeconomic framework that facilitates the creation of alternate sources of income to the economy and providing resources to implement activities that advance counternarcotics objectives.

The program provides $50 million in balance of payments assistance in direct support of the Government of Peru's (GOP) economic reform program. The resources will be provided in three tranches: $20 M, $15 M and $15 M. The disbursement of these funds is conditioned upon continued progress in the counter-narcotic and economic reform programs as established in the International Narcotics Control Act of 1990 (INCA). The U.S. dollar funds will be used to finance servicing of official GOP debt to the IMF, the World Bank and the Inter-American Development Bank. There are funds programmed as counterpart contributions, $20 M, to finance general budget support with a preference for budget programs that support counternarcotics activities.

Program Status

During the last twenty eight months, the GOP has adopted a firm economic stabilization program aimed to bring inflation down and implemented a set of structural reforms designed to turn the resource allocation process back over to competitive and efficient private markets. The GOP has been able to obtain external financing from the international financial institutions and met the strict conditionality of the IMF's Rights Accumulation Program.

The GOP met the CPs for the first disbursement under ESRP in December 1991. The two remaining disbursements have been delayed following the events of April 5 (suspension of the Constitution by the President). Attached is a list of suggested indicators to monitor the results of the ESRP project. All of them correspond to the economic targets, benchmarks and limits established with the IMF. Most indicators are available quarterly, though it is possible that some will be available only yearly.

PROJECT STATUS

PROJECT NAME	PROJECT NUMBER	START/END DATES	LOP FUNDING
Economic Stabilization and Recovery Program	527-0344	1991-1994	$330 million

OBJECTIVES/INDICATOR	BASELINE		TARGET		ACCOMPLISHED				COMMENTS
	VALUE	DATE	VALUE	DATE	PERIOD	CUMULAT.	% BASE.	% TARG.	
GOAL INDICATORS		1991		1992	QIII 1992	Jan-Set 1992			
GDP growth rate (1)	2.4		3.5		-5.4	-3.2			
Inflation rate (%) (2)	139		45.0		9.2	57.7			
Changes in net international reserves ($m) (2)	773		344		-18	-18			
External debt disbursements ($m)	800		1982		-48	302			
Central Government fiscal deficit (% GDP)	2.6		1.2		-4.6	-1.4			
Non-financial public sector deficit (% GDP)	2.7		4.1 (4)		-5.1	-0.3			
Tax collection (% GDP)	7.8		9.2		9.4	8.6			
Internal financing of fiscal deficit (% GDP)	-0.4		-0.3		2.7	0.1			

OBJECTIVES/INDICATOR	BASELINE		TARGET		ACCOMPLISHED				COMMENTS
	VALUE	DATE	VALUE	DATE	PERIOD	CUMULAT.	% BASE	% TARG.	
Private investment (% GDP)	12.4		12.5		13.0	15.0			
Primary emission growth rate (nominal) (2)	95.9		32		12.8	37.5			
Primary emission growth rate (real)	-21.0		-8.9		3.3	-2.2			
Central Bank net domestic credit (million Nuevos Soles) (2)	52.7		n.a.		-44.6	-157.4			
Net domestic credit to the public sector (thousand Nuevos Soles) (2)	63		0		-18.3	167.8			

(1) Average percentage increase over the same quarter of 1990.
(2) Quarterly data.
(3) Refers to public investment.
(4) The target includes an increase on public investment.
Source: Central Reserve Bank.

ECUADOR

CONDITIONALITY

FY 1989 TOTAL ESF OBLIGATION – $ 9,000,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. Specific conditions not stated, though the assistance provided financial support to the GOE for its economic stabilization and recovery program. Further economic issues were only discussed as covenants in the PAAD.

ACHIEVEMENTS

FY 1989 – FY 1991

A. Specific Targets of the GOE's 1989 program included:
   1. A reduction in the deficit of the consolidated non-financial public sector to 3.4% of GDP. GOE actually surpassed this target, as the deficit was actually 2.2% of GDP.
   2. A reduction of negative net international reserves. GOE achieved a level of NIR that was actually a positive $379 million by the end of 1989. After 1989, the situation further improved. By the end of 1991, the NIR was $760 million.
   3. The maintenance of a sublimit on Central Bank credit to the non-financial public sector. GOE complied with this target.
   4. The implementation of a sound fiscal policy with respect to to public sector goods and services, including domestic petroleum products. GOE achieved this target in spite of suspending monthly price adjustments for domestic petroleum products after one year.
   5. The implementation of a prudent public sector wage and employment policy. IMF conditions in this regard were adhered to by the GOE during 1990.
   6. The maintenance of a flexible exchange rate. The GOE kept a flexible exchange rate throughout 1989, 1990, and 1991.

B. The IMF 18-month Stand-by arrangement had mixed success during 1990. For example, quarterly targets for net domestic assets were met only in December 1990, in part because of the increase in oil revenues (from higher oil prices) during the Mid-East crisis of 1990. Negotiations for a new Stand-by have been lengthy. Part of the delay in signing an IMF agreement has been due to the increase in public expenditures during the second quarter of 1991. This resulted in inflationary pressures and subsequently the GOE was required to take additional measures, which included eliminating medicine subsidies, increasing telephone rates, and increasing gasoline prices.

CURRENT ECONOMIC STATUS (1992)

A. On December 11, 1991 the IMF approved a Stand-by arrangement with Ecuador (US$ 105 million). The agreement was reached after protracted negotiations that reflected the seriousness of the macro-economic imbalances that needed to be addressed.

B. During '91, while the GOE had stabilized inflation at 50%, this level of inflation still eroded real wages and discouraged foreign and domestic investment. Ongoing problems include the fiscal deficit of the public sector, a balance of payments deficit, an overvalued exchange rate, and GOE subsidization of domestic energy prices.

C. In May 1992, the GOE reduced import tariffs on most items from an average of 5-35% to an average of 5-20%; it also took steps to devalue the Sucre.

D. In the summer of 1992 a new govt., under President Sixto Duran Ballen, took office that has aggressively pursued a new economic program that favors policies promoted by the IMF. Consequently, a new ESF cash transfer program was approved for US$ 3.2 million to assist the new administration in implementing its plan. Recent WB and IMF Missions coming to Ecuador have

DOMINICAN REPUBLIC

CONDITIONALITY

FY 1988 TOTAL ESF OBLIGATION – $ 13,035,000

CONDITIONS PRECEDENT TO DISBURSEMENT

A. Evidence that the GODR is satisfactorily progressing with the Economic Program to constrain net domestic financing of the consolidated public sector deficit. Such evidence will include quarterly performance targets for , inter alia, reduction of the consolidated public sector deficit and reduction (leading towards elimination) of domestic banking system net financing of the deficit. Policy changes required to attain the targeted reductions in the consolidated public sector deficit will have been initiated. Evidence will also be presented that the GODR has taken steps to obtain foreign donor assistance necessary for the economic program and rescheduling of its international obligations.

B. The GODR will present an acceptable plan that will accomplish unification by March 31, 1989 of the exchange rate for the Government and private sector transactions, as a function of free market conditions, and evidence that it has initiated further action toward this end.

ACHIEVEMENTS

FY 1988–89

A. During 1988, the Dominican Government limited the consolidated public sector fiscal deficit to 4.5% of Gross Domestic Product (GDP) and domestic banking system net financing of the deficit to 3.0% of GDP.

B. In terms of attaining foreign donor assistance necessary for the GODR's economic plan and rescheduling of its obligations:
The GODR presented a Business Plan, negotiated with the IBRD, at the Consultative Group for the Caribbean Economic Development meetings in June 1988 which met the conditions for donor assistance. This Business Plan was later updated in 1989 and A.I.D. determined that it fulfilled all the conditions stated above.

C. GODR's Secretary of the Monetary Board specified that unification of exchange rates for all transactions except for imports of petroleum derivatives became effective on January 1, 1989. Effective June 15, 1989 the GODR's Secretary of the Monetary Board eliminated the preferential exchange rate for imports of petroleum and petroleum products. Effective July 1, 1989 the Monetary Board mandated a unified foreign exchange rate for all foreign exchange transactions.

CURRENT ECONOMIC STATUS (1990–92)

1990

A. Early in 1990, there were serious economic difficulties:
Deterioration in public finances, decline in economic activity (GDP declined by 5.4%), accelerating inflation, and a worsening of the extermal accounts.

B. After May 1990, GODR embarked on an economic program that included public sector price corrections, devaluation of the peso, a more realistic interest rate policy, and tightening of bank reserves requirements. Public sector revenue fell sharply in terms of GDP, but there was an even larger reduction in public sector spending. The public sector deficit declined by nearly 1% of GDP to 5% of GDP. Price adjustments caused a sharp rise (100%) in consumer prices. The overall balance of payments deficit rose to over $500 million, largely financed by additional accumulation of external payment arrears. At end of 1990, arrears amounted to US$1.5 billion, with a total external public debt of US$4.5 billion.

1991

A. The economic program was strengthened in 1991:
Interest rates were liberalized (prime lending rate fell to 20%), the exchange rate was unified in July and the peso remained unchanged in terms of the US dollar.

B. Economic activity recovered in the second half of 1991, and the decline in real GDP for the year was limited to .5%, while the 12 month rate of price increases fell to 4%.

C. Public finances shifted from a deficit of 5% of GDP in 1990 to a small surplus of .1 % of GDP. Following 2 years of decline, public sector revenue increased from 3% of GDP to 15.9 % of GDP.

D. The balance of payments improved (net international reserves increased by US$ 380 million).

1992

A. The favorable economic performance in 1991 has continued in 1992: the economic recovery has gained strength and prices have remained nearly unchanged during the first 9 months.

B. Net international reserves continued to increase, the public sector recorded an overall surplus, and the growth of financial savings was strong.

C. Real GDP is expected to grow about 4–5% for the year, and the rate of price increase should be limited to the range of 4–8%; overall public sector finances are expected to shift from a .1% of GDP surplus to a deficit of .8% of GDP.

D. Public sector revenue will remain largely unchanged at about 13% of GDP. In April 1992, the Congress enacted a comprehensive tax reform package that is expected to raise revenue by about 1 percentage point per year.

E. GODR continues to make efforts in eliminating structural inefficiencies within the already market–determined interest rate system. Interest rates are showing signs of declining in the second semester of 1992.

F. The balance of payments outlook, however, is not too promising. The external current account deficit is expected to increase from 2.6% of GDP in 1991 to above 4.5% of GDP in 1992. The worsening of the CA is due to the continued increase in imports accompanied by an unexpected significant decrease in traditional exports.

G. In light of the positive economic outlook, USAID will assist the GODR with its economic reform program (accepted by the IMF). A total of US $5 million in ESF cash transfer funds will help the short–term financing needs of the GODR reform program, while the conditionality will move the GODR toward accepting private sector involvement in the electrical energy sector.

USAID Dominican Republic ESF Cash Transfer Programs
Mission's Goals and Accomplishments

The Mission's goal and objective for its 1988 and 1992 ESF Programs has been to help the GODR maintain the sound economic reforms accomplished since 1988 and to sustain the effort through further implementation of new economic reforms. Much has been accomplished. USAID help has taken the form of balance of payments support and a continuous dialogue with the GODR officials regarding the importance of staying the course of stabilization/structural reform even in the face of criticism and pressure from powerful economic sectors that feel threatened by the changes that necessarily will occur as the Dominican economy becomes more open.

While the USAID cannot take complete credit for the revolutionary economic reforms that have been occurring since 1988, it certainly has been influential. The list of accomplishments is quite lengthy. Among the most notable since 1988 and especially since 1990, are: the reduction of inflation from 100 percent in 1990 to the 4 percent level for the past two years; the introduction of market determined interest rates; a market determined exchange rate; the elimination of most price controls; the reduction of average tariff levels from about 153 percent to 44 percent in 1991, the elimination of quotas, a new labor code, new banking and finance laws; the official recognition by the GODR that it cannot provide all the electrical power needs of the country over the next decades; the agreement to begin the process of allowing the private sector to become involved in the provision and distribution of electricity; and the agreement to allow for an independent evaluation of the state of the economy before the termination of the IMF Stand by arrangement (an agreement reached through the combined efforts of the USAID and the multilateral donors active in the country).

As successful as the new economic program has been, some of the changes need follow-up and improvement. The labor code is an excellent example of a new law that will need nurturing. Others requiring support, such as the new banking and finance laws, are still being debated at the congressional level, while the tariff changes were done by decree and thus remain to be codified.

JAMAICA

CONDITIONALITY

FY 1988 THERE WAS NO ESF PROGRAM FOR 1988

FY 1989 TOTAL ESF OBLIGATION – $ 25,000,000

CONDITIONS PRECEDENT TO DISBURSEMENT

A letter of request outlining the macroeconomic and structural reform guidelines that the GOJ has set out to achieve as part of its economic growth and stabilization program (included with this summary)

FY 1990 TOTAL ESF OBLIGATION – $ 13,700,000

CONDITIONS PRECEDENT TO DISBURSEMENT

No specific conditionality, though it is expected that the GOJ will take steps toward implementing the Foreign Exchange regime and will continue with its privatization efforts and its economic stabilization program

FY 1991 TOTAL ESF OBLIGATION – $ 17,000,000*

Cash transfer conditioned on the GOJ's acceptable progress in foreign exchange liberalization (the priority area for reform), acceptable evidence that policy dialogue with multi-lateral financial institutions is on track, and GOJ agreement to study the need for institutional strengthening of Ministry of Finance crucial to overall reform strategy.

* Includes $7,000,000 in Pakistan fall-out money from FY 1991, authority that was disbursed in CY 1992.

FY 1992 TOTAL ESF OBLIGATION – $15,000,000

CONDITIONS PRECEDENT TO DISBURSEMENT

Maintainence of liberalized foreign exchange regime, sound macro-economic framework as evidenced by IMF stand-by Agreement, plan to eliminate central bank losses, completed study of needed Ministry of Finance strengthening and agreement on action plan and related budget support, implementation of the General Consumption Tax, publication of monetary and international reserve data, satisfactory progress on privatization of GOJ assets, satisfactory progress on financial market reform legislation

ACHIEVEMENTS

FY 1988 No disbursements made during the year.

FY 1989-90

A. ESF cash transfer disbursements were made March and July of 1989, description is outlined below:

1. Privatization: The GOJ resumed divestment of 6 hotels, privatized catering and laundry services of all Kingston Hospitals, Spanish Town, Cornwall region and Bellevue Hospitals. continued development of an implementation program to privatize hospital management with target date of 12/92; GOJ sold a total of 58,000 acres that were suitable for farming and divested a total of approx. US$10 million in agricultural enterprises.
2. Tax Reform: GOJ replaced its marginal income tax system with a simplified system with a flat maximum of 33 1/3%. GOJ also reduced corporate tax rates from 45% to 33 1/3%.
3. Trade and Tariff Reform: Maximum rates of 5, 10, 20% were introduced for aggregate customs and stamp duty on imports for utilities, raw materials, and capital goods; maximum aggregate customs and stamp duty rate for most other categories of goods were reduced to the 30-45% range (conforming to the CARICOM CET regime).
4. GOJ increased prices of 8 basic food items, reflecting a phase-out of General Food Subsidies by 1992.
5. GOJ agreed to reduce the public sector deficit to 6.7% of GDP and the Central Govt. deficit to 2.6% during 1989/90.

1990 (continued)

A. ESF cash transfer disbursements were made in October and December 1990.

1. GOJ implemented a measure in early September that deregulated petroleum marketing. GOJ also sold its remaining shares in Telecom of Jamaica
2. In mid-September, the GOJ introduced a new Inter-bank Foreign Exchange System which was an initial step toward an eventual decontrol of foreign exchange allocation.

FY 1991

A. ESF cash transfer disbursements were made in April, 1991, Sept. 1991, and Jan. 1992; description is outlined below:

1. The GOJ introduced a floating exchange rate at the end of 1990 for some categories of transactions.
2. By the end of 1991, the GOJ fully liberalized the foreign exchange regime, and by 1992, the exchange rate stabilized at 22.4 to the US dollar.
3. IBRD and IDB macro-policy loans in place, IMF stand-by in place, debt reduction under EAI approved and agreement signed.
4. Price controls eliminated, GOJ trading monopoly eliminated, public sector deficit reduced from 4.3% of GDP to 1.9% GDP (Central Govt run surplus)
5. Study of Ministry of Finance approved.

FY 1992

1. Exchange rate stabilized, private capital inflow greatly increased, Central Bank reserves greatly improved.
2. Annualized inflation rate declines from over 80% at beginning of year, to less than 10%. Very conservative GOJ budget enacted.
3. Central Bank reimbursed by Ministry of Finance for its FY 1991 losses. Plan put in place to eliminate remaining losses over next 3 years.
4. Study completed of strengthening Ministry of Finance. Plan to establish Fiscal Policy Management Unit approved by Cabinet.
5. General Consumption Tax implemented.
6. Central Bank begins timely publication of broader monetary and international reserve data, reducing publication lag from 4 months to 2 weeks.
7. Ten GOJ companies/properties sold or leased to private control. 16 additional assets advertized for sale, or are in process of negotiation for sale.
8. Fair competition and securities Acts placed before Parliament. Credit Union Reform Act enacted and implemented. Employee stock option plan legislation drafted and being studied by GOJ and private sector.

CURRENT ECONOMIC STATUS (1991–92)

A. At the end of 1991, GDP growth was a minimal .2%. Inflation rose to over 80%, in part because of a major devaluation of the currency. Interest rates rose to over 50%, and Jamaica fell out of compliance with the IMF during the last two quarters of 1991.

B. The GOJ carried out major policy changes: it fully liberalizing the foreign exchange regime, implemented a Value–Added Tax, and put in place a tight fiscal budget for 92/93 –– which provides for negative real growth in expenditures and a 20% reduction in govt. employment

C. By July 1992, inflation had plummeted to 25%/yr., and GDP growth is expected to reach 3%. The GOJ also succeeded in reformulating its IMF agreement and met March and June targets, a 3–year IMF extended Funding Facility approved 12/92

D. Net international reserves, while still negative, are greatly improved and on track to turn positive by end of 1993. All official arrears have been cleared.

E. USAID obligated US$15 million for the FY 1992 tranche of the ESF cash transfer program.

CONDITIONALITY

FY 1990 TOTAL ESF OBLIGATION – $10,000,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. Evidence that Government of Haiti is taking all appropriate measures, including needed financial support to the Electoral Council (CEP), to ensure prompt, fair, and secure elections and a successful transition to an elected civilian government.

CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

A. Evidence that the GOH is in substantial compliance with all of the terms and conditions of this agreement as of the date of issuance of documentation for disbursement.

B. Provide evidence, in form and substance satisfactory to AID that the GOH is continuing to take all appropriate measures to ensure prompt, fair, and secure elections and a successful transition to an elected civilian government.

FY 1991 TOTAL ESF OBLIGATION – $12,000,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. Evidence that the Government of Haiti has committed itself to formulate a global economic program suitable for financing by the international financial institutions.

CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

A. Evidence that the GOH is in substantial compliance with all of the terms and conditions of this agreement as of the date of issuance of documentation for disbursement.

B. Provide evidence that the GOH has prepared an outline of a proposed global economic reform program suitable for financing by the international financial institutions.

ACHIEVEMENTS

FY 1990

A. Progress on the electoral process including financial backing of the Electoral Council (CEP) and all other conditions relating to a democratic election process were met by the GOH within six weeks of the signature of the agreement.

B. Economic issues played a secondary role to the democratic elections of 12/90. These issues were relegated to less stringent "covenants" on macroeconomic stabilization, foreign exchange liberalization, trade liberalization, and free market pricing.

C. The results on the economic front included a revised Stand–by agreement with the IMF, which was complied with for the immediate quarter thereafter(10/90–12/90). Unfortunately the agreement lapsed again, as the Trouillot administration stopped collecting revenues and allowed huge deficits to accumulate in the Central Government and the state enterprises. As far as the conditions precedent, the elections of 12/90 were carried out in a secure and fair process resulting in Mr. Aristide's victory.

FY 1991

A. The macroeconomic framework presented by the GOH (to the international donor community at the Paris meeting of the World Bank–sponsored Caribbean Group for Cooperation on Economic Development in 7/91) more than satisfied the conditions precedent for the first and and second disbursements. The Framework is included following summary page.

B. The results on the economic front also included a new Stand–by agreement with the IMF, signed in mid–Sept 1991. The GOH reversed the dreary public finance picture inherited from Trouillot with sizable monthly budget surpluses (even as a backlog of more than 20 million gourdes of overdue domestic payments was being eliminated) in the 3/91–9/91 period. Revenue collection jumped beyond all expectations. Trimming of excess employees in the Central Administration (over 1,000) and especially in the bloated public enterprises (between 5–7,000) was carried out. GOH eliminated a 20% surrender requirement on foreign transfers, and de facto eliminated import licenses.

C. Disbursement of first tranche occured in late June 1991. Unfortunately, the second tranche was aborted becuase of the military coup that ousted Aristide. Aristide remains in exile in the United States and all macroeconomic and policy reforms have been abandoned –– resulting in a complete collapse of Haiti's economy.

CURRENT ECONOMIC STATUS (1992)

A. Inflation running at approximately 11% per year.

B. Losses of state enterprise straining government resources.

C. Currency (Gourde) has depreciated from an average of 7.41/$ to an average of 9.5/$ for August 1992.

D. GDP growth, which was negative every year from 1989 to 1991, shows no signs that it will improve in 1992.

E. Haiti continues to be in arrears in its debt repayments to IFI's.

F. Government continues to run fiscal deficit (after running deficits in each of the years 1989–91) and will not address it until FY 1993.

HIGHLIGHTS
OF
FRAMEWORK OF ECONOMIC POLICY
OF
THE GOVERNMENT OF HAITI

CHAPTER I: SOCIO-POLITICAL CONTEXT. After an introduction reminding the reader of the democratic credentials of the Aristide Government as a result of the December 16 elections, and of the obligation of other democracies to contribute to the reinforcement of Haiti's new democracy, a quick recap of the main socio-economic indicators (GNP, caloric intake, infant mortality, literacy, etc.).

CHAPTER II: FONDAMENTAL PRINCIPLES. "Justice, participation, transparence" are defined. GOH will focus the country's resources on satisfaction of "essential needs" of the population so as to build "a new democratic society politically stable, economically strong and socially just". It intends to establish the full confidence of both Haitians and foreigners in the management of the commonweal.

CHAPTER III: RECENT (ECONOMIC) EVOLUTION: A quick review of the economic decline of the 1980s, in which seems purposely, and slyly hidden, a nugget which, it taken at its word, calls for a return to the economic policies and reforms of 1986-87: "To redress the pre-1986 economic situation and to obtain a more efficient allocation of resources, and an amelioration of the country's competitivity with an eye toward sustainable growth, a medium-term adjustment program was put in place. The measures taken had convincing macroeconomic results".

Among measures already taken by the new GOH, better internal revenue collection, elimination of 20% surrender requirement on foreign transfers, de facto "elimination" of import licences, and reduction of import duties on rice.

CHAPTER IV: MEDIUM-TERM (1991-1994) OBJECTIVES

3% annual GDP growth
Reduction in unemployment
Reduction in inflation rate so as to not exceed principal commercial partners.

To achieve the above, there must be growth in two key sectors: agriculture, and export industries. There must also be a major restructuring of the governmental apparatus.

Note. Elsewhere in the chapter, the main lines are re-visited as follows: "a real increase in agricultural production. Import substitution under reasonably competitive conditions, and promotions of exports both traditional and non traditional..., and a significant recovery of the tourist sector."

CHAPTER V: ECONOMIC POLICY. Main themes will be:

Redistribution of income

Accent on progressive tax system
Reaffectation of GOH expenditures toward education and health
In short term, priority to macroeconomic stabilization in order to create the conditions necessary for a renewal of growth: focus on revenue enhancement, and on the administrative reforms needed. Also an appeal to immediate technical assistance in the area of tax reform and administration.
Goal: Bring fiscal revenues from present 9% to 13% "in the medium term."

a Public Enterprises: to be run as commercial enterprises, not bureaucracies.

Wage bills to be cut by 15%, and 2000-3000 employees to be laid off.
Restrictions on Central Bank credit.

b. Public Secteur Investment Program

Human Resources
Environmental Protection
Physical and social Infrastructure
Crafts, rural development & tourism

c Exchange Regime & Monetary Policy. Follow-up on January 1990 partial liberalization in order to eliminate the distortions created by the dual exchange market. "The 40% surrender requirement (on export earnings) will be gradually reduced, and the subsidies to petroleum products reduced as well". The reserve requirements on bank deposits will be reduced so as to lower interest rates for investment, and the finances of the GOH will be put in order so as to facilitate the issuance of financial instruments by the Treasury and the public enterprises. Public agricultural credit bank will be created with the financing of donors.

d. Trade Policy: Competitivity will be maintained through exchange gains to be realized by exporters and by control of production costs (read wages, port charges, electricity and other infrastructure, etc.).

e. External Cooperation: "Must fit into the framework of the GOH's economic policy. It must become a component, and not an independant slice, of the overall program." It will seek to open up aid to Haiti from new partners - same applies to commerce.

f. Food Aid: Must be reoriented to take into account the nutritional needs of the population, its dietary habits, and the equilibrium of the domestic market

Note. Seems to be put in question the whole food program as currently structured, with "dietary habits" and domestic market equilibrium being code words for Minotorie's survival.

"Food for Work" programs will have to be rethought out so as to take into account the preferences of the target populations.

g. Private Sector Policy: GOH will take all necessary steps to assist the private sector and to contribute to a vigorous recovery of private investment. Inter alia, GOH will assure that the public sector's role is complementary to, not in competition with, private initiative. Also needed are simplification of administrative procedures for importing and exporting and for starting new businesses; elimination of special privileges once accorded to certain sectors (read individuals); and a new mechanism for permanent GOH-private sector policy dialogue.

h. Foreign Investment: to be encouraged.

i. Sectoral Policies:

1. Agriculture: the first priority of the GOH is "a certain food security"
   Exports
   Increase prices paid to the producers (vs. intermediaries)
   Distribution of public lands to small famrers.

2. Industry:

   End to "excessive protection" of the past to producers for domestic market, "expose them a bit more to international competition."
   Focus on small and micro-enterprises.

3. Education:

   Fonctional literacy
   Professional and vocational training
   Schooling for all school-age children

4. Health

   Substantial reductions in maternal, infant and child mortality rates
   AIDS
   Better cost/efficiency of health services

5. Basic Infrastructure: To pay equal attention to major axes and to secondary penetrations.

6. Energy: Concentration on new sources of conventional and non-conventional energy.

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CONDITIONALITY

FY 1990 TOTAL ESF OBLIGATIONS – $995,700

CONDITIONS PRECEDENT TO DISBURSEMENT

A. A letter from the Government of Guyana describing progress to date in implementing its Economic Recovery Program and its planned policy actions and quantitative targets for the period 1990 and 1991.

B. Within the context of the arrangements agreed to by the Support Group for the clearance of Guyana's arrears, evidence that Guyana has secured adequate external assistance that will enable it to immediately, upon disbursement of this Grant, repay in full any amount of arrears to the IMF, the International Bank for Reconstruction and Development and the Caribbean Developmemt Bank.

FY 1991 FY 1991 TOTAL ESF OBLIGATIONS – $300,000

THIS GRANT AGREEMENT WAS AN AMENDMENT INCREASING FY 1990 FUNDS

CONDITIONS PRECEDENT TO DISBURSEMENT

A. The Government of Guyana and AID reaffirm their commitments to jointly review the progress of the GOG's Economic Recovery Program on a regular periodic basis.

B. No local currency counterpart deposit shall be required in connection with the funds granted by this amendment.

C. The terminal date for requesting disbursement was changed to 8/28/91, and was changed a second time to 11/15/92.

ACHIEVEMENTS

1990–91

A. ESF cash transfer disbursements were made in the summer of 1990, after GOG presented a copy of its Economic Recovery Program.

B. The Economic Recovery Program, instituted by GOG and supported by the IMF, included a free foreign exchange market, divestment of state enterprises, tax reform, trade liberalization, and elimination of subsidies. The results are as follows:

1. In March 1990 the GOG legalized a floating exchange rate market. In Feb. 1991, the GOG linked the official exchange rate to the market rate, therefore fully liberalizing the foreign exchange regime. Rapid depreciation of the Guyana dollar resulted and contributed to high inflation in '90 & '91. By mid–1991 the foreign exchange market had adjusted, and inflation dropped approx. 20% by the end of 1991.
2. Guyana adopted the CARICOM common external tariff in 1991, and duty on most goods varies from 5 to 45%; there are higher duties on tobacco, alcohol, and other luxuries. The GOG had also announced it will eliminate all import licensing requirements.
3. Divestment of state enterprises: GOG has made asset sales in the rice, forestry, and telecomunications sectors, and begun negotiation for private management of the sugar industry. State–owned bauxite mines and the electric company are to be auctioned.
4. Tax reform: In early 1991 the GOG reduced personal income tax rates. The tax tables were reduced to 3 bands, with marginal rates of 20, 30, and 40%. Effective January 1, 1992 corporate taxes were reduced from 55% to 35%.
5. In terms of arrears clearing with the IFIs, the IMF October 1991 policy framework with the GOG stated that, despite past rescheduling and reduction of debt, Guyana's Economic program could be hindered if the debt service burden is not further reduced in the next few years.

1991 (continued)

A. ESF cash transfer disbursement for the US$ 300,000 amendment was suspended. GOG had not satisfied USG foreign policy concerns over the electoral process in Guyana. Hold remained in effect contingent on free and fair elections scheduled October 5, 1992. Elections were held and funds could be released in November 1992.

Current Economic Status (1992)

A. Overall, the Economic Recovery Program now appears on track, despite past problems. The program is starting to revitalize the private sector and GDP growth is expected to be between 5.5 and 6% and inflation should drop to about 1% a year.

USAID Guyana ESF Cash Transfer Programs
Mission's Goals and Accomplishments

The Mission's fundamental goal was to assist the Government of Guyana to implement its Economic Recovery Program, through providing funds which contribute to the Support Group's objective of clearing debt arrearage on official bilateral and multilateral loans, therein reinstating Guyana's eligibility to receive additional support from the donor community.

So far we have provided US$ 995,700 to the Government of Guyana, therein reducing their arrearage by this amount.

The Government of Guyana over the last year has significantly improved its relationship with the international community, and has been receiving additional financial support to continue to implement its economic recovery program. USAID will disburse another US$ 300,000 this year, and most likely another US$ 1.1 million next year.

CONDITIONALITY

FY 1988 TOTAL ESF OBLIGATION – $ 85,000,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. Evidence that the GOCR has approved and is implementing an economic plan for 1988.

CONDITIONS PRECENDENT TO SUBSEQUENT DISBURSEMENT

A. Prior to any subsequent disbursement the GOCR shall furnish evidence of satisfactory compliance with the economic plan for 1988.

FY 1989 TOTAL ESF OBLIGATION – $ 85,000,000

CONDITIONS PRECENDENT TO FIRST DISBURSEMENT

A. Evidence that the GOCR has approved and is implementing an economic plan for 1989.

B. A calendar for reducing and eliminating during calendar year 1989 any outstanding arrearages under the existing AID loan agreements and Housing Investment Guaranties (HIG).

CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

A. The GOCR shall furnish evidence of satisfactory compliance with the economic plan for 1989.

B. Evidence that the GOCR is complying with its calendar for reducing and eliminating any outstanding arrearages under the AID loan agreements and HIG.

FY 1990 TOTAL ESF OBLIGATION – $ 60,000,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. That disbursements from the Separate Account will be made to the IMF Administered Contribution Account, established by the IMF to assist Costa Rica in reducing and refinancing its public sector indebtedness to nonfinancial creditors under the terms and conditions set forth in the Republic of Costa Rica, 1989 financing package.

B. That the IMF has been instructed to promptly confirm in writing to AID a) the date and amount of the AID contribution received and b) the receipt of instructions by Costa Rica and certified by Costa Rica to be in accordance with the terms and conditions set forth in the Costa Rica financing package of 1989.

CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

A. Evidence that the GOCR has approved and is implementing an economic plan for 1990.

CONDITIONS PRECEDENT TO THIRD DISBURSEMENT

A. The GOCR shall furnish to AID evidence of substantial compliance with the economic stabilization and structural adjustment program for 1990.

CONDITIONS PRECEDENT TO FINAL DISBURSEMENT

A. Evidence of continued substantial compliance with the stabilization and structural adjustment program for 1990.

B. Evidence of satisfactory progress toward addressing issues identified by USAID that affect planning for the GOCR's 1991 economic program.

FY 1991 TOTAL ESF OBLIGATION – $ 24,000,000

ACHIEVMENTS

FY 1988 (First Tranche)

A. GOCR provided evidence that it had approved an economic plan and that it was successfully implementing that plan. Of five major macro-economic targets, three were met by the govt. and two others were not met but AID judged that sufficient progress had been made in meeting the targets to justify disbursement of funds.

FY 1988 (Second Tranche)

A. The GOCR substantially met the targets of its economic program. The only target that was missed by a significant margin was the one for net international reserves of the Central Bank. But overall economic performance was determined by AID to be within acceptable limits.

B. For 1988 as a whole, the fiscal deficit was 3.6% of GDP, inflation was 20.8%; GDP growth was 3.4%; and net international reserves fell $139.1 million.

FY 1989 (First Tranche)

A. The GOCR provided USAID with a copy of its letter of intent with the IMF which outlined an economic program for 1989 with standard IMF targets. The GOCR's early performance under the program was acceptable to AID. By June 1989, the GOCR had met or come close to meeting all of the targets set for the first six months of CY 1989 for its economic program. Disbursement occured as scheduled.

FY 1989 (Second Tranche)

A. Based on achievements as of June 1989, the GOCR had met 4 of the 5 major targets of its economic plan. The only target not met was the limit on the stock of external payments arrears. AID determined that it had substantially complied with the conditions precedent for disbursement.

FY 1989 (Third Tranche)

A. As of 9/89, $20 million established for a 3rd tranche were not disbursed because of unsatisfactory progress in settling 9 cases in which the properties of US citizens were expropriated.

B. For 1989 as a whole, the fiscal deficit rose sharply to 5.5% of GDP, inflation fell to 16.5%; GDP growth rose significantly to 5.6%; and net international reserves fell by just under $100 million.

FY 1990 (First Tranche)

A. Disbursement occured as scheduled as part of the multidonor commercial debt reduction package managed by the IMF.

FY 1990 (Second Tranche)

A. The second disbursement occured (including half of carry over of FY 1989) following the GOCR's assurance of plans to deal with outstanding expropriation cases and following the successful completion of GOCR economic program for 1989–which proposed, among other things, to increase utility rates for electricity and water and to increase prices for petroleum products, reform the naton's tax system, and to reduce the wage bill of the public sector.

CONDITIONS PRECEDENT TO DISBURSEMENT

A. Evidence of substantial compliance with the goals of the macroeconomic stabilization program for 1991.

B. Submission of a plan acceptable to AID and the implementation of measures that do not require legislation as evidence that the Central Bank will commit itself to: a) not subsidize foreign exchange operations b) not assume the exchange rate risk related to long-term credit transactions c) not finance the Govt. nor other public sector institutions either directly nor through state banks, except through the purchase of Treasury Bills; and d) not to participate in international clearing payment systems that involve the accumulation of credits to other countries.

D. A plan to liberalize foreign trade that includes a schedule for tariff changes which demonstrates the Govt's determination to arrive, based on an agreement of the Central American countries on the subject, at a maximum tariff of 20% as a general rule and a minimum tariff of 5% to 10% by 1992 and a maximum tariff of 20% for all products by 1994.

E. Evidence that the negotiations with the World Bank for a SAL III have begun.

F. Evidence that a study has been initiated to rationalize exonerations which will lead to a scheduled implementation plan.

G. Initiation of negotiations with the United States Government for a Bilateral Investment Treaty.

H. A copy of a request to the IDB to perform an analysis of the investment

I. Evidence of the reduction of public employment by 4,000 employess and a demonstration that the target of 7,000 positions will be accomplished by the end of 1991.

J. Evidence of the submission of legislation to the Legislative Assembly that will allow the sale of 100% of CODESA's subsidiaries to the private sector; submit evidence that CODESA will be physically closed down by June 30, 1991, and submit to AID a privatization plan that will include regulatory and administrative measures that will be taken to complete privatization of CODESA's assets, including different alternatives to finance the privatization of FERTICA and CEMPASA

K. Evidence of the submission to the Legislative Assembly of a law on a complementary pension system.

L. An action plan to improve the control and administration of the special pension systems of the public sector and control the complementary pension system of the private sector.

M. Evidence of the submission to the Legislative Assembly of a law to regulate labor dictums (LAUDOS).

FY 1990 (Third Tranche)

A. The new Calderon administration aggressively pursued sound economic policies during its first few months, substantially complying with its economic program. The most problematic area for the new administration has been that of public sector finances, which had been strained by excessive govt. employment. But realized and planned progress in this area which was satisfactory to AID for the purposes of the third tranche disbursement.

FY 1990 (Fourth Tranche)

A. The 1990 PAAD mentioned that the other half of FY 1989 carry over funds would be disbursed upon satisfactory progress in settling outstanding expropriation cases. This disbursement was not made in FY 1990.

B. For 1990 as a whole, the fiscal deficit fell slightly to 4.9% of GDP, inflation rose slightly to 19%; GDP growth fell to 3.7%; and net international reserves rose impressively by $784.1 million.

FY 1991 (First Tranche)

A. In March 1991, the GOCR signed a Stand-by agreement with the IMF. After substantially complying with the economic program it had agreed to with the IMF-which included standard IMF macroeconomic targets, trade liberalization, increased foreign investment, and increased public sector efficiency-disbursement of funds was made as scheduled.

B. For 1991 as a whole, the fiscal deficit was 2% of GDP. At the same time, inflation rose sharply to 25.3%; GDP growth fell sharply to 2.1%; and net international reserves rose sharply again to $693.3 million.

Current Economic Status (1992)

A. In March 1992, the GOCR and the IMF agreed to extend the Stand-by agreement that began in March 1991. Since then the GOCR has generally not been able to meet the IMF targets (although the govt. has come close to meeting many of them). The current Stand-by arrangement expires at the end of Sept. 1992. The IMF has said that it will not begin another Stand-by arrangement until the GOCR eliminates its arrears on Paris Club debt.

B. The FY 1992 ESF cash transfer was $10 million (for GOCR efforts in trade and investment). The cash transfer was disbursed in November 1992.

ESF PROGRAM IN COSTA RICA
GOALS AND ACCOMPLISHMENTS

The Economic Support Funds for Economic Stabilization and Recovery have played a decisive role in the progress of Costa Rica towards economic stabilization and recovery. These resources have enabled Costa Rica to sustain higher growth rates than would otherwise have been attainable. Equally important, they have been disbursed against appropriate benchmarks in the implementation of economic programs that have been sufficiently credible to merit broad support from the International Monetary Fund and World Bank, among others. Beginning in 1982, A.I.D. has signed ESR Agreements with Costa Rica for a total of $970 million, all of which has been disbursed except for $10 million of the ESR VIII funds.

The design of the Costa Rican ESF program has been influenced mainly by: 1) the economic crisis of the early 1980's, due in large part to the country's previous interventionist economic policies, 2) A.I.D.'s general Central American development strategy; and 3) U.S. political interests in Central America. Through its ESF programs, A.I.D., in conjunction with other international donors, has supported a major adjustment effort accompanied by macroeconomic and structural reforms essential to achieving sustainable long-term growth. The dollars that have been disbursed have increased the amount of foreign exchange available to the private productive sector.

The economic measures that support the Program are concentrated in three areas: macroeconomic adjustments; a more open economy, through market liberalization for private investment and both domestic and foreign trade; and a more efficient, less costly public sector.

The ESF assistance package has supported restructuring efforts and has been directed at policy reform objectives which emphasize broad based and sustainable economic growth. Among the achievements of the macroeconomic reform program are substantial liberalization in the financial system including a unified, market-based exchange rate; maintenance of positive deposit and lending real interest rates; a substantial reduction in the public sector deficit; passage of a monetary reform law which improved the competitive position of private banks in a state-bank-dominated system; a comprehensive tax law that reduced high marginal income tax rates; and privatization and/or liquidation of state owned enterprises. The government has met most of the fiscal, monetary, and balance-of-payment targets it set to provide a stable macroeconomic environment.

Costa Rica's large debt burden, one of the highest per capita debt burdens in the world, has somewhat clouded the economic environment. Allowing U.S. dollars that are disbursed against appropriate progress benchmarks in economic reform to be utilized for debt reduction has enhanced Costa Rica's creditworthiness by diminishing the debt overhang that continues to affect confidence in the economy. Investor confidence was further enhanced by the November 1989 agreement with the commercial banks on a comprehensive debt reduction program and the 1990 Paris Club Agreement for debt restructuring. The GOCR plans to eliminate all arrears on debt service to members of the Paris Club by 30 Mar 93.

Central to A.I.D.'s strategy has been the need to shift the Costa Rican economy from an import substitution strategy to one that emphasizes policies that promote efficiency in resource allocation. This, in particular, has meant elimination of the anti-export bias formerly implicit in Costa Rica's tax system and in its monetary and exchange rate regime. A.I.D. policy reform efforts focused on removing inefficient constraints to private sector investment and production. As a result, private sector exports, particularly new, non-traditional exports (NTE) have expanded sharply. Reflecting this, NTEs grew by some 17% per year over the past five years (85-90) and averaged over 30% annual growth to non-Central American Common Market countries during the same period. The elimination of the anti-export bias has helped to increase significantly Costa Rica's ability to earn the foreign exchange needed to underwrite growth in its productive capacity and socioeconomic infrastructure.

Recent accomplishments for the liberalization of the trade regime include a gradual reduction in the maximum tariff form its previous level of 40% to 27.6% as of June 1992, a law to regulate tariff exonerations, and a commitment by the GOCR to reduce domestic price controls and limits on profit margins except for a short list of commodities.

On an international level, other measures taken to liberalize trade and promote investment are accession to GATT; initiation of free trade discussions with the U.S., Mexico, Venezuela and Colombia; and signature of a tax exchange information agreement with the U.S.

The ESF program has helped permit the Costa Rican private sector to finance imports from the U.S. In a small, open economy such as Costa Rica, these imports have provided critical raw materials, intermediate goods, spare parts and capital equipment which have allowed Costa Rica to achieve a higher rate of economic growth than would otherwise have been possible.

Program reforms to increase efficiency of the public sector have entailed public sector employment reductions and a major reduction in the number of GOCR agencies. In 1991 the number of public sector positions dropped by 7,000 and will most likely decrease by another 3,500 in 1992. The GOCR's commitment to attack structural problems of public finance and decrease expenditures is further illustrated by the introduction of legislation to curtail public sector pensions and the increase in the retirement age under the social security system by five years. The GOCR has also taken significant measures to improve efficiency in the agricultural and transport sectors.

These achievements in turn have contributed to the solid economic recovery which Costa Rica has experienced since 1983 and a resurgence in the country's belief in its possibilities for continued long term growth and development. GDP growth averaged 4.5% over the period 1984-88, even as Costa Rica implemented its major economic restructuring program and is expected to be near 4.0% in 1992. This growth in GDP has resulted in tremendous gains in private sector employment. The labor market can be characterized as one of full employment with rising real wages. Monetary restraints have resulted in a downward trend in inflation.

In summary, Costa Rica has been highly successful in implementing a comprehensive financial stabilization and structural adjustment program. Foreign assistance, in large part from the United States, has contributed in a major way to the success of the stabilization effort.

CONDITIONALITY

FY 1990 July 3RD ESF OBLIGATION – $ 243,850,000

This agreement provides financial support for the GOP to implement policy reforms for economic recovery and to help restore the credit worthiness of the Panamanian public sector. The Economic Recovery Program consists of two subprograms: 1) Normalization of Panama's relations with the international financial institutions
2) Support of the public investment budget of the GOP

CONDITIONS PRECEDENT TO DISBURSEMENT FOR THE IFI's SUBPROGRAM

A. Evidence of the adoption by the GOP of a short-term economic stabilization program that meets the requirements for a Stand-by program with the International Monetary Fund.

B. A letter stating that the GOP has set aside $130 million to be used as Panama's contribution to the clearing of arrears with the IFIs.

C. Evidence that no additional arrears to the IFIs have accumulated beyond those payments overdue as of December 31, 1989, later amended to March 31, 1990, or such other date agreed to by A.I.D. in writing.

D. Evidence that the Panama Support Group (the group of international donors formed to assist Panama in normalizing its relations with IFIs) has identified sources of funding sufficient to repay the full amount of the GOP's arrears with IFIs and is ready to proceed with clearing the arrearages.

CONDITIONS PRECEDENT TO 1ST DISBURSEMENT FOR BUDGET SUPPORT

A. A plan to manage public sector finances, describing actions already taken and projections for the medium term with respect to revenues, expenditures salaries, savings, reduction of internal debt, and investment.

B. A letter identifying the first public enterprises to be privatized under the GOP's economic program and describing a plan to implement these privatizations.

C. A plan to lower tariffs, eliminate quantitative trade restrictions, and reduce the number of products subject to price control as part of a strategy for commercial and trade policies.

D. A plan to improve the competitiveness of Panamanian products in world markets.

CONDITIONS PRECEDENT TO 2ND DISBURSEMENT FOR BUDGET SUPPORT

A. Evidence that Panama has reached an agreement on a medium-term economic reactivation program supported by the International Bank for Reconstruction and Development and the IDB.

B. Evidence of acceptable progress in implementing policy reforms in the areas of public sector finances, privatization, labor policy and trade and commercial policy, as relates to the plans and programs identified in the conditions of the first disbursement.

C. Evidence that the GOP has reached agreement with the Government of the U.S. for exchanging records on international currency transactions in connection with narcotics investigations and proceedings and is making progress towards signing a Mutual Legal Assistance Treaty.

CONDITIONS PRECEDENT TO 3RD DISBURSEMENT FOR BUDGET SUPPORT

A. Evidence that Panama has received the first tranches of assistance from the International Bank for Reconstruction and Development and the

ACHIEVEMENTS

IFIs Sub Program

A. An 18-month Fund-monitored program was endorsed by the IMF on Sept. 12, 1990. An economic and financial program for 1992-93 was agreed to with IMF Jan. 1992. The IMF approved a Stand-by arrangement for SDR 93.7 million and and a purchase (loan) of SDR 35 million in Feb. 1992

B. GOP certified on Dec. 1991 that $130 million was deposited in Federal Reserve Bank to contribute to arrears clearing.

C. GOP certifies on Dec. 1990 that no additional arrearages were accumulated beyond payments overdue as of March 31, 1990.

D. Attorney-Advisor of US Treasury Dept certified Jan. 27, 1992 that sources of sufficient funding to repay full amount of arrearages with IFIs had been identified and were ready to proceed. Arrears clearing was completed Jan. 31, 1992.

Budget Support Sub Program (First Disbursement)

First disbursement was approved on Oct. 19, 1990.

A. Plan aimed at restoring public finances was submitted Oct. 17, 1990. It targeted a reduction in the overall deficit of the non-financial public sector from an average of 20.75% of GDP in 1988-89 to about 7% in 1990 and 5.25% in 1991. Public sector deficit is expected to be reduced to around 2% of GDP in subsequent years. Key components of plan included:
1. GOP undertakes efforts to improve tax admin. and proposes revision of the tax structure.
2. GOP will reduce staffing levels, eliminate bonuses, reduce the maximum salaries of govt. workers, and eliminate double compensation.
3. Improved financial performance of govt. enterprises through the sale or closure of some govt. enterprises, higher rates for public services, and a reduction in operating costs.
4. Improved financial position of Social Security Agency through a reduction of pensions, adjustment in the retirement formula and in retirement ages, and reimbursement to the agency for public health expenditures for non-covered beneficiaries.
5. Improved savings and investment: Savings are projected to increase from a negative level of 10% of GDP in 1989 to -5% in 1990, and -2% in 1991 -- reaching a positive level in 1992. This will permit substantial increases in investment outlays and a reduction of intarnal debt.

B. First five public enterprises planned for privatizations: Air Panama, Citricos de Chiriqui, Instituto de Seguro Agropecuario, Corporacion Bananera del Atlantico and Ferrocarril de Panama. Privatization Plan includes identification and definition of future public enterprises that will be subject to privatization, and creation of a technical unit within the Ministry of Planning and Economic Policy to support the Privatization Commission, and a description of the various steps, phases and requirements of the privatization process.

C. The National Development Strategy, the Directives for Development and Economic Modernization, and Cabinet Resolution #48 (approving the Govt's economic policy measures), show how the GOP plans to complete tariffs and trade reform.

IDB in support of a medium-term economic reactivation program.

B. Evidence of satisfactory progress towards signing a Mutual Legal Assistance Treaty.

C. Evidence of acceptable progress in implementing policy reforms in the areas of public sector finances, privatization, labor policy, and trade and commercial policy as relates to the plans identified in conditions to the first disbursement.

FY 1990 JULY 24

(This agreement provides financial support for the GOP's program to reactivate the banking system and ESF OBLIGATION - $ 107,900,000

CONDITIONS PRECEDENT TO DISBURSEMENT OF FUNDS FROM BNP FOR REFLOWS AFTER TWO YEARS FROM THE DATE OF SIGNING AGREEMENT

A. A.I.D. and the GOP shall carry out a joint review of progress on implementation of the GOP's Economic Recovery Program. Subsequent disbursements of reflows, except for repayment of non-military U.S. Government bilateral debt, held in the separate account for Reflows in the Banco Nacional de Panama (BNP) established for this purpose shall be subject to a determination by A.I.D. of satisfactory progress on the Economic Recovery Program.

The GOP's plan was as follows:

1. Reducing tariffs for industrial products in 4 tranches over a 3 year period -- starting Jan. 1991 -- to a level of 60% to 90% ad valorem CIF for most products.
2. Maintaining current system of protection for agricultural products for 30 months, after which, the quota system will be replaced with a tariff system and after 2-3 years this protection will be reduced to a range of 60% to 90%.
3. Eliminating import quotas on beans, other legumes, wheat, flour, cornmeal yeast, refined cooking oil, cheese, and beef in 1991; and for all remaining agricultural products between 1991 and 1993.
4. Eliminating price controls on all unrestricted products. The GOP will eliminate price controls on approx. 18 items including beans, legumes, bread, and rice by Nov 1990. Root crops and plantain price controls will be eliminated by Dec. 1990. Grade A eggs, industrial tomatoes, and fish price controls will be eliminated by Jan. 1991. It is expected that by June 1991 price controls on most products will be removed.

D. Key elements of the plan to improve competitiveness of Panamanian products:

1. Adjustments in existing labor legislation aimed at reducing excessive costs for firing workers; administration costs and lengthy litigation costs will be implemented between Dec. 1990 & June 1991.
2. Improvement in the efficiency of port operations to reduce handling costs in the country's ports, to be accomplished over a 3-year period.
3. Reduction in transport costs, by eliminating monopolies and reducing fuel costs. Restrictions to increased competition are programmed for elimination by Jan. 1991.
4. Reduction in the costs of services provided by basic public utilities ie. water, electricity, and telecom to be accomplished over a 3-year period.
5. Promotion and creation of mulit-sectoral export processing zones.

Budget Support Sub Program (Second Disbursement)

Second Disbursement was approved on Jan. 15, 1992

A. On Dec. 10, 1991 the GOP negotiated with the IBRD and IDB for an Economic Recovery Loan and Program for Public Enterprise Reform. Implementation would be over the medium-term (1992-93). Key elements of program include:

1. Reduction of 19,000 positions in public sector employment through voluntary separation packages, attrition, and privatization of public enterprises.
2. Maintaining public sector wage bill in nominal terms at 1991 level in 1992 ($820 million) and reducing it to $765 million in 1993.
3. Reduction of General Government current expenditures from 32% of GDP in 1991 to 30.7% in 1992 and 29% in 1993.
4. Privatize INTEL and improve efficiency of Cristobal and Balboa ports. Implement privatization of some port functions through concessions and leases.
5. Increase public sector investment from about 1.3% of GDP in 1990 to 2.4% in 1991.
6. Simplify tax system to promote efficiency and equity (Law passed Dec. 1991)
7. Reduction of import tariff rate ceiling to 40% for industry and to 50% for agroindustry by Jan. 1993; later changed to March 1993 in the agreements reached with the IFIs; phasing out price controls and quantitative import restrictions for agricultural products and substituting tariff protection. Eliminating all export restrictions.
8. Reform Social Security System.

B. Progress in reforming public finance sector, Privatization, Trade, and Competitiveness:

1. Public Finance: Overall public sector deficit reduced to about 2.6% of GDP; Saving in public sector was −3% of GDP in 1991; Tax reform law approved by Legislative Assembly; govt. subsidies on petroleum products eliminated; law approved reforming Social Security System; electricity tariffs cut by up to 10% to industrial customers and to households using less than 220 kwh/month.
2. Privatization: Draft privatization law under consideration; negotiations of Air Panama privatization currently underway.
3. Price controls eliminated on more than 90 food products, some 20 household products and 18 medical and pharmaceutical products.
4. Improved Competitiveness: Enabling law for creation of export processing zones approved by Legislative Assembly; newly created export processing zones exempted from some provisions of the existing labor code; tripartite ad-hoc commission established to review provisions of labor code.

C. International Currency regulation with respect to narcotics: Law #20 approved July 1991 ratified Treaty with US.

Budget Support Sub Program (Third Disbursement)

A. First tranche from the IBRD in amount of $60 million deposited in Federal Reserve Bank of New York in January 1992; first tranche of IDB in amount of $50 million deposited in the Federal Reserve Bank on New York Sept 1992.
B. Mutual Legal Assistance Treaty: Signed April 11, 1991 and ratified by Panama on July 22, 1991.
C. Progress in reforming public finance sector, privatization, labor, trade, and competitiveness: GOP is currently preparing substantiating documentation on progress achieved subsequent to disbursement of second tranche.

Second ESF grant agreement signed July 22, 1990 – achievements with respect to progress of Economic Recovery Program are attached.

Current Economic Situation (1992)

A. Arrears with IFIs cleared in Jan. 1992. GOP was able to request an upper credit tranche Stand-by arrangement for 22 months (SDR 93.7 million) on Jan. 27,1992
B. Privatization law passed in July 1992; in accordance with the privatization law, a new unit in the Ministry of Finance and Treasury is now responsible for privatization activity. This unit started work in Sept. 1992 when an Executive Director was named. Air Panama has been privatized and a concession for some services provided by the Garbage Collection Agency (DIMA) were put up for bid; however, the contract has not been awarded due to disputes over the proposed contract award.
C. GOP set import tariffs at 60% for manufactured goods and 90% for ag. and agroindustrial goods in Aug. 1991. Quantitative export restrictions were eliminated in Sept 1991.
D. As of June 1992, price controls on some 93 food products, 19 household goods, and 18 pharmaceuticals have been freed.
E. Social Security Reform law passed Dec. 1991
F. Tax Reform Law passed in December 1991.

B. **Private Sector Reactivation Program No. 0304**

Section 2.4 Conditions Precedent to Disbursement of Funds from BNP Separate Account for Reflows after Two Years from Date of Signing of the Agreement.

Prior to disbursement of funds from the BNP Separate Account for Reflows, after two years from the date of signing of this agreement, A.I.D. and the Grantee shall carry out a joint review of progress on implementation of the Grantee's Economic Recovery Program. Subsequent disbursements of reflows, except for repayment of non-military U.S. Government bilateral debt, held in the Separate Account for Reflows in the BNP established for this purpose shall be subject to a determination by A.I.D. of satisfactory progress on the Economic Recovery Program.

1. Details of the GOP's Economic Recovery Program

a. *Public Sector Reforms*

i) Public Employment and Public Sector Finances

A public employment reduction program will be implemented. This program is based on the implementation of the following mechanism: offers of voluntary separation packages, which are in part to be financed externally by bilateral donors and multilateral institutions, the non-replacement of a large share of retiring employees, normal retirement as well as privatization. This will result in a reduction of about 19,000 positions of which around 11,000 are expected to be under the voluntary separation program.

Recommendations will be made by a new Personnel Office on whether to fill vacancies created by resignations or retirements. New hires will normally receive 10% below those of previously employed personnel.

The public sector wage bill will not exceed in 1992 in nominal terms the estimated level for 1991, i.e., $820 million (all wage bill targets include the XIIIth month salary and automatic wage increases), and it will decline in 1993 to $765 million.

Current expenditures of General Government are projected to decline from 32% of GDP in 1991 to 30.7% in 1992 and to 29% in 1993.

The percentage rates of General Government savings would be -3.2, -1.6 and +0.5 for 1991, 1992 and 1993, respectively, and the percentage rate set forth for public sector investment would be 2.4.

The GOP introduced several mechanisms in 1991 to reduce the wage bill. These include freezing vacancies that existed as of March

31, 1991, initiating voluntary separation packages for public employees with severance payments, not filling all posts that are planned to be vacated during the program period, and privatizing public enterprises.

ii) Public Sector Enterprises

Introduce reforms that support efforts to reduce costs, improve quality, and increase the coverage and reliability of public services.

Private sector participation is to be promoted. Improvements in operating and administrative efficiency will be implemented. Non-technical losses are to be reduced.

Reforms of the procurement and budgetary practices are also planned. For this, an enabling law will need to be passed.

iii) Hydroelectric and Electric Energy Resources Institute (IRHE) and National Water and Sewerage Institute (IDAAN)

Programs will be implemented to improve labor productivity and reduce costs; steps will be taken to reduce current outlays, enhance revenue collection, and improve metering, billing and collection.

A regulatory framework will be establish for the electric sector, enabling the privatization of future investments.

Managerial improvements will be introduced to achieve administrative and financial autonomy.

The GOP has prepared action plans to strengthen IRHE's and IDAAN's finances and to improve its managerial practices.

b. Privatization Program

Transfer of some non-basic services and future expansion programs of IRHE and IDAAN to the private sector. Legislation would be submitted to Congress on a regulatory framework for privatization

The Privatization Law was passed in July 1992. A Privatization Committee at the Ministry of Planning and Economic Policy was established. This Committee has stopped functioning, and a Technical Coordinating Unit on Privatization has been established in the Ministry of Finance.

Complete transactions on the sale or liquidation of a least three of the following public companies: Air Panama, Citricos de Chiriqui, Cemento Bayano, Victoria Sugar Mills, Instituto de Seguro Agropecuario, COBANA, COBAPA or others.

Air Panama and the Garbage Collection Agency (DIMA) have been privatized.

National Telecommunications Institute (INTEL): Action plan will be implemented to restructure the telecommunications sector, introduce competition, and privatize INTEL. The GOP will create a regulatory commission to foster competition in the telecommunications sector, grant licenses for the operation of services, regulate tariffs, attend to public complaints, and regulate operations. A new law will be presented to Congress for approval which will restructure the telecommunications sector and enable INTEL's privatization.

National Port Authority (APN): *A program has been prepared to restructure the main ports. Steps are being taken to improve efficiency in Cristobal and Balboa. Implementation of a program to transfer port operations, equipment, and services to the private sector by means of concessions and leases has been started. Plans have been prepared for attracting private investment to other Central Corridor ports, such as in Bahia Las Minas and Coco Solo.*

c. *Public Investment*

The planned public investment program contemplates that public investment will rise from about 1.3 percent of GDP in 1990 to an estimated 2.4 percent in 1991. The program features power and transport investments. The program consists of well-designed, high-priority projects. In 1992-93, financing for the public investment program will come from increased public savings, the public sector's accumulated cash surplus at the National Bank of Panama, and expected disbursements from the multilateral financial institutions.

d. *Tax Reform*

A draft law to Congress would need to be submitted to rationalize and simplify the tax system in order to promote efficiency and equity and to reduce disincentives to working, investing and saving. *Law was passed on December 1991.*

e. *Trade Reform and Complementary Domestic Deregulation*

i) Trade

The trade reform program aims at reducing the level and dispersion in effective and nominal protection. It includes

- reducing the import tariff rate ceiling to 40 percent for industry and to 50 percent for agro-industry on January 1993.
- eliminating all specific import tariff rates.
- phasing out price controls and quantitative import restric-

tions for agricultural products and replacing them with tariff protection; these tariff rates will be reduced subsequently in line with the trade liberalization program.

- eliminating all export restrictions.

The GOP set import tariffs at 60 percent for manufactured goods and 90 percent for agricultural and agroindustrial goods in 1991 (Cabinet Decree No. 22, Gaceta Oficial No. 21.842, August 1, 1991). These ceilings apply to both ad valorem rates and to the ad valorem equivalent of existing specific rates. The GOP has been working on the conversion of specific rates to ad valorem rates. Quantitative export restriction were eliminated in September 1991.

ii) Domestic Deregulation

Complementary domestic deregulation measures are to be introduced to free controlled domestic prices, encourage labor mobility and flexibility, improve the efficiency of public services, and move toward efficiency pricing for public services.

- Price controls on industrial products and protected agricultural products will be phased out. *As of June 1992, the price controls on some 93 food products, 19 household goods, and 18 pharmaceuticals have been freed.* The Price Control Office will be transformed into a Consumer Protection Office to address consumer complaints and disseminate information about prices and product quality.

- Adjustment to the minimum wages will be consistent with the need to encourage employment growth and with the spir t of the Economic Recovery Program. A program will be introdi ce to make labor markets more flexible and reduce non-wage labor cost.

  Some action already taken to reduce labor costs and make labor markets more flexible include the GOP designation of a third party to arbitrate on work-related issues to expedite the resolution of labor conflicts and prevent labor conficts; the autottomatic extension of collective bargaining agreements for 1991-92; the extension of collective bargaining to 3 years for newly established firms; and the establishment of a tripartite committee (representing the GOP, labor, and management) to review labor regulations that affect how labor markets operate.

f. Social Security Program

Draft legislation to reform the Social Security System would be prepared. Legal changes contemplated include: phasing out the practice of early retirement, modifying the benefit formula, introducing a program to reduce CSS's operational expenditures, shifting 0.5 percent of contribution from the medical scheme to the pension scheme, and rationalizing the integration of health care services.

Measures will be taken to eliminate the cash deficit of the social security system within 10 years without increasing the already high social security tax rate.

A reform program will be prepared to eliminate the current cash deficit of the Government Complementary Scheme. The GOP will give the Caja de Seguro Social (CSS) administrative autonomy.

Law was passed on December 1991. The reform of the social security system represents an important step in strengthening the finances of the Social Security Agency. On September 23, 1992, a Supreme Court ruled that the portion of the XIIIth month assigned to the Social Security Agency would have to be returned to the workers, thus introducing a deficit. The Controller General has presented various options to the GOP and the Congress in order to resolve this issue.

g. Financial Sector Reform

The GOP intends to rationalize the operation of public banks. The National Mortgage Bank (BHN) will stop lending, while it transfers assets to the Caja de Ahorros (CA), except for lending of funds transferred from the Ministry of Housing (MIVI). The GOP also plans to rationalize agricultural sector lending, to avoid duplications, and to restructure the agricultural development bank (BDA). The GOP will seek to capitalize the CA.

Capabilities of the National Banking Commission will be enhanced within the existing legal framework. The GOP aims at enabling this Commission to improve supervision of the banking system based on increased financial and human resources.

h. Poverty Alleviation

Share of expenditures on health and education in the 1991-92 budgets will be maintained at the 1990 level, to maintain the delivery of social services during the program period. The GOP plans to reallocate more resources toward primary health and education. A nutrition program for lactating mothers and young children will be implemented in the poorest areas.

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SUMMARY OF MISSION GOALS REGARDING ESF PROGRAMS AND ACTUAL ACCOMPLISHMENTS

A. Mission Goals

The new economic assistance to Panama included in Public Law 101-302 signed on May 25, 1990 totalled $420 million, of which $351.75 million was budgeted for the two cash-transfer programs. These were the Economic Reform Program and the Private Sector Reactivation Program.

The overall intent of the Mission with regards to the economic assistance provided to Panama was the following:

- Assist and encourage the Government of Panama in taking the necessary steps to develop and facilitate the proper functioning of a free market economy and a political democracy;

- Encourage the Government of Panama to reach agreements on exchange of records on international currency transactions in connection with narcotics investigations, and towards signing a mutual legal assistance treaty; and

- Fund projects in such areas as police services, environmental protection, child survival, health, education, private sector development, and budget support.

The purpose of the first cash-transfer program was to support the GOP in implementing policy reforms for economic recovery and adjustment and help restore the creditworthiness of the public sector. In one of its components, $130 million was provided to help Panama clear its arrears with the IFIs. In the other component, the remaining $113.85 million was earmarked for support to the public investment budget, targeting justice, education, health, and other public sectors, as well as infrastructure repairs and improvements. The conditionality specified for disbursement of these funds focus-ed on certain Mission objectives which required the GOP to:

- Adopt an economic stabilization program that would meet the requirements of the International Monetary Fund;

- Provide: i) a letter stating it had set aside $130 million as Panama's contribution to clear its arrears with the IFIs (Panama had to increase its contribution to the clearance of arrears to multilateral institutions because of loan disbursement delays and small divergences with the program assumptions in respect of total financing and the valuation of arrears. The additional Panamanian contribution amounted to $112.8 million for a total of $242.8 million); ii) a plan to manage public sector finances; iii) a plan to implement privatization of public enterprises; iv) a plan to lower tariffs; and v) a plan to improve the competitiveness of Panamanian products;

• Provide evidence of satisfactory progress towards signing a Mutual Legal Assistance Treaty; and

• Provide evidence of acceptable progress in implementing policy reforms in the areas of public sector finances, privatization, labor policy, and trade and commercial policy.

The second cash-transfer program provided $107.9 million to the Panamanian private banking system to allow for an increase: i) in medium-term credit to the productive private sector; and ii) in short-term liquidity for private Panamanian banks. Hence, the Mission goals were to provide immediate liquidity to the economy and to reactivate the banking system to permit an increase in medium and long-term credit to the private sector in Panama. This support was a necessary condition for rapid self-sustained growth dependent on the reactivation of the private sector, which in turn required both an increase in the liquidity available to the economy and a fully functioning banking sector. The program has been successfully implemented.

B. Accomplishments

By October 1990, the GOP had defined its action plan for restoring Panama's public finances and an 18-month IMF-monitored program had been endorsed by the Fund. With respect to privatization, the GOP began by defining the first five public enterprises to be privatized. In compliance with tariffs and trade conditionality the GOP adopted certain economic policy measures and provided a plan for future adjustments. To improve the competitiveness of Panamanian products, the GOP plan focused on the existing labor legislation, the efficiency of port operations, transport costs and the cost of basic public utilities.

In line with the tariffs and trade conditionality, the GOP established in early 1991 an Interinstitutional Commission for the Revision of Customs Tariffs with three objectives: i) analyze compliance with tariff reductions established for 261 product classifications included in the tariff reduction program promulgated by Law No.3 of 1986; ii) revise tariff levels to establish equivalency between specific and ad valorem duties for individual products; and establish the time phases to achieve the agreed reductions. By April 1991, ad valorem rates were set at 60% for manufactured products and 90% for agricultural goods currently produced domestically and at 20% for all new manufactured domestic production activity and 30% for all new agro-industrial domestic production activity.

A Mutual Legal Assistance Treaty was signed between Panama and the United States on April 11, 1991, and ratified by the Panamanian Legislative Assembly on July 22, 1991, which provides the legal framework for exchanging records on international currency transactions in connection with narcotics investigations and proceedings.

In December 1991, the Tax Reform Law and the Social Security Law were passed.

The GOP concluded, in late 1991, negotiations with the IBRD for its Economic Recovery Loan. The GOP's agreement with the IDB regarding its Program for Public Enterprise Reform was signed on August 12, 1992. In these agreements, targets were established and the general GOP program was given more precise direction in the various areas addressed which include: public finance, trade reform and privatization and public enterprises.

In early 1992, Panama normalized its relations with the international financial institutions, and thereby restored its creditworthiness. The combined resources from the U.S. ESF cash transfer, the GOP contribution and the Panama Support Group contribution provided the funds necessary for arrears clearing. Agreement with the IMF on the GOP's economic and financial program for 1992-93 has been reached.

Finally, in July 1992, Panama passed a general privatization law which provides the framework for future privatization of public enterprises, except for those requiring their own legislation, i.e., the Telephone Communications Agency (INTEL). It was this action by the GOP which made possible the IDB agreement mentioned above.

CONDITIONALITY

FY 1988 TOTAL ESF OBLIGATION – $ 75,000,000

CONDITIONS PRECEDENT TO DISBURSEMENT

A. A letter from the GOG describing the GOG's progress to date in implementing its economic program, the GOG's recent economic stabilization and reactivation measures, its future economic plans and goals, as well as projected dates for the achievement of such plans during calendar years 1988, 1989, 1990, and its commitment to formulate a three year plan of action to improve agriculture sector growth, with emphasis on the small farm subsector.

FY 1989 TOTAL ESF OBLIGATION – $ 69,500,000

CONDITIONS PRECEDENT TO DISBURSEMENT

A. A letter from the GOG describing the GOG's progress to date in implementing its economic program, the GOG's recent economic stabilization and reactivation measures, its future economic plans and goals, as well as projected dates for the achievement of such plans and goals during calendar years 1989, 1990, and 1991.

FY 1990 TOTAL ESF OBLIGATION – $ 50,000,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. A letter from the GOG describing the GOG's progress to date in implementing its economic program, the GOG's recent economic stabilization and reactivation measures, the economic, fiscal, and monetary programs that it faithfully undertakes to consistently carry forward in the years 1990–91, its future economic plans and goals, as well as projected dates for the achievement of such plans and goals during calendar years 1990, 1991, and 1992.

CONDITIONS PRECEDENT TO SUBSEQUENT DISBURSEMENTS

A. Prior to all subsequent disbursements of the Grant, the GOG shall furnish to AID, a letter describing the GOG's progress to date in implementing its economic program, the GOG's recent stabilization and reactivation measures, its future economic plans and goals, as well as projected dates for the achievement of such plans and goals during calendar years 1990,91, and 92.

FY 1991 TOTAL ESF OBLIGATION – $ 20,000,000

CONDITIONS PRECEDENT TO SUBSEQUENT DISBURSEMENTS

A. A signed letter of intent with the IMF and its attached memorandum of understanding.

B. Evidence that GOG has negotiated a comprehensive and workable arrangement to clear its arrears to the World Bank (IBRD) and the Inter–American Development Bank (IDB) and is up to date on payments to the IMF.

C. Evidence that a mechanism has been established to ensure that funds provided under this Agreement will be disbursed for the sole purpose of clearing the arrears referred to in

ACHIEVEMENTS

FY 1988

The GOG provided A.I.D. with a letter describing its goals and recent economic achievements. The program emphasized the reactivation of the agricultural sector through promotion of diversified exports. The program also included proposals for the rationalization of the country's fiscal and monetary policies. A.I.D. economists determined that the program was acceptable and funds were disbursed as planned.

For 1988 as a whole, the fiscal deficit was 2.7% of GDP; inflation was 11.2%; GDP growth was 3.7%; and NIR fell by $91.4 million.

FY 1989

ESF Program authorized later than planned due to the following issues:

1. The unexpected and large increase in GOG's balance of payments deficit in the 1st quarter of 1989 caused failure to meet IMF targets.
2. AID/W concerns over single versus multi–year tranche disbursements given that neither immediate performance actions nor policy reform are required of the GOG as a condition to disbursement.

GOG met the concerns raised by AID/W and even though GOG could not make a new Stand–by arrangement with the IMF, AID was satisfied that new policies inititated by GOG could rebuild the economy's international reserves base by late FY 1989.

AID agreed to a single disbursement of ESF funds for FY 1989, given the comprehensiveness and apparent commitment of the new GOG economic program, and disbursed ESF funds in August 1989.

In 1989, the fiscal deficit rose to 3.2% of GDP; inflation remained unchanged at 11.0%; GDP growth rose slightly to 4.1%; and NIR fell again (by $85.3 million).

FY 1990

FY 1990 DISBURSEMENT OF 1ST TRANCHE

A. ESF Program authorized later than planned due to the following issues:
   1. Delays, of the Bank of Guatemala, in implementing the program's tight monetary policy.
   2. The appreciation of the official exchange rate, as a result of artificialities in the operation of the auction market for foreign exchange, resulted in a spread in excess of 8% between the official and parallel rates in 7/90.

B. After GOG took steps to tighten monetary policy and to unify and depreciate the exchange rate, disbursement of funds took place in October.

FY 1990 DISBURSEMENT OF 2ND TRANCHE

A. ESF disbursement withheld because of poor implementation of monetary program Specifically, the Monetary Board expanded credit to the Central Government and Central Government expenditures rose sharply prior to the elections.

B. The remainder of FY 1990 ESF grant funds were combined with the ESF Cash transfer program for FY 1991.

In 1990 the fiscal deficit fell to 2.6% of GDP; inflation rose sharply to 41.4%; GDP growth fell slightly to 3.5%; and NIR fell again, by $9.6 million.

B) above, and that the GOG has available, together with funds provided under this Agreement, sufficient funds to fully clear arrears to the institutions named in B) above.

D. A letter from the GOG transmitting the GOG's fiscal modemization program as presented by the Finance Committee of the Guatemalan Congress to the full plenary session of that Congress, including all proposed changes in the tax regime.

FY 1991

A. Due to the over $100 million in debt service arrears to the World Bank and IDB; The remaining FY 1990 ESF and FY 1991 ESF funds were linked and conditioned in an effort for an acceptable arrears-clearing package to assure renewed lending by the IMF, Inter-American Development Bank (IDB) and the World Bank.

B. AID did not authorize ESF funds until September 1991, when GOG complied with putting in place an economic program supported by the IMF and it successfully presented an arrears-clearing package to assure renewed lending by the IMF, IDB, and the World Bank.

In 1991, the fiscal deficit fell sharply to 1.6% of GDP; inflation also fell significantly to 33.2%; and GDP growth declined slightly to 3.3%.

CURRENT ECONOMIC STATUS (1992)

During the first seven months of 1992, GDP rose slightly (on an annualized basis) to 3.5%, inflation has fallen to 10% on an annualized basis, and the fiscal deficit should fall to about 1.0% of GDP for all of 1992. At the same time, however, the Guatemalan currency has appreciated significantly in real terms and this -- combined with low export prices -- will likely result in a serious worsening in the country's trade balance. FY 1992 ESF funds currently under negotiation with the GOG. The ESF program in Guatemala is no longer a balance-of-payments cash transfer but rather related to policy agendas being negotiated with the GOG under the Democratic Initiatives and Trade and Investment programs.

USAID Guatemala ESF Cash Transfer Programs
Mission's Goals and Accomplishments

During the 1960s and 1970s, Guatemala's economy enjoyed steady growth, reflecting the impact of high prices for the country's export goods, the growth of exports within the CACM and significant inflows of foreign resources. At the same time, prudent economic policies led to low inflation rates, low external debt and maintenance of exchange rate stability.

These conditions were reversed during the first half of the 1980s. The economy stalled due to external economic factors, internal civil conflict, and distortions from an import-substitution industrialization strategy. Public sector deficit spending rose rapidly, and the growth in Central Bank credit outpaced growth in private sector demand for money. As a result, balance of payments deficits rose sharply and inflation began to accelerate, reaching over 30% by 1985.

The democratically-elected government that took office in 1986 recognized that the policies of the previous decade were seriously misdirected and that a fundamental reorientation of economic policy was needed. The ESF cash transfer program between 1986 and 1989 had as its basic purpose to sustain and deepen the democratization and development processes in Guatemala through: 1) immediate balance of payments support and 2) economic policy reform. The purpose was refocused in 1990 to confront three broad development issues that needed to be addressed if growth was to be sustained over the medium term: maintenance of stable macroeconomic policies, improvements in public sector investment efficiency and implementation of key sectoral programs.

Strong initial steps were taken to ensure macroeconomic stability and provide incentives for sustainable growth. Virtually all price controls were eliminated, the exchange rate system was simplified, tariff levels largely rationalized, and administrative procedures were streamlined. While additional policy and procedural changes are still necessary, the reform agenda was highly successful in stimulating growth. Over the period 1986-90, private sector investment increased from 8% of GDP to 10.5% in 1990. Real economic growth averaged almost 4% a year and nontraditional export growth increased from virtual stagnation throughout the first half of the 1980s to an annual average rate of almost 30% between 1986 and 1990. Inflation steadily declined from almost 40% in 1986 to only 13% in 1989.

However, slippage occurred in 1990 as presidential election year spending boomed. tax collections abruptly dropped, inflation increased to an annual rate of 60% and the floating exchange rate depreciated by a cumulative annual 61%. The failure of the GOG to implement the agreed economic program supported by the FY 1990

ESF program caused the Mission to withhold the final two tranches totalling $30 million.

The FY 1991 ESF program amended the FY 1990 ESF agreement and obligated an additional $20 million for a total FY 1991 program of $50 million. The program was to assist the GOG in restoring sustained economic growth through the maintenance of sound monetary policy, the adoption of critical fiscal reforms and the restoration of credit-worthiness with international financial intermediaries.

The newly elected GOG quickly reestablished macroeconomic stability through adopting tight monetary policy, positive real interest rates; and a unified, market-guided exchange rate. In 1991, the fiscal deficit fell sharply to 1.2% of GDP, inflation fell significantly to 33.2%; and GDP growth declined slightly to 3.3%. During the first seven months of 1992, inflation has fallen to about 10% on an annualized basis, the fiscal deficit should fall to about 0.8% of GDP for all of 1992 and GDP is expected to grow by 4%.

The fiscal reform program was a key element in the macroeconomic program developed in conjunction with the ESF Cash Transfer program. The new legislation on personal and corporate income tax, value-added tax, stamp tax, and petroleum tax which became effective as of July 1, 1992 represents the implementation of a broad-based tax modernization and reform program, including administrative changes in the tax systems.

Overall tax revenue is expected to increase from 8% of GDP in 1991, to the range of 10-12% in 1995. Subsequently, tax collections will increase in line with GDP. The new fiscal modernization system lays the base for an improved tax revenue generation system which, accompanied by an improved budgetary system, will provide better, more effective social services and investment for the benefit of the country's populace. It will contribute to the monetary stabilization program by controlling the fiscal deficit, supporting economic recovery efforts, and providing a modern tax revenue and expenditure structure.

The arrears-clearing operation is the most critical constraint to achieving stable growth over the medium term. The GOG is currently up-to-date with the IDB and IMF and the $50 million ESF cash transfer will fully clear all remaining arrears with the World Bank once the letter of intent is signed with the IMF.

CONDITIONALITY

FY 1988 TOTAL ESF OBLIGATION–$125,000,000

CONDITIONS PRECEDENT TO DISBURSEMENTS (Total of 3)

A. This assistance supports the Govt. of El Salvador's policies and programs contained in its 1988 Economic Program.

FY 1989 TOTAL ESF Obligation – $138,500,000

CONDITIONS PRECEDENT TO DISBURSEMENTS (Total of 3)

A. Disbursements will be made following the completion of a review, satisfactory to USAID, of implementation of measures included in the 1989/90 Economic Program designed to:
   1. Re–attain economic growth and financial stabilization.
   2. Promote diversification of the economy.
   3. Consolidate the agrarian reform.

FY 1990 TOTAL ESF Obligation – $97,960,000

CONDITIONS PRECEDENT TO DISBURSEMENTS (Total of 2)

A. This assistance supports the GOES policies and programs contained in its 1990 Economic Program designed to:
   1. Re–attain economic growth and financial equilibrium.
   2. Promote diversification of the economy.
   3. Consolidate the agrarian reform.

FY 1991 TOTAL ESF Obligation – $90,000,000

CONDITIONS PRECEDENT TO DISBURSEMENTS (Total of 2)

A. Agreement will support continuation of the GOES efforts for the stabilization and recovery of the Salvadoran economy; and policies and programs contained in the 1991 Economic Program designed to:
   1. Promote economic growth and financial equilibrium;
   2. Promote diversification of the economy;
   3. Promote public sector efficiency; and
   4. To facilitate judicial reform.

ACHIEVEMENTS

FY 1988

ESF disbursements were made during CY 1988; summary of GOES Economic Program follows:

A. Accepting the political realities associated with the March 1988 National Assembly and municipal elections, the USG accepted a policy of continued monetary discipline to control inflation.

B. The favorable GDP performance of 1987 did not continue in 1988 because of drought problems, guerilla attacks on productive infrastructure, and sharply lower coffee output (in 1988 GDP grew by 1.6%).

C. Timely tax payments, a containment of current outlays, and a reduction of capital expenditures, kept the overall central govt. deficit at slightly below the level in 1987.

D. The balance of payments showed a deficit of $US 64 million.

E. The GOES struggled to maintain the integrity of the 1988 monetary program; a regime of negative real interest rates and an overvalued colon contributed to a contraction in the demand for money.

F. Despite problems, inflation remained at 20%, allowing the GOES to meet the 18–20% target of their economic program.

FY 1989

ESF disbursements were made in the summer and fall of 1989; Summary of GOES Economic Program follows:

A. Removal of Restrictive Trade Practices: GOES reformed the foreign exchange market in July, 1989 to a two–tier system, by preserving the official rate and widening the former dollar accounts market to a full inter–bank market for foreign exchange. The maximum spread between the rates was set to 2%. Prior deposits for letters of credit, import prohibitions, and all quotas were eliminated. By Nov. 1989, the GOES compressed all import tariffs within a range of 5–50%, as stated in the program.

B. Strengthening Public Finances: The GOES reformed the tax system by Nov. 1989; a uniform stamp tax of 5% was levied and most exemptions eliminated; individual income tax rates were lowered from 60% to 50% and tax brackets were reduced from 24 to 7p; corporate taxes were lowered from 35% to 30% and brackets reduced from 5 to 3; the maximum wealth tax was reduced from 2.5% to 2%; several excise taxes and export taxes on sugar and shrimp were eliminated; and a revenue enhancement measure calculating CIF value of imports at market rates was implemented.

C. Strengthening Financial Sector: The rate paid on savings deposits ranges from 10–13% depending on terms; loan rates were set at 20% for 1 year and 22% for more than 1 year; subsidized lending was reduced to 3 categories, including housing; audits were also performed for the 9 commercial banks to determine extent of non–performing assets.

D. Removing Price Distortions: GOES removed price controls for 230 items by Aug. 1989; in Feb. 1990 petroleum operations were removed form the state–owned electricity company (CEL) and privatized; private competition in the marketing of coffee was permitted in Oct. 1989.

E. Economic Conditions: GOES met its annual average inflation target of 18% in 1989; the Central Govt deficit rose to 4.8% from 3.1%; current revenues fell by 8%, because of a decline in coffee exports and the impact of military conflict; international reserves fell to $120 million; real GDP growth was 1.1% for 1989.

FY 1990

ESF disbursement was made in the summer and fall of 1990; Summary of Economic Program follows:

A. Balance of Payments: Paris Club rescheduling of bilateral debt was achieved; current account deficit fell from 9.5% of GDP to 6.6%; capital account balance rose to $196 million from $86 million in 1989.

B. Fiscal Sector: Central Govt. tax collections increased 32%; total public sector revenues showed a gain equivalent of 11% of GDP, while total public sector expenditures rose 11.6% in nominal terms, as a % of GDP they dropped from 16.6% in 1989 to 14.5% in 1990. The Central Govt. deficit was reduced from 4.9% of GDP in 1989 to 3.5% in 1990.

C. Economic Conditions: GDP growth was 3.4% for 1990, the largest increase recorded since 1978, even with the rise of oil prices (related to the Gulf crisis) the inflation rate was only 19.3% for 1990.

FY 1991

ESF disbursement was made in the fall of 1991 but second disbursement withheld until Feb 1992 because of agriculture tariff issues; Economic Program follows:

A. Fiscal Sector: New fiscal measures were developed to reduce tax exemptions; a unified sales tax rate was set at 5%; GOES tightened tax collections and improved cash flow management operations (as a result, tax revenues increased to 8.6% of GDP up from 8.1% in 1990).

B. Integrated Financial Management: A review and evaluation committee was established in June 1991 to address GOES integrated financial management; a draft law was prepared to improve operations of the GOES audit agency.
draft law was prepared to improve operations of the GOES audit agency.

C. Public Sector Efficiency: GOES developed a plan to adjust public sector employment levels and rationalize salary structures. GOES has already initiated elements of the plan including voluntary separation and accelerated retirement programs and the termination of employment for public workers on strike illegally.

D. Privatization: GOES commission for liquidation & privatization of state-owned enterprises was established in May 1991; privatization law was approved by the Legislative Assembly in May, but the commission was disbanded.
programs and the termination of employment for public workers on strike illegally.

E. Agrarian Sector: GOES expanded coverage of its basic grain price band regime to include rice (Jan. 1991) sorghum (Nov. 1991) and yellow corn (June 1990). The Beneficiary Rights Law was passed April 1991, so that members of the Agrarian Reform ag. cooperatives can chose the form of land ownership they desire; legislation was approved March 1991 establishing the Land Bank, which transfers land from willing sellers to small farmers. In Oct 1991, the GOES reduced the external tariff rate for yellow corn from 20 to 10% (the Mission protested change because it would have resulted in windfall profits for wealthy producers at the expense of low-income framers. Mission withheld 2nd ESF disbursement until GOES restored the 20% tariff and mitigated adverse impact on small farmers – 2nd disbursement made in Feb. 1992.

F. Judicial Reform: GOES has developed and adopted agenda for legal reform. A technical unit to draft and promote legal reform was established; in Oct & Nov 1991 reforms extended terms of office for the Supreme Court.

G. Economic Conditions: GDP growth was 3.5% during 1991, inflation was cut by almost half to 9.8%; current account deficit was reduced; and international reserves increased by $41 million to a total of $429 million.
Supreme Court.

Current Economic Status (1992)

A. In support of the GOES Economic Program, USAID obligated US$82 million in ESF cash transfer funds for FY 1992; approx. half will be disbursed in the fall of 1992.

B. Virtually all economic indeces showed signs of improvement during the period of Jan.–June 1992; as of May 31, international reserves reached $442 million; the colon depreciated to a more realistic rate falling 3.8% (from 8.15/dollar to 8.46/dollar)

C. The fiscal situation remains problematic; lower revenues and higher expenditures resulted resulted in greater fiscal deficit than programmed -- which could reach 5.9% of GDP (because of spending on national reconstruction and implementation of the peace accord).

USAID El Salvador ESF Cash Transfer Programs
Mission's Goals and Accomplishments

The Mission's ESF cash transfer programs commenced in 1980. Over the 12-year period through 1992, nearly $1.5 billion has been disbursed to strengthen El Salvador's balance of payments situation, provide GOES budget support and encourage economic and democratic policy reforms. ESF cash transfer disbursements peaked in 1987 when $204 million were granted to El Salvador.

The Mission's ESF program provided critical balance of payment support for El Salvador with quick disbursing cash transfers during a very tough period. The 1980's represented an extremely difficult decade for El Salvador. The country's 12-year civil war commenced in 1979. War damage was particularly heavy during the early and mid-1980's. Attacks on the country's economic infrastructure were a key element of guerilla strategy to try and topple the GOES. Major ESF transfers helped the GOES weather this period.

A strong earthquake struck El Salvador in 1986. Reconstruction costs were high and greatly exceeded the capacity of the GOES budgetary resources. ESF-generated Host Country Local Currency provided budgetary relief.

Throughout the decade, major objectives of the Mission's ESF program included economic and democratic policy reforms. However, during the mid-1980's, given the intensity of the civil war and then the destruction caused by the 1986 earthquake, the GOES capacity to carry out major policy reforms was limited.

In 1989, the Cristiani Administration came to power. It immediately sought to reverse the centralized state control approach of previous GOES administrations and reorient the economy toward more reliance on competitive market forces and a revitalized private sector. With major USG support through ESF cash transfers, the Cristiani government adopted the most far reaching and comprehensive economic reform program in the history of El Salvador. It included an economic stabilization component designed to restore internal and external balance through more disciplined monetary and fiscal policies accompanied by a more liberalized foreign trade and exchange rate regime. Its also had a structural adjustment component designed to increase economic performance over the medium term by reducing structural constraints to improved economic efficiency. Measures were adopted to reduce and rationalize the role to the public sector, improve tax policy and administration, revitalize the financial sector and reduce impediments to private domestic and foreign investment. The ESF program also supported specific improvements in the administration of justice.

The economy responded favorably to the improved policy framework. A three-year recovery commenced in 1990, initially concentrated in agriculture and later spreading to other key sectors. As a result of improved incentives in agriculture after exchange rate liberalization, the dismantling of state grain monopolies, and the elimination of price controls, basic grains output hit an all time high in 1990. It is expected that the record will again be broken by another bumper harvest in 1992.

Other favorable developments associated with El Salvador's economic recovery include substantial improvements for the poor. Over the past two years, employment has increased by up to 100,000 new jobs. Inflation, which hit the urban poor the hardest, was reduced substantially in 1990, 1991, and the first part of 1992. Preliminary data from recent household surveys indicate that the percent of urban families living in poverty decreased from 1991 to 1992.

The most important recent development in El Salvador has been the signing of the January 16, 1992, Chapultepec Accords which initiated a peace process to end the country's 12 year civil war. The consolidation of this peace process in now a primary Mission strategic objective as well as a top USG foreign policy objective. Successful completion of the peace process would represent a major victory for democratic forces in El Salvador and bring to fruition what the Mission and the USG have been supporting over the last decade.

It may be worth mentioning that El Salvador's economic recovery encouraged by ESF-supported policy reforms contributed substantially to the improved overall environment for the achievement of peace. With the economy expanding, jobs increasing, and greater opportunities available, the opportunity cost for combatants on both sides to remain in the conflict is relatively much higher than when the economy is in a slump.

Conditionality

FY 1990a (ESR I) TOTAL ESF OBLIGATION–$60.0 MILLION
CONDITIONS PRECEDENT TO DISBURSEMENT
No substantive economic conditionality. The Grantee covenants to prepare and initiate implementation of an economic program for 1990 which will serve as the basis for continued ESF balance of payments support.

FY 1990b Total ESF OBLIGATION–$118 MILLION
CONDITIONS PRECEDENT FOR CATEGORY I DISBURSEMENTS, 1ST TRANCHE
Upon A.I.D.'s determination that implementation of the economic stabilization and recovery program will realistically result in achievement of its stated objectives, A.I.D. will authorize disbursement of first tranche.

CONDITIONS PRECEDENT FOR CATEGORY I DISBURSEMENTS, 2ND TRANCHE

1. Achieving the fiscal and monetary targets set forth in the economic plan submitted to the Paris Consultative Group on December 3, 1990; and 2. licensing private operators in foreign trade activities that are currently the exclusive province of state–owned enterprises.

CONDITIONS PRECEDENT FOR CATEGORY I DISBURSEMENTS, 3RD TRANCHE
1. The Grantee will maintain the progress accomplished in its economic stabilization and recovery program and make new progress as follows: (a) achieving remaining fiscal and monetary targets of the economic plan [mentioned above]; (b) licensing privately–owned financial intermediaries. 2. The Grantee will also establish a regulatory framework for the privatization of state–owned enterprises.

CONDITIONS PRECEDENT FOR CATEGORY II DISBURSEMENT, 1ST TRANCHE
[GON will receive $5 million] in advance to the reduction of 2,500 civilian employees in the public sector.

CONDITIONS PRECEDENT FOR CATEGORY II DISBURSEMENT, 2ND TRANCHE
[GON will receive $5 million] in advance to the reduction of an additional 2,500 civilian employees from the public sector after submission of evidence that the first mentioned 2,500 employees have actually departed and that total employment in the public sector has declined by a corresponding amount.

CONDITIONS PRECEDENT FOR CATEGORY II DISBURSEMENT, 3RD AND 4th TRANCHES
[A.I.D. will disburse third and fourth tranches] in advance to the departure of an additional 5,000 civilian employees from the public sector, provided that allocation of the third tranche will not take place until the quota of employees that separate themselves from service as a result of the second tranche is met, and release of the fourth tranche does not take place until the quota for the third tranche has also been met. The release of the third and fourth tranches will be conditioned also upon a

ACHIEVEMENTS

FY 1990a DISBURSEMENT
No economic conditions to meet. Funds disbursed as scheduled.

FY 1990b CATEGORY I DISBURSEMENTS, 1ST TRANCHE
A.I.D. determined that the GON's economic program –– submitted to the Paris Consultative Group –– was viable, and the first tranche was disbursed. The economic plan included specific targets for fiscal policy (e.g. reducing the fiscal deficit as a percentage of GDP) and for monetary policy (e.g. reducing the rate of growth of the money supply).

CATEGORY I DISBURSEMENTS, 2ND TRANCHE
The GON met all of the fiscal and monetary targets set forth in its economic plan, and it licensed private operations of foreign trade activities that were previously the exclusive province of state enterprises. In January and February, 1991, Net Central Bank Financing of the Central Government was negative (a target of the economic program). By February 1991, Net Central Bank financing of the financial system was negative (another target of the economic program). Second tranche disbursed as scheduled.

CATEGORY I DISBURSEMENTS, 3RD TRANCHE
In March, 1991 the GON began a Stand–by arrangement with the IMF that included strong macroeconomic conditionality. This new economic program superseded the previous on. The major targets of the new program were: (1) a ceiling on net domestic assets of the Central Bank (2) a floor on net international reserves of the Central Bank (3) a ceiling on total expenditures of the Central Government (4) a ceiling on net domestic bank credit to the non–financial public sector (5) targets for reducing arrears on external debt (6) and limits on the contracting of external credits by the public sector and the Central Bank. The GON complied with all of the IMF targets, licensed privately–owned banks, and created an organization (CORNAP) charged with privatizing state enterprises. Third tranche disbursed.

CATEGORY II DISBURSEMENTS, 1ST TRANCHE
The GON agreed to implement the employment reduction program, and the first tranche of funds were disbursed to help initiate the program.

CATEGORY II DISBURSEMENTS, 2ND TRANCHE
The GON met the initial target for reducing public sector employment, and the second tranche of funds were disbursed to support additional employment reduction.

CATEGORY II DISBURSEMENTS, THIRD AND FOURTH TRANCHES
The GON met the employment reduction target stipulated in the second tranche conditionality, and the third and fourth tranches of funds were disbursed to support additional employment reduction.

showing that overall civilian public sector employment has been declining by an amount corresponding to the number of employees leaving work.

CONDITIONS PRECEDENT FOR CATEGORY III DISBURSEMENT
The Grantee will negotiate a comprehensive and workable arrangement to clear its arrears to the IBRD and the IDB.

FY 1991 (ESR III) TOTAL ESF OBLIGATION–$187.5 MILLION

CONDITIONS PRECEDENT FOR CATEGORY I DISBURSEMENT, 1ST TRANCHE
Evidence that the first monthly target for each objective specified in the GON's economic program has been obtained. (The economic program contains monthly targets for: ceilings for the net domestic assets of the Central Bank; the minimum levels of the net foreign assets of the Central Bank; net credit to the Central Government).

CONDITIONS PRECEDENT FOR CATEGORY I DISBURSEMENT, 2ND TRANCHE
The GON must submit evidence that the April target for each objective has been obtained.

CONDITIONS PRECEDENT FOR CATEGORY I DISBURSEMENT, 3RD TRANCHE
The GON will maintain the progress accomplished in its economic stabilization and recovery program and make new progress as follows: 1. Achieving the May and June targets for each of the objectives [of the GON's economic program]; and 2. licensing privately–owned banks and authorizing them to buy and sell foreign exchange.

CONDITIONS PRECEDENT FOR CATEGORY I DISBURSEMENT, 4th TRANCHE
The GON will maintain the progress accomplished in its economic stabilization and recovery program and make new progress as follows: 1. Achieving the July and August targets for each of the objectives; 2. allowing privately–owned banks to accept demand deposits; and 3. allowing private sector financial institutions as a group to confirm letters of credit for international trade.

CONDITIONS PRECEDENT FOR CATEGORY II DISBURSEMENT, 1ST TRANCHE
1. The Grantee remains in compliance with fiscal and monetary targets specified in the economic stabilization and recovery plan. 2. 2,500 additional civilian employees of the public sector have left their government employment through the occupational conversion program, bringing to 10,000 the total number of civilian public sector employees who have left their employment, with a corresponding reduction in total civilian employment.

CONDITIONS PRECEDENT FOR CATEGORY II DISBURSEMENT, 2ND TRANCHE
1. The Grantee remains in compliance with fiscal and monetary targets specified in the economic stabilization and recovery plan. 2. A sum of 23,750 net civilian employees of the public sector have left their employment since December 31, 1990, through the occupational conversion program, with a corresponding reduction in total civilian employment in the public sector.

CONDITIONS PRECEDENT FOR CATEGORY III DISBURSEMENT
The Grantee must have established a comprehensive and workable arrangement to clear its arrears to the IBRD, the IDA, and the IDB.

CATEGORY III DISBURSEMENTS
The GON presented a satisfactory proposal to A.I.D. for clearing its arrears to the IFI's and funds were disbursed for this purposed as scheduled.

In 1990 the fiscal deficit rose sharply from 2.9% of GDP to 13.9% of GDP; inflation was a shocking 13,490%; GDP growth was 1.4%; and NIR fell by $134 million to –$835 million.

FY 1991 CATEGORY I DISBURSEMENTS, 1ST TRANCHE
The GON met all macroeconomic targets related to its IMF program. Funds disbursed as scheduled.

CATEGORY I DISBURSEMENTS, 2ND TRANCHE
The GON met all macroeconomic targets for April. Funds disbursed as scheduled.

CATEGORY I DISBURSEMENTS, 3RD TRANCHE
The GON met all macroeconomic targets for May and June. The GON also authorized privately–owned banks to buy and sell foreign exchange. Funds disbursed as scheduled.

CATEGORY I DISBURSEMENTS, 4TH TRANCHE
The GON met all macroeconomic targets for July and August. The GON also allowed privately–owned banks to accept demand deposits and to confirm letters of credit for international trade.

CATEGORY II DISBURSEMENTS, 1ST TRANCHE
The GON remained in compliance with its fiscal and monetary stabilization program. The target for occupational conversion (employment reduction) was also met. Funds disbursed as scheduled.

CATEGORY II DISBURSEMENTS, 2ND TRANCHE
The GON remained in compliance with its fiscal and monetary stabilization program. The 23,750 target for occupational conversion (employment reduction) was also met. Funds disbursed as scheduled.

CATEGORY III DISBURSEMENTS, 2ND TRANCHE
The GON developed an acceptable arrangement with the IFIs for clearing debt arrears, and the $25 million tranche allotted for this purpose was disbursed as scheduled.

In 1991, the fiscal deficit was eliminated entirely –– there was a surplus of 7.3% of GDP; inflation fell sharply to 775.%; GDP growth was a negative 1.6%; and NIR rose by $31 million to –$804 million.

Current Economic Status

Nicaragua's economy has continued to show rapid improvement in 1992. For the first six months of 1992, inflation has fallen to an extremely low level of 0.6%; GDP growth is projected to be 1.0% for the year; and the fiscal deficit for the year should be a moderate 0.6% of GDP. The GON met all of the IMF's targets for the first two quarters of 1992. FY 1992 ESF funds are currently on hold because of Congressional concerns about (1) property rights (2) Sandinista domination of the police and (3) lack of security for the former Contras.

CONDITIONALITY

FY 1988 Total ESF Obligation – 75,000,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. Evidence that the GOH is in compliance with the June 30, 1988 ceiling on domestic credit expansion by the Central Bank, the subceiling on domestic credit expansion by the Central Bank to the consolidated nonfinancial public sector, and the target for changes in net international assests and net international reserves;

B. Evidence that the GOH has substantially completed those specific actions required by July 15, 1988 as specified in the structural component of the GOH Economic Package (further details can be obtained in the Project Assistance Approval Document (PAAD) located in AID/LAC/DR offices.)

C. Evidence that the GOH has taken steps since June 1988 to reduce the deficit of the consolidated nonfinancial public sector by 60 to 65 million Lempiras and that no less than 40 million Lempiras of this reduction is derived from expenditure cuts;

D. Evidence that a tracking systme has been put in place to insure compliance with the GOH fiscal deficit target;

E. A letter specifying a plan acceptable to USAID for expanding the CETRA system during the remainder of 1988.

CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

A. Evidence that the GOH is in compliance with the September 30, 1988 ceiling on domestic credit expansion by the Central Bank, the subceiling on credit expansion to the consolidated nonfinancial public sector and the target changes in net international assets and net international reserves;

B. Evidence that the GOH has substantially completed those specific actions required by October 15, 1988 as specified in the structural reform component of the GOH Economic Program.

C. Evidence that the 1989 budget submission by the President to the National Congress call for a budget deficit of the consolidated nonfinancial public of no more than 5 percent of projected GDP; and

D. Evidence that the GOH has complied with the targets up to October 15, 1988 for the expansion of the CETRA system.

CONDITIONS PRECEDENT TO THE THIRD DISBURSEMENT

A. Evidence that the GOH is in compliance with the December 30, 1988 ceiling on overall net domestic credit expansion by the Central Bank, the subceiling on net domestic credit expansion to the consolidated nonfinancial public sector and the target changes in net international assets and net international reserves;

B. Evidence that the GOH has substantially completed those specific actions required by December 15, 1988 as specified in the structural reform component of the GOH Economic Program.

C. Evidence that the 1989 budget passed by Congress projects a budget deficit not to exceed 5% of GDP projected for that year;

D. Based on an overall review of GOH performance on the complementary structural reform program, evidence that satisfactory progress has taken place; and

ACHIEVEMENTS

FY 1988

ESF DISBURSEMENTS WERE MADE DURING FY 1988

A. The GOH made "substantial progress" in meeting all the conditions precedent for the first ESF disbursement.

B. In addition to generally meeting the June 30 macroeconomic targets of the GOH's economic program -- which included targets for NIR of the Central Bank Net International Assets of the Central Bank, as well as Internal Assets (overall and of the public sector), the GOH also reached agreement with the IBRD on SAL conditionality (including agreement to repay $10 million to the IMF by August 25, and to clear the remaining IMF arrears in October).

The GOH also performed satisfactorily in improving the operational and economic efficiency of the GOH's decentralized institutions, it privatized three state companies, and it showed commitment to strengthen the independence and efficiency of the municpal system. The GOH made minor progress in rationalizing the nation's tax system. Other major measures taken by the GOH in compliance with ESF conditionality include efforts to promote trade and investment liberalization;

C. The GOH continued to meet (or come close to meeting) its macroeconomic targets for September and December of 1988, and it also met the conditions of its IBRD SAL. The GOH also performed satisfactorily in meeting other conditions precedent for disbursement.

D. For 1988 as a whole, the fiscal deficit was 7.1% of GDP; inflation was 4.5%; GDP growth was 2.4%; and NIR rose by $20 million.

FY 1989 No ESF Program

FY 1990 DISBURSEMENT OF FIRST TRANCHE

In March 1990 the GOH developed and began to implement a comprehensive economic stabilization program. The program included measures to liberalize the exchange rate, slash the fiscal deficit, and overhaul the trade regime. The new program also included commitments to move toward the elimination of price controls, accelerate privatization, improve public sector financial accounts and to clear up arrears to the IFIs. ESF funds disbursed as scheduled.

FY 1990 DISBURSEMENT OF SECOND TRANCHE

While the IMF, World Bank, IDB, as well as the U.S. and Japan, quickly developed programs supporting the GOH reforms, massive arrears to the IFIs hindered their efforts to provide the GOH with quickly-disbursing funds urgently meeded to help finance the reform program. This problem was overcome in June 1990 through a major financing package led by the U.S. Treasury to clear up GOH overdue payments. The U.S. treasury, along with Mexico and Venezuela provided a $147 million bridge loan to the GOH, while Japan released $50 million in SAL I cofinancing. When the bridge loan was complete, the World Bank quickly released the last $25 million tranche of SAL I, which had been held up since 1988. As the GOH also continued to make satisfactory progress in the other areas of its economic program -- in tightening fiscal and monetary policies and trade liberalization -- the second tranche of ESF was disbursed in June 1990.

E. Evidence that the GOH has complied with the targets up to December 30, 1988 for the expansion of the CETRA system.

FY 1989 NO ESF DISBURSED. THE GOH COULD NOT PUT TOGETHER AN ECONOMIC PROGRAM WHICH AID COULD SUPPORT.

FY 1990 TOTAL ESF OBLIGATION – $ 120,000,000

CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

A. A letter describing the GOH's progress in implementing its 1990 Economic Program.

CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

A. A letter decribing the GOH's progress in implementing its 1990 Economic Program.

CONDITIONS PRECEDENT TO THIRD DISBURSEMENT

A. A letter decribing the GOH's progress in implementing its 1990 Economic Program.

FY 1991 TOTAL ESF OBLIGATION – $58,000,000

CONDITIONS PRECEDENT PRIOR TO SIGNATURE OF ESF AGREEMENT

A. Evidence of approval of a Honduras Stabilization Program supported by the IMF

B. Evidence that progress is being made in completing the second tranche conditionality of Structural Adjustment Loan (SAL II) and agreement on Energy Sector Program supported by World Bank and the IDB.

CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT

A. A plan for developing and implementing an Agricultural Sector Reform Program

B. A plan for improving Honduras' climate for private investment;

C. A plan for accelerating Honduras' privatization program.

CONDITIONS PRECEDENT TO THE SECOND DISBURSEMENT

A. Progress in meeting the principal objectives and targets of Honduras' Stabilization Program supported by the IMF.

B. Progress in meeting the principal objectives and targets of Honduras' Structural Adjustment (SAL II) and Energy Sector Programs supported by the World Bank and the Inter–American Development Bank (IDB).

C. Progress in moving toward a unified, market–determined exchange rate.

D. Progress in implementing the tariff reforms specified in Decree 18–90 of March 1990.

E. Progress in implementing Honduras' Agricultural Sector Reform Program;

F. Progress in implementing Honduras' Investment Climate Improvement Plan.

G. Progress in implementing Honduras' privatization program.

FY 1990 DISBURSEMENT OF THIRD TRANCHE

In July 1990 the GOH signed a Stand–by agreement with the IMF that included standard IMF conditionality, and the GOH performed satisfactorily during the first two months of the program. It also undertook a major reform of the nation's public utility pricing policies (water, electric power, and telephone rates were all sharply increased). At the same time the GOH continued to make progress with fiscal, monetary, and trade liberalization policies. Given these efforts, the second tranche was disbursed in October 1990.

For 1990 as a whole, the fiscal deficit was 8.7% of GDP; inflation was 23.3%; GDP growth was 0.0%; and NIR fell by $48.4 million.

FY 1991 DISBURSEMENT OF FIRST TRANCHE

During the first half of 1991 the GOH remained in substantial compliance with its IMF program (after some modification of the program in December 1990). The GOH also performed satisfactorily in meeting the World Bank's SAL II conditionality –– receiving a $20 million disbursement in May 1991. Given the success of the GOH in meeting the goals of its economic program, the first tranche of the FY 1991 ESF program was disbursed in June 1991.

FY 1991 DISBURSEMENT OF SECOND TRANCHE

A DAEC review held in November 1991 concluded that the GOH complied with conditionality for four of the seven areas supported by the FY 1991 ESF program. However, it had not yet complied with key conditionality in the other three areas: (1) improvement in agricultural policies, (2) improvement of the investment climate and (3) acceleration of privatization. The DAEC recommended disbursement of one–half the scheduled $34 million second tranche in support of the progress made by the GOH up to the time of review. The second half of the disbursement was withheld, pending three actions by the GOH: (1) passage of the Agricultural Modernization Law, (2) a total of five privatizations since January 1991 and (3) passage of the Investment Law. Congress passed the Agricultural Modernization Law in March 1992, and in that same month the GOH met the privatization target. The final condition, passing the new investment law, was completed in June 1992 and funds were disbursed on June 11, 1992.

For 1991 as a whole; the fiscal deficit fell sharply to 3.7%; inflation rose to 34%; GDP rose to 2.2%; and NIR fell again by $31.6 million.

Current Economic Status

In July 1992 the GOH signed an Enhanced Structual Adjustment Arrangement with the IMF. The GOH/IMF program anticipates that GDP growth will be at least 3.5% in 1992, while the fiscal deficit is expected to fall to 3.0%, and inflation should be approximately 8%.

USAID Honduras ESF Cash Transfer Programs
Mission's Goals and Accomplishments

The goal of the ESF cash transfer program in Honduras, during 1988-1991 has been broad-based, self-sustaining economic growth and development. During the period, ESF resources have permitted Honduras to achieve, in the short run, higher levels of growth, income, employment and production than would otherwise have been possible. To prepare the economy for improved performance over the longer term, even after ESF flows taper off, the cash transfer program has supported:

1. macroeconomic and structural policy reforms, emphasizing those that open the economy to trade and free-market forces; and

2. substantially expanded assistance from the International Monetary Fund, the World Bank, and the Inter-American Development Bank (the IFIs).

Progress prior to 1990 was fitful. Some progress was made during 1988 in reducing overall monetary expansion, reducing the consolidated non-financial public sector deficit as a percent of GDP, in privatizing state-owned enterprises, and in initiating preliminary steps toward liberalizing the exchange rate. However, there was no ESF cash transfer disbursement in 1989 because the GOH did not have an economic program that A.I.D. could support.

Progress since 1990 has been impressive. The Callejas government, having inherited a severely deteriorated economy, initiated a path-breaking program of sweeping economic reforms shortly after taking office in January 1990. The reforms included a comprehensive set of measures to liberalize the exchange rate, slash the public-sector fiscal deficit, and overhaul the trade regime. The U.S. responded with a $40 million ESF cash transfer disbursement in the same month that the GOH approved its 1990 economic program. ESF cash transfer resources also contributed that year to a major financing package led by the U.S. Department of the Treasury to clear up overdue GOH payments to the IFIs, which resulted in resumption of their program flows to Honduras.

By the time the last of the FY 1991 ESF cash transfer resources were disbursed in June 1992, the following had been accomplished:

- a return to a relatively strong 2.2% GDP real growth rate in 1991 following zero growth in 1990, with 3.5% growth projected for 1992;

- reduction in the consolidated nonfinancial public sector as a percent of GDP to 3.7% in 1991 from 8.7% in 1990;

- a return to single-digit inflation in 1992 (an annualized rate based on monthly performance);

- devaluation of the exchange rate for the first time in over 70 years and continued movement toward full liberalization (only days after the last FY 1991 ESF disbursement, the GOH unified the exchange rate and has kept it at a free-floating rate);

- compression of trade tariffs to a range of 5-20% from the pre-1990 range of 0-90%;

- over 25 privatization since 1988;

- elimination of virtually all price controls (which has led to increased plantings of coffee and basic grains, main crops of small-medium farmers);

- passage of an Agricultural Modernization Law that addresses key sector constraints; and

- passage of the new Investment Law that establishes clear and concise rules of the game for investors and provides for fair and equal treatment of domestic and foreign investments; and

- implementation of a number of financial-market liberalization measures, including freeing up all agricultural lending rates except for basic grains, raising rediscount rates significantly, and restricting rediscounting operations.

It now remains for Honduras to build on progress by holding the course on reforms taken to date and to deepen them, especially at the structural level.