

UNCLASSIFIED

524/01880/4201

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

NICARAGUA

RURAL RECOVERY

AID/DLC/P-050

Project Number: 524-0188 (\$5.0 M11)
Loan Numbers: 524-T-036 (\$15.0 M11)
524-K-037 (\$55.0 M11)

UNCLASSIFIED

BEST AVAILABLE DOCUMENT

DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT		2. COUNTRY Nicaragua
PROGRAM ASSISTANCE APPROVAL DOCUMENT		3. CATEGORY Cash Transfer
4. TO: Administrator		7. DATE Sept. 1980
5. FROM: AA/LAC, Edward W. Coy (Acting)		8. OYB INCREASE TO BE TAKEN FROM: Economic Support Funds
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 55,000,000		10. APPROPRIATION - ALLOTMENT
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD September 1980
15. COMMODITIES FINANCED 		14. TRANSACTION DATE January 1, 1980

16. REQUESTED SOURCE U.S. only: Limited F.W.: Free World: Cash: \$55,000,000	17. ESTIMATED SOURCE U.S.: Industrialized Countries: Local: Other: \$55,000,000 (Code 915)
------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------

18. SUMMARY DESCRIPTION This \$55 million Cash Transfer is the second tranche of a \$70 million FY 80 emergency recovery program for Nicaragua. The first tranche using \$15 million of Development Loan funds was authorized on June 16, 1980. The purposes of the combined \$70 million loan are (1) to provide immediate balance of payments support to permit the import of goods and services needed by the private and public sectors, and (2) to stimulate production and employment internally. A local currency account in an amount equivalent to the loan will be established by the Cooperating Country to finance rehabilitation and development activities mutually agreed upon by the Nicaraguan Government and USAID/Nicaragua.

The \$70 million loan is being disbursed in three steps. The first \$15 million has already been obligated and disbursed. The remaining \$55 million covered by this PAND will be disbursed in two steps of \$40 million and \$15 million. The latter disbursement will be dependent upon a review of how previously disbursed funds were used and upon certification by the Country Team that the purposes and conditions of the assistance are being met. Within this context, efforts will be made to disburse funds as quickly as possible in order to maximize the urgently needed balance of payments effects of the program.

The Cooperating Country shall agree to import from the United States within one year from the date of disbursement goods and services for use in the economic recovery effort.

19. CLEARANCES LAC/CEN: RGomez GC/LAC: JKesster LAC/DR: MBrown EM/C: DStafford PPC/PPR: JEriksson AA/PPC: AShakow GC: NioTines	DATE 5/24/85 9/12/80 11/11/80 9/12/80	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED Acting Administrator
-----------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------

* subject to availability of funds

CLASSIFICATION

Summary of the Loan

In an amount equivalent to ... 60% of which ... is to be imported ... private sector ... currency account ... have its source ... or countries included in A.I.D. Geographic Code 985. Prior ... of funds from the local currency account, the Cooperating Company and ... enter into activity agreement(s) which include a description of the activity, the institutional responsibilities, a financial plan, and implementation procedures.

Nicaragua shall repay the loan to AID in United States Dollars within forty (40) years from the date of first disbursement of the loan, including a grace period of not to exceed ten (10) years. Nicaragua shall pay to AID in United States Dollars interest at 2% per annum during the grace period and thereafter on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

MICROFILMED FROM BEST AVAILABLE COPY

BEST AVAILABLE DOCUMENT

CLASSIFICATION: UNCLASSIFIED

TO: 1120-1 (6-80)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO.
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	2. COUNTRY <p style="text-align: center;">NICARAGUA</p>
		3. CATEGORY <p style="text-align: center;">Loan No. CASH TRANSFER 524-T-036</p>
		4. DATE <p style="text-align: center;">April , 1980</p>
		5. OYB CHANGE NO.
		6. OYB INCREASE
FROM:	ADMINISTRATOR AA/LAC, Edward W. Coy (Acting)	TO BE TAKEN FROM: Development Assistance
7. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 15,000,000		10. APPROPRIATION - ALLOTMENT
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD May, 1980
15. COMMODITIES FINANCED		14. TRANSACTION ELIGIBILITY DATE 1/1/80

16. PERMITTED SOURCE U.S. only: _____ Limited F.W.: _____ Free World: _____ Cash: \$15,000,000	17. ESTIMATED SOURCE U.S.: \$15,000,000 Industrialized Countries: _____ Local: _____ Other: _____
------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------

19. SUMMARY DESCRIPTION This \$15 million cash transfer is an integral part of a \$75 million FY 1980 program the purposes of which are (1) to provide immediate balance of payments support to permit the import of goods and services needed by the private and public sectors and (2) to stimulate production and employment internally. The project will provide urgently needed balance of payment support through immediate disbursement of the full amount of Dollars authorized under the loan. A local currency account in an amount equivalent to the loan will be established by the Cooperating Country, to finance three Rural Recovery programs, including (1) a credit program for small and medium-sized commercial, service and industrial enterprises, (2) a credit program for small and medium-sized farmers, and (3) an employment-creating rural roads program.

The Cooperating Country shall agree to import from the United States within one year from the date of disbursement goods and services for use in the economic recovery effort in an amount at least equivalent to the amount of the loan, 60% of which amount is to be imported for the private sector. Procurement financed by funds from the local currency account will have its source and origin in Nicaragua or countries included in A.I.D. Geographic Code 935. Prior to any disbursement of funds from the local currency account, the Cooperating Country and A.I.D. shall enter into an activity agreement(s) which shall set forth (1) agreed upon technical criteria to be used by the Fondo Especial

19. CLEARANCES LAC/CEN: R. Gomez <i>R</i> DATE 5/20/80 LAC/GCI: J. Kessler <i>J</i> 5/15/80 LAC/DR: M. Brown <i>M</i> 5/15/80 FM: D.D. Stafford <i>Stafford</i> PPC/EDPR: R. Sidman <i>Sidman</i> 6/1/80 AA/PPC: A. Shakow <i>Shakow</i> 6/15/80 EC: M. Holmes <i>Holmes</i> ARA/EC: G. Lamberty <i>Lamberty</i>	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED <div style="text-align: center;">  AUTHORIZED SIGNATURE DATE June 24, 1980 ADMINISTRATOR </div>
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

CLASSIFICATION:

18. Summary Description cont'd.

deDesarrollo (FED) and the Banco Nacional de Desarrollo (BND) in making credit available from the local currency account, (2) procedures for identifying the location of new roads to be constructed with local currency account funds including a procedure for identifying and dealing with any significant impact on the environment, (3) such additional arrangements with respect to identification of local currency projects and approval and disbursement thereof as the parties consider necessary.

Interest and Terms of Repayment: Nicaragua shall repay to AID in United States Dollars the Loan within twenty-five (25) years from the date of first disbursement of the Loan. Nicaragua shall pay to AID in United States Dollars interest from the date of the first disbursement of the Loan at the rate of a) two percent (2%) per annum during the first ten (10) years, and b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

BEST AVAILABLE DOCUMENT

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT PAPER FACESHEET				1. TRANSACTION CODE <input checked="" type="checkbox"/> A ADD C CHANGE D DELETE		PP			
3. COUNTRY/ENTITY NICARAGUA				4. DOCUMENT REVISION NUMBER					
5. PROJECT NUMBER (7 digits) 524-0188		6. BUREAU/OFFICE A. SYMBOL LA B. CODE 05		7. PROJECT TITLE (Maximum 40 characters) NICARAGUA RECONSTRUCTION					
8. ESTIMATED FY OF PROJECT COMPLETION FY 82				9. ESTIMATED DATE OF OBLIGATION A. INITIAL FY 80 B. QUARTER 2 C. FINAL FY 80 (Enter 1, 2, 3, or 4)					
10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$1 -)									
A. FUNDING SOURCE		FIRST FY			LIFE OF PROJECT				
		B. FR	C. L C	D. TOTAL	E. FR	F. L C	G. TOTAL		
AID APPROPRIATED TOTAL		5,000		5,000	5,000		5,000		
GRANT		5,000		5,000	5,000		5,000		
LOAN									
OTHER U.S.									
HOST COUNTRY									
OTHER DONOR(S)									
TOTALS							5,000		
11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY 80		H. 2ND FY		K. 3RD FY	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) ESF	930			5,000					
(2)									
(3)									
(4)									
TOTALS				5,000					
A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED MM YY		
	P. GRANT	Q. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN			
(1) ESF						5,000			
(2)									
(3)									
(4)									
TOTALS						5,000			
13. DATA CHANGE INDICATOR: WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 (R IN PID FACESHEET DATA, BLOCK 12)? IF YES, ATTACH CHANGED PID FACESHEET.									
14. ORIGINATING OFFICE CLEARANCE <input checked="" type="checkbox"/> NO <input type="checkbox"/> YES				15. DATE DOCUMENT RECEIVED IN AID W/O FDI AID W/DCUMENTS, DATE OF DISTRIBUTION MM DD YY					
SIGNATURE <i>Lawrence Harrison</i> Lawrence Harrison									
TITLE Mission Director									

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

PROJECT AUTHORIZATION

Name of Country: Nicaragua
Name of Project: Nicaragua Recovery Program
Number of Project: 524-0188

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the grant-financed component of the Nicaragua Recovery Program for Nicaragua involving planned obligations of not to exceed \$1,350,000 in grant funds over a two-year period from January 1, 1980, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project consists of miscellaneous technical assistance and training complementary to a \$70 million loan to be authorized by the Administrator, scholarships to Nicaraguan students to the American School in Managua and an Operational Program Grant to the Partners of the Americas (the "Project").

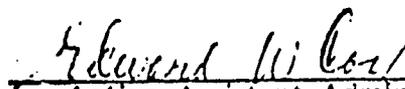
3. The Project Agreements, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping and except as set forth in Section b. below, financed by A.I.D. under the Project shall have their source and origin in the United States or in countries which are members of the Central American Common Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Waiver

Goods and services in an amount not to exceed \$500,000 in the aggregate, financed by A.I.D. under the Project, may be procured from countries included in A.I.D. Geographic Code 941.



Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

SEP 16

Date

Clearances:

GC/LAC:JLKessler ML date 7/22/80
LAC/CEN:RGomez AS date 7/21/80
LAC/DR:CPeasley AS date 7/17/80
SER/CM, HDwellely AS date 7/18/80
LAC/DR:MBrown AS date 7/18/80
SER/COM:WSchmeisser: AS date 7/27/80

GC/LAC:GMWinter:ckg:7/21/80:x29183

TABLE OF CONTENTS

PAAD Face Sheets

PP Face Sheet

Table of Contents

I.	<u>SUMMARY AND RECOMMENDATIONS</u>	1
A.	Recommendation and Implementation Plan	1
B.	Summary Justification	1
C.	Summary Conditions and Covenants	2
D.	Program Development and Review Staff	3
II.	<u>BACKGROUND (ASSESSMENT OF NEED)</u>	5
A.	Introduction: The Disaster in Perspective	5
B.	Physical Damage Estimates	6
C.	Impact on GDP and Employment	8
D.	Inflation	10
E.	The Balance of Payments and External Resources	12
F.	Debt Service Charges	15
G.	Government Revenues and Expenditures	15
H.	Directions of the GRN	17
I.	Implications of Analysis for the U.S. Economic Assistance Program	18

III.	<u>PROPOSED U.S. ASSISTANCE</u>	20
	A. Urgency of Need	20
	B. Objectives	21
	C. Initiatives to Date	22
	D. Proposed FY 1980 Assistance	23
	1. Program Loan	23
	2. Special Grant Assistance	24
	3. PL 480 Title I	25
IV.	<u>THE PROGRAM</u>	26
	A. Loan and Local Currency Program	26
	1. Use of Loan Funds	26
	2. Local Currency Programs	26
	3. Obligation and Disbursement	32
	B. Special Grant Assistance	33
	1. Use of Grant Funds	33
	2. Obligation and Disbursement	38
	3. Source and Origin Waiver	39
	C. PL 480 Program	40
V.	<u>SUMMARY FINANCIAL PLAN</u>	41
ANNEXES	A. Statutory Checklist	
	B. Outline of Proposed Activity Summary Presentation (PASP)	
	C. U.S. Assistance to Nicaragua, July-November, 1979	

1. SUMMARY AND RECOMMENDATION

A. Recommendation and Implementation Plan

It is recommended that the Administrator of AID authorize loans of \$70 million and a grant of \$5 million for use in the economic recovery of Nicaragua. A request for a supplemental appropriation of Economic Support Funds (ESF) to finance this program was submitted to the Congress on November 8, 1979. Because of delays in the approval of that request, AID will provide an initial \$15 million loan drawn from Section 103, Development Assistance funds. The Congress was notified of the Agency's intent to provide these funds on March 31, 1980. The remaining \$60 million (\$55 million loan and \$5 million grant) will be drawn from the ESF at such time as the additional funds required are made available by the Congress. In addition to these amounts, USAID/Nicaragua is providing a complementary PL 480 Title I Program in FY 1980 of \$15 million.

The \$70 million loan will ameliorate Nicaragua's urgent balance of payments problem and accelerate reconstruction of an economy devastated by 18 months of civil war. Upon receipt of the loan funds, the Government of National Reconstruction (GRN) will establish a Special Cordoba Account* in the Central Bank of Nicaragua in an amount equivalent to the loan. The Special Cordoba Account will be a Trust Fund owned by the GRN. Funds in the account will be utilized for GRN reconstruction and rehabilitation activities. Disbursement from this account shall be for purposes mutually agreed upon by AID and the GRN in accordance with procedures deemed appropriate by those parties.

The \$5 million grant will be utilized to finance the foreign exchange costs of the technical assistance and training required in programs supported by the Special Cordoba Account; to respond quickly to technical assistance and training needed by the GRN to efficiently manage public services; and to support non-government organizations which can make an important contribution to the reconstruction process.

The \$15 million PL 480 Title I Program in FY 1980 which has already been authorized will alleviate food shortages, further assist in ameliorating the balance of payments crisis and will provide local currency for use in reconstruction and rehabilitation of the agricultural sector.

B. Summary Justification

Nicaragua is now faced with the enormous task of rehabilitating its war-damaged economy. Although the people of Nicaragua

*10 Nicaraguan Cordobas (C\$10) = U.S. \$1.00

and their new government are fully committed to the achievement of this task and to establishing a pattern of equitable growth, they face many serious obstacles. Among the most important constraints are the lack of financial resources to acquire essential imports and the need for technical assistance and training to assist in the planning and efficient implementation of economic and social services. The proposed AID program is designed to assist Nicaragua overcome these constraints.

C. Summary, Conditions and Covenants

As detailed in following sections, the needs of the people of Nicaragua are enormous and pressing. The objectives contained in the proposed package can be achieved only if the U.S. Government responds rapidly and effectively. The conditions and covenants have been designed to provide timely implementation of the loan, grant, and PL 480 programs. Additional restrictions would unduly delay the U.S. response to Nicaragua's critical needs.

1. Conditions and Covenants Pertaining to the Loan and Local Currency Program

a. Lending terms and interest rate - The Borrower shall pay the loan to A.I.D. in U.S. dollars within forty (40) years^{1/} from the date of first disbursement under the loan including a grace period of not to exceed ten (10) years. The Borrower shall pay interest at the rate of 2% per annum during the grace period and 3% thereafter. Interest shall be payable semiannually. The first payment shall be due and payable no later than six (6) months after disbursement of the loan.

b. Repayment - The Borrower shall repay to A.I.D. the principal within forty (40) years from the date of the loan disbursement hereunder in sixty-one (61) approximately equal semiannual installments of principal and interest.^{1/} The first installment of principal shall be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due.

c. Procurement - The GRN will covenant that during the year following the initial disbursement of A.I.D. loan funds, or during CY 1980, Nicaragua will import from the U.S. at least \$70 million of goods and/or services, excluding defense items. In

^{1/} The first \$15 million dollars which will come from Development Assistance Funds will be lent for 25 years and will therefore be repaid in thirty-one (31) installments.

addition, the GRN will covenant not to use any of the \$70 million loan or its equivalent in local currency deposited in the Special Cordoba Account for procurement of any military related goods and/or services.

d. Disbursement of Foreign Exchange - The \$70 million of loan funds will be disbursed in three steps: (1) \$15 million of Development Loan Funds authorized on June 16, 1980; (2) \$40 million of Economic Support Funds to be authorized in July 1980; and (3) \$15 million of Economic Support Funds also authorized in July 1980. The latter two disbursements will be made following review of the allocation and uses of previously disbursed funds and determination by the Country Team that the purpose and conditions of the assistance are being met.

e. Disbursement of Local Currency - Disbursements from the local currency account will be made only on the basis of activity agreements signed between AID and the Government which include a description of the activity, the institutional responsibilities, a financial plan, and implementation procedures. Other conditions relating to local currency uses are detailed in Section IV.A.2 of this Paper.

f. Private Sector - The GRN will covenant to provide to the private sector an amount equal to at least 60% of the U.S.\$70 million loan to assist in meeting its foreign exchange requirements. Further, 60% of the Nicaraguan C\$700 million generated will be used to provide credit to the private sector or to procure goods and services from it.

g. Source & Origin - The GRN will covenant that procurement financed by the Special Cordoba Account will have its source and origin in Nicaragua and/or countries included in A.I.D. Geographic Code 935 (Free World).

2. Conditions and Covenants Pertaining to the Grant Assistance

a. Source and Origin - Goods and services, except for ocean shipping, financed by A.I.D. under the Grant programs shall have their source and origin in Nicaragua or in countries included in A.I.D. Geographic Code 941. Ocean shipping financed under the grant program shall be procured in the U.S. or Nicaragua, except as A.I.D. may otherwise agree in writing.

3. Conditions and Covenants Pertaining to the PL 480 Title I Program

Terms and conditions of the PL 480 Title I Program will be established at the time of negotiation of the agreement and as required pursuant to Title I of the Agricultural Trade Development and Assistance Act, as amended.

D. Program Development and Review Staff

Project Development Committee:

Gerald R. Wein, Chairman
Arthur L. Warman, Capital Development Officer
Clark Joel, Economist

Consultants

William Rusch, Agriculture and Small Enterprises
Thomas McKee, Municipal Development
Fred Mann, Agriculture and Small Enterprises

Review and Approval

Lawrence E. Harrison, Director
Harry G. Wilkinson, Deputy Director

**MICROFILMED FROM BEST
AVAILABLE COPY**

II. Background: Assessment of Need

A. Introduction: The Disaster in Perspective

The damage to the Nicaraguan economy from the recent war is incomparably greater than that of the 1972 Managua earthquake. While the amount of physical damage is comparable - the damage in both disasters falls within the \$500-\$800 million range - the economic consequences of the recent war are considerably more severe. The Managua earthquake destroyed the capital's commercial center and some of its housing; the recent war has seriously interfered with economic activity nationwide, including the planting of cotton and food crops, the conduct of commercial and industrial activity through looting and destruction of inventories, and destruction or damage to many of the country's industrial installations. Housing, particularly in the cities of Esteli, Managua, Leon, and Masaya, was also hard hit. The war's impact on the balance of payments, the Gross Domestic Product, the fiscal deficit and employment is particularly severe.

While the aforementioned effects of the war can be quantified, several other equally serious consequences cannot. Examples of the latter include departure of many of the country's entrepreneurs, managers and technicians, the disruption entailed by the nationalization of Somoza's estates and the need to reorganize and restaff the enterprises that he owned, the confusion and uncertainty entailed by the change in government until new policies can be formulated and the government's intentions and direction become clear. Moreover, several institutions will be restructured. These factors are having, and will continue for some time to exert, a profound impact on the level of investment and economic activity.

Moreover, the war comes at a time when the Nicaraguan economy is already beset by difficult economic problems. While the 1972 earthquake found Nicaragua in a rather strong balance of payments position, the recent catastrophe came at a time when Nicaragua was confronting a very serious debt servicing problem as a result of a substantial amount of short-term borrowing from foreign banks incurred by both the private and public sectors in recent years. Debt service charges of over \$600 million in 1979 would have raised serious concern even without the war and its after-effects.

As a result of the convergence of these various factors,

MICROFILMED FROM BEST
AVAILABLE COPY

Nicaragua now finds itself in a most desperate situation that it only can hope to cope with by means of massive foreign economic assistance from all prospective donors. Equally important is the formulation by the new government of a set of policies capable of inspiring the confidence of the country's entrepreneurs, managers, professionals, and technicians whose full cooperation is essential to Nicaragua's reconstruction.

B. Physical Damage Estimates

CEPAL (ECLA)^{1/} estimates of the physical damage resulting from the recent war are recapitulated in Table 1. The total damage comes to about U.S.\$580 million, with heaviest damage to the commercial sector (\$270 million). Note the heavy damage to inventories: \$235 million for both the commercial and industrial sector. In the industrial sector, damage to machinery and equipment is heavy. Damage to buildings is only a fraction of the damage to inventories in both sectors.

The CEPAL report estimates that of the 400 industrial enterprises that were in operation before the conflict, about one hundred have suffered serious damage which in some cases resulted in total destruction of the buildings, installations, machinery and inventories. About half of these are medium and large. Particularly severely affected are the industries located on the Northern Highway of Managua. These include plants in the areas of bottling, plastic manufacture, paints, farm tools, ceramics, paper and printing. Substantial damage to manufacturing establishments occurred in Esteli and Masaya.

The economic impact of the war on the agriculture sector is equally serious, especially given the country's extraordinary dependence upon agriculture. The agriculture sector and particularly coffee, cotton and cattle account for 60% of the exports. Forty-six percent of the economically active population works in the agriculture sector, and a high percentage of industrial investment is found in the agricultural transformation and agricultural service industries.

Several of the traditional export products were severely affected by the war. Cotton production in 1979/80 is expected to be only about one-fourth of the previous crop year. Coffee production is down by about 40 percent and beef exports are expected to fall by 15 percent in 1980. (See Table 5.)

^{1/} ECLA is the acronym for the U.N. Economic Commission for Latin America while CEPAL is the Spanish language acronym for the same organization.

The war has seriously depleted Nicaragua's food reserves. The food crop situation is aggravated by shortages in fertilizer and seeds, supplies, insecticides, tools and other equipment, and the working capital required to plant the next season's crop. Supply is not expected to increase appreciably during the present harvest. Major fighting occurred in prime growing areas during April and May when the land preparation and planting season began, thereby reducing the spring harvest and delaying the fall planting. The latter is limited largely to sorghum.

Although there appear to be adequate food crops planted to discount any possibility of major famine. Shortages of grain, poultry and edible oils have already occurred. Dairy, beef, pork, and poultry production also suffered severe losses during the war. Beef and dairy herds have declined by an estimated 100,000 head, pigs by 5,000 and poultry by 230,000 animals.

TABLE 1

NICARAGUA: PHYSICAL DAMAGE RESULTING FROM CIVIL WAR
(In Millions of U.S. Dollars)

Housing		42.7
Infrastructure		35.3
Education	10.3	
Health	10.6	
Urban Infrastructure	6.2	
Telecommunications	2.2	
Power	1.1	
Transport	5.0	
Livestock		27.7
Manufacturing Industry		200.0
Machinery and Equipment	80.0	
Buildings and Installations	20.0	
Inventories	60.0	
Frozen Uncollectable		
Accounts Receivables	40.0	
Commercial Sector		270.0
Buildings	20.0	
Furniture and Equipment	5.0	
Inventories	175.0	
Accounts Receivables	70.0	
Other		5.0
		<u>580.7</u>

Source: CEPAL - Nicaragua: Proyecciones Económicas de los Acontecimientos Políticos Recientes, August 14, 1979 on the basis of data supplied by the Government of Nicaragua.

C. Impact on GDP and Employment

More significant than the amount of the physical damage are the consequences in terms of lost production. In the case of crop production alone, CEPAL estimates that the production in the crop year 1979-1980 will be 37% lower than the level of the preceding year as a result of the conflict. There is no comparable figure for industry. However, CEPAL estimates that as a result of the conflict, employment in manufacturing industry declined from 80,000 to 45,000. Additional allowance should be made for income foregone due to the paralysis of business establishments, for capital flight, and for the "plundering" of foreign exchange reserves by the previous government just prior to its departure. The total foreign exchange losses through capital flight or illicit withdrawals are estimated at about \$600 million. Thus, the total damage could be estimated at \$1.5 to \$2.0 billion, broken down as follows:

	(U.S.\$ Millions)
Physical Damage	\$580
Reduction in the Gross Domestic Product <u>1/</u>	\$630
Loss in Foreign Exchange Reserves	\$600
	<u>\$1,810</u>

The \$1.8 billion estimate is approximately equal to the country's 1978 GDP 2/.

The Central Bank's estimates and projections of GDP for the period 1978-80 appear in Table 2. Gross Domestic Product, which had already declined by 7% in constant terms in 1978, fell by another 26% in 1979. Estimated rates of decline by sector were - agriculture 8%, manufacturing industry 27%, construction 54%, commerce 42%, and tertiary activities generally 29%.

1/ Calculated on the conservative assumption that the 1979 real GDP would have been identical to that of 1978 without the war.

2/ GDP was U.S.\$1,778,000 in 1979 prices, converted to dollars at 10:1.

TABLE 2
NICARAGUA: GROSS DOMESTIC PRODUCT
IN CONSTANT 1979 PRICES
(U.S. Millions)

	1978	1979	1980		1979/78	1980/79	
			High	Low		High	Low
Gross Domestic Product	1,779	1,319	1,765	1,563	-25.8	PERCENTAGE	
<u>Consumption</u>	1,547	1,084	1,486	1,297	-29.9	33.7	18.5
Public	184	156	264	201	-15.1	37.0	19.5
Private	1,363	928	1,238	1,096	-31.9	69.1	28.6
<u>Investment</u>	193	27	253	203	-86.2	33.5	18.1
Public	91	53	157	125	-41.7	-	-
Construction	54	24	110	88	-53.0	195.1	136.0
Machinery & Equipment	36	28	47	37	-24.4	330.3	244.3
Private	136	104	47	38	-23.6	70.1	36.0
Construction	31	14	27	22	-55.5	-54.6	-63.7
Machinery & Equipment	105	90	20	16	-14.5	96.8	57.4
Change in Stocks	-33	-130	50	40	-289.1	-77.7	-82.2
<u>Exports</u>	539	673	546	500	24.9	-	-
<u>Imports</u>	501	465	521	436	- 7.3	-18.9	-25.7
						12.1	- 6.1

Source: BANCO CENTRAL DE NICARAGUA
Departamento de Estudios Económicos
División de Cuentas Nacionales

Table 2 shows alternative projections of 1980 GDP growth at 18.5 percent and 33.7 percent. The level eventually incorporated into the Government's 1980 Economic Recovery Program was 22.7 percent. On the whole, all of these 1980 projections are probably optimistic given the major restructuring task that the Government faces, the exodus of entrepreneurs, capital and skilled personnel and the time required to re-establish law and order and dispel uncertainty in the private sector. Nevertheless, the country can effect a substantial recovery of GDP in 1980-81 provided that it receives prompt and substantial economic assistance and that the government is able to formulate a set of specific policies that prove reassuring to the private sector, to its managers and technicians, and that satisfy the international organizations and potential foreign investors and creditors.

While reliable data do not exist, all observers agree that the war has had a devastating impact on employment. CEPAL estimated the average level of unemployment in 1979 (and projected the 1980 rate) on the basis of production/employment ratios for the major economic sectors in the base year 1977. Its projections for 1979 and 1980 assumed constant productivity ratios throughout the period. On the basis of this methodology, the national unemployment rate (expressed as a percentage of the total labor force) was estimated at 33% in 1979 and 28% for 1980.

D. Inflation

After remaining remarkably stable between 1974 and 1978 (the Consumer Price Index increased by only 24% over the four-year period), the price level shot up substantially in 1979, particularly between April and July. During this three-month interval, the Consumer Price Index for the Managua Metropolitan area increased by 57% (see Table 3). A major cause of the increase was the rise of the price of food, up by 96% over this three-month period.

It is believed that prices receded somewhat between August and November as the price jump during April-July was partly due to the interruption of transport and the destruction and looting of supermarkets. Prices are unlikely to return to the April level. In addition to the disruption of agricultural production due to the war, the 43% devaluation of the cordoba will inevitably have a permanent and substantial impact on the consumer price level.

Table 3

Consumer Price Index in the
Managua Metropolitan Area
December 1974 = 100

	General Index	Foodstuffs and Beverages	Clothing	Housing	Other
December 74	100.0	100.0	100.0	100.0	100.0
December 75	101.9	99.5	100.3	103.5	104.6
December 76	108.3	107.6	105.0	108.7	110.0
December 77	119.3	119.1	107.6	118.4	123.8
December 78	124.5	121.0	112.2	127.7	130.7
January 78	120.7	121.7	107.8	118.6	124.6
April 78	120.2	120.0	108.4	119.2	125.3
June 78	122.3	124.0	109.0	119.6	126.3
July 78	120.3	119.0	109	120.0	126.5
January 79	126.0	123.0	112.6	128.4	132.6
April 79	146.0	144.1	133.3	147.9	150.7
June 79	224.3	273.9	139.1	171.4	212.1
July 79	229.3	282.8	139.1	171.8	216.0
<u>Percent Increase :</u>					
December 77-78	4.4	1.6	4.3	7.8	5.6
April 79 to July 79	57.0	96.3	4.4	16.2	43.3
December 77 - July 79	92.2	137.4	29.3	45.1	74.5

Source: Central Bank of Nicaragua, September 27, 1979

E. The Balance of Payments and the External Resource Gap

The situation with respect to Nicaragua balance of payments is summarized in Table 4. The data show how a number of factors acting on exports, imports and the capital account have converged to cause an acute balance of payments problem. Three principal factors are responsible for the record resource gap in 1979 and 1980. First there was a very substantial private capital outflow in 1979. According to the Central Bank's still preliminary estimate, capital flight came to some U.S.\$181 million in that year. This includes the foreign exchange resources withdrawn by officials of the Somoza government just prior to its collapse.

Second, a substantial amount of short-term private debt contracted by both the private non-banking and the financial sectors fell due in 1979. A substantial amount of short-term public debt also matured in 1979. This latter debt was contracted for the most part by autonomous public institutions such as the Housing Bank and the National Bank which had overextended themselves and realized large operating losses as a result of poor management and political interference.

Finally, exports are expected to be depressed in 1979 and 1980 as a result of the war-related decline in agricultural and manufacturing production. Export projections are shown in Table 5.

As compared with 1979, the current account deficit will deteriorate sharply in 1980, from a \$178 million surplus to a \$189 million deficit. Exports are expected to decline again in 1980 to \$524 million or 19% below the 1978 level. This decline reflects the fact that the 1980 cotton crop is expected to be only a fraction of the normal level owing to the unavailability of fertilizers and insecticides at planting time as well as to direct interference with planting as a result of fighting and threats. ^{1/}

Imports are expected to rise substantially in 1980 on the assumption that the international community will make foreign exchange

^{1/} Many planters were discouraged from planting by direct threats of violence during the months preceding the collapse of the Somoza government.

TABLE 4

NICARAGUA: Balance of Payment, 1978-81
(US\$ Millions)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
1. Exports, FOB	646.0	598.2	524	688
2. Imports, FOB	-546.8	-348.7	-654	-715
3. Trade Balance (1-2)	+ 99.2	+249.5	-130	- 27
4. Services and Donations, Net	- 89.3	- 71.1	- 52	- 60
5. Balance on Current Account	9.9	178.4	-182	- 87
6. Official Capital, Net	<u>43.2</u>	<u>96.8</u>	<u>116</u>	
Drawdown	101.5	115.3	160	
Amortization	- 52.2	- 20.0	- 44	
Others	- 6.1	1.5	-	
7. Private Sector and APP	<u>-277.4</u>	<u>-301.0</u>	<u>- 40</u>	
Amortization		-120.0	- 40	
Capital Flight		-181.0	-	
8. Amortization by Central Bank	-	-	- 9	
9. External Debt Service in Arrears (Estimated Interest and Amortization due but not paid)	-	-476.8	-207	
10. Surplus (+) or Deficit (-) in the Balance of Payments	-224.3	-502.6	-322	
11. 1980 Deficit (-) with Unpaid Debt Carried Over from 1979 ^{1/}	-	-	-799	
12. Unpaid Deficit if 100% of all Unpaid Debt Service Charges (Item 9) are Refinanced in 1980 ^{2/}	-	-	-115	
13. 1980 Deficit if 80% of Accumulated Debt Service Charges are Refinanced ^{3/}			-252	
14. 1980 Deficit if 60% of Accumulated Debt Charges Refinanced			-389	

^{1/} \$322 million plus \$477 million

^{2/} \$-799 million less (477+207) = -115 million

^{3/} \$-799 million less 0.8 x 684 million = -252 million

TABLE 5

EXPORTS OF PRINCIPAL PRODUCTS

EXPORT PRODUCTS		Value in U.S. \$ Millions Volume as indicated			
		1978	1979	1980	1981
Cotton	value	140.9	136.4	33.8	123.5
	volume(qq)	2,804	2,480	500	1,900
Coffee	value	199.6	211.3	162.0	188.7
	volume(qq)	1,188	1,492	900	1,110
Sugar	value	19.6	16.2	35.7	31.9
	volume(qq)	2,126	1,597	2,275	2,275
Meat	value	67.8	90.0	71.5	90.0
	volume(lbs)	74,926	75,000	65,000	75,000
Shrimp & lobster	value	14.7	14.3	39.9	39.9
	volume(lbs)	9,325	6,000	10,800	10,800
Banana	value	4.8	4.2	10.5	11.2
	volume(cases)	6,012	4,758	7,500	8,000
Chemicals	value	52.2	25.9	56.0	61.5
	volume(kg)	83,562	48,813	94,615	94,600
Textiles	value	11.5	5.3	10.4	12.9
	volume(qq)	-	-	4,460	4,700
Wheat & cottonseed meal	value	12.9	9.4	-	8.8
	volume(qq)	1,889	1,432	-	1,100
Gold	value	6.1	7.9	23.5	26.8
	volume(Troy oz)	67	47	67	67
Others		115.8	77.3	81.2	93.4
TOTAL		646.0	598.1	524.0	688.3

SOURCE: C.C.E. based on data from the Central Bank, the Ministry of Exterior Commerce and the Industrial Program. For 1981: Projection by Regional Economic Office with assistance from the Central Bank.

available to finance reconstruction and minimum consumption requirements. Substantial increases are projected in the importation of intermediate and capital goods for both industry and agriculture to replenish inventories and provide spare parts and replacement machinery essential to reactivate the economy. A substantial allowance has also been made for the importation of construction materials.

As shown in Table 4, the balance of payments deficit in 1979 was about U.S.\$503 million. Interest and amortization payments which fell due in 1979 and which were neither paid nor refinanced are estimated at \$477 million. As this amount is now overdue, the projected deficit which must be covered by a combination of new credits and refinancing of existing debt reaches about \$800 million ^{1/} in 1980. Lines 12, 13 and 14 show the effect on the remaining deficit of assumptions about refinancing.

F. Debt Service Charges

Nicaragua external debt has increased rapidly in recent years. The total debt outstanding at the end of August 1979 was about U.S.\$1.64 billion. Public debt was \$962 million (59% of the total), up from \$245 million in 1972. The increase in public sector borrowing reflects the need to finance earthquake reconstruction and to cover operating deficits of public institutions such as the national housing bank and Nicaraguan National Bank.

Debt service charges on the public and private debt in 1979 totaled about \$617 million, about 103 percent of the total value of exports of goods and services. For the public sector, including the nationalized banking system, the 1979 debt service charges totaled \$414 million, or 69 percent of total exports of goods or services. These are, of course, extremely high debt service ratios which cannot be maintained.

G. Government Revenues and Expenditures

A summary of Central Government revenues and expenditures is presented in Table 6 . Given the massive disruptions in the

^{1/} This figure should be regarded as a very rough projection as existing economic instability could result in considerable variations from the projected levels of imports, exports or loan drawdowns.

TABLE 6
Government Finances, 1978-80

	1978		1979 Est.		1980 (Projected)	
	C\$ Millions	% GDP	C\$ Millions	% GDP	C\$ Millions	% GDP
1. Current Expenditures	1,679	11.0	2,174	16.8	3,240	16.7
2. Capital	821	5.4	571	4.4	2,233	11.5
3. Public Debt Servicing	682	4.5	275	2.1	300	1.5
4. Total Expenditures (1+2+3)	3,182	20.9	3,070	23.7	5,773	29.7
5. Current Income	1,603	10.5	1,816	14.0	3,231	16.7
6. Capital Income	18	0.1	-	-	-	-
7. Total Income (5+6)	1,621	10.6	1,816	14.0	3,231	16.7
8. Net Current Account (5-1)	-76	0.5	-358	2.8	-9	-
9. Net Fiscal Surplus/Deficit (7-4)	1,561	10.2	-1,254	9.7	-2,542	13.1
10. Financing of Deficit	1,561	10.2	1,254	9.7	2,542	13.1
Internal	1,496	9.8	758	5.9	312	1.6
External	65	0.4	496	3.8	2,230	11.5

SOURCE: GRN Ministry of Planning, based on data from the Ministry of Finance

economy during 1979, performance in that year appears surprisingly good. In interpreting the Table, one must note, however, that the figures are in current prices and that prices rose very sharply in 1979. Adjusting for inflation, both revenues and expenditures probably dropped in real terms during 1979 by at least 25 percent.

Government projections for 1980 appear extremely ambitious and are probably unrealistic. Although expenditures are thus likely to fall significantly short of that planned, a large deficit is clearly going to occur. Financing this deficit will require a large infusion of foreign resources if the private sector is also to expand and if the economy is to avoid rapid inflation.

H. Directions of the GRN

Austerity, production and equity are the principal themes of the GRN's approach to the reconstruction and rehabilitation of Nicaragua. Public sector salaries have been reduced, and the number of employees is being reduced as the government identifies superfluous workers, including the "fantasmas", who received salaries from the Somoza government but performed no work. Reorganization of several key public sector institutions is underway with the intent of reducing duplication of effort and strengthening public sector services.

The Central Bank is pursuing a non-inflationary credit policy, equilibrating credit expansion with the acquisition of foreign exchange. The nationalization of the banking system is permitting the government to control the allocation of credit, and virtually all of the limited amounts of credit available are being directed to productive activities.

The government has accorded highest priority to the agricultural sector and is making a concerted effort to stimulate production. The Minister of Agrarian Reform has repeatedly emphasized that the Government's principal concern is production and that agrarian reform programs must not undermine the urgent need to increase output.

Equity considerations permeate the policies of the GRN. To facilitate a broad and active participation in the economic and political life of the country, the GRN is actively pursuing a policy of government decentralization, and municipal governments and community level organizations are being encouraged to play an active role in the reconstruction efforts.

Although the government is assuming a more dominant role in the economic life of the country, the GRN leaders have repeatedly acknowledged the need for a strong and vital private sector. The Government realizes that the private sector's perception of the political and economic environment is likely to be of crucial importance to the economic recovery of Nicaragua. Traditionally, the private sector has accounted for 80 to 90% of the GDP and has enjoyed a virtual monopoly of Nicaragua's economic resources, capital, know-how and managerial capabilities. With the advent of the civil war and subsequent nationalization of the country's banks, mines, as well as the land and manufacturing enterprises in which Somoza and his close adherents owned an interest, the public sector has significantly expanded its role at the expense of the private sector. Yet, even with these marked changes in the overall economy, the private sector maintains control over most of Nicaragua's productive assets.

While a significant number of entrepreneurs, middle-level managers and technicians have left the country, many others are determined to remain in Nicaragua and to contribute to the rehabilitation of its economy. The private sector is the primary influence on the government to move in a moderate direction. In its favor, the private sector can point to the active role that it played in the critical period of the struggle against the Somoza Regime, and the government is cognizant of the country's need for the private sector's skills and entrepreneurship.

I. Implications of the Analysis for the U.S. Economic Assistance Program

The foregoing analysis suggests several criteria that an economic assistance program should meet to have maximum impact on the economy's recovery prospects. There include:

a. Immediacy: The most desperate need is for foreign exchange NOW. Aid received during the first semester of 1980 has a far greater value to the Nicaraguan economy than assistance received a year later.

b. The program should, if at all possible, contribute to the reduction of both the balance of payments and the government's fiscal

deficits.

c. Funds should be channelled into programs that generate immediate employment. The unemployment problem is expected to remain serious throughout 1980.

d. Help is needed in removing bottlenecks to the resumption of economic activity in both the agricultural and manufacturing sectors. There is an urgent need for replacement parts for vehicles and machinery and for new machinery to replace that which was seriously damaged or destroyed. There is also an urgent need for the importation of a broad variety of raw materials and intermediate goods to meet current demands and to rebuild inventories.

e. The assistance program should be non-inflationary, and additional foreign exchange should not be used exclusively for the importation of capital goods. Most of it should be available for the importation of essential raw materials and consumer goods. The program must be combined with a flow of short-term credit to the private sector to provide the latter with the essential working capital that it lacks.

MICROFILMED FROM BEST
AVAILABLE COPY

III. PROPOSED U.S. ASSISTANCE

A. Urgency of Need

The Analysis in Section II above shows that the Nicaraguan economy has suffered considerable damage to its asset base and a sharp decline in employment and output, and that the Government lacks the resources to reverse this deterioration. The country is thus in urgent need of external capital assistance. On the positive side, most of the country's physical and human resources have survived the war, and a Government has emerged which enjoys a broad base of public support. Provided that the new Government maintains sound economic policies and external assistance is forthcoming, the potential for rapid rehabilitation is high.

The Nicaraguan economy is in urgent need both of foreign exchange and internal stimulation. High priority import needs -- agricultural inputs, agricultural and industrial machinery, raw materials and transport -- are essential if unemployed domestic resources are to be put back to work. The cost of these import needs far exceeds the foreign exchange which will be generated in the short-run and the miniscule reserves of the Government. Internally, the government is unable to finance the kind of pump-priming program which is urgently needed to stimulate demand and employment.

Failure to respond to the need for external assistance in a timely fashion would mean that economic activity would remain at its current low level. The lack of credit, employment opportunities, essential capital goods, spare parts and intermediate goods would continue to stifle production. Consumption levels would remain low and unemployment high.

Moreover, delays in economic recovery would cause further long-term damage to the economy. Businesses which have temporarily closed or reduced output because of war-related activities cannot indefinitely maintain their ability to recoup production losses. If the current economic malaise is permitted to continue, investors will lose confidence, businesses will begin to lose their management and labor skills, machinery and buildings will deteriorate and contacts will be severed with raw material suppliers, financial intermediaries and with marketing outlets. In sum, the economy's tangible and intangible productive assets, already depleted by the war, will deteriorate

irreversibly unless promptly returned to production. A further deterioration in economic conditions would likely be accompanied by greater interest in radical political and economic experiments and by a weakening of ties with the U.S. and other non-Communist nations.

B. Objectives

In developing its strategy to assist Nicaragua, A.I.D.'s primary objective is to reverse the economic deterioration of the past year and to restore to normality the productive sectors of the economy. Rehabilitation will be accompanied inter alia, by rising employment and income levels. Achievement of this basic objective will require that foreign exchange be made available immediately to allow Nicaragua to obtain the capital goods, spare parts and raw materials required to repair the basic economic infrastructure and to support productive activities in the private sector.

A second objective of A.I.D. assistance is to revitalize Government services and rehabilitate public infrastructure essential to economic recovery and long-term growth. Of particular importance are economic services such as the provision of credit to small farmers and business people and physical infrastructure such as roads and water systems. Achievement of this objective requires a relaxation of the fiscal constraint caused by the war-related decline in Government income.

It should be noted that measures which Nicaragua could take to redress this problem without outside assistance, e.g., increased taxation or internal credit creation, are not feasible at this time. Increasing taxes on production would discourage private investment, while taxes on consumption, except on luxury goods which are in any case not available, would be politically impossible. Borrowing from the Central Bank, unless such loans were backed by an infusion of foreign exchange, would generate strong inflationary pressures. To ease the fiscal constraint without generating those additional problems, the proposed strategy is designed to generate local currency resources while providing the hard currency support required for monetary stability.

A third objective of A.I.D. assistance is to reduce the level of malnutrition and to ease the upward pressure on food prices generated

by the temporary disruption in production and marketing. As domestic food supplies are inelastic in the short-run, achievement of this objective will require the increased availability of imported food. At present, the lack of foreign exchange prevents the Government from purchasing sufficient quantities of food on the international market. The proposed strategy, therefore, includes PL 480 Title I commodities, the provision of which will neither discourage local production nor disrupt normal trade patterns.

Finally, A.I.D. seeks to help the GRN set the stage for long-term equitable growth. With the change in Government, A.I.D. has an unprecedented opportunity to support a Government committed to growth with equity. A.I.D.'s assistance has, therefore, been designed to support several of the Government institutions and programs which encourage the fuller, more active participation of the poor in the economic and political life of the country.

C. Initiatives to Date

A.I.D.'s first response following the Sandinista victory in July, 1979, was the provision of emergency assistance through the Office of Foreign Disaster Assistance (OFDA). Food, medical, and other supplies were committed to assist in initial war recovery efforts.

Since the establishment of the Government of National Reconstruction, A.I.D. has provided rehabilitation and recovery assistance totalling \$40.3 million. This assistance included \$23.1 million in food assistance, an \$8 million cash grant, \$5.5 million loan, grant and HIG funds from ongoing projects, \$2.9 million in assistance to private organizations (e.g., CARE, FUNDE, CRS, etc.) and approximately \$800,000 in other assorted assistance. (See Annex C).

Of these contributions, the PL 480 program assistance and the cash grant have been particularly important. PL 480 Title I and II program assistance financed vitally needed foodstuffs. Local currency generated through the PL 480 Title I program is being used to revitalize the agricultural sector. The grant provided balance of payments support and was utilized to generate local currency of which 75% was committed

to finance a grain stabilization program. The remaining 25% was committed to support a shelter program benefiting approximately 9,000 urban and rural poor who were left without adequate shelter as a result of the war.

D. Proposed FY 1980 Assistance

Based upon preliminary discussions between the Administration and the Congress, A.I.D. now proposes three FY 1980 programs totalling \$100 million. The proposed FY 1980 assistance package includes the provision of \$70 million in loan funds and \$5 million in grant funds, using Development Assistance and Economic Support Funds, and a total of \$25 million of PL 480 Title I commodities. The size and composition of this program has been carefully designed to make a significant effect on the Nicaraguan economy and to demonstrate the U.S. Government's commitment to improving the welfare of the Nicaraguan people and to cooperating with its new Government.

1. Program Loan

The proposed loan of \$70 million is designed (1) to relieve the crisis in the Nicaraguan balance of payments, and (2) to stimulate internal economic activity, particularly with respect to employment generation. The loan is the largest and most important part of the assistance package.

USAID/Nicaragua initially suggested that balance of payments support be provided in the form of a Commodity Import Program (CIP). Further analysis has indicated, however, that a CIP would not be the most appropriate assistance instrument. Several factors support this conclusion. First, unlike the CIPs in Near Eastern countries which continue for many years, balance of payments support for Nicaragua is not expected to extend more than two years. For this limited period of time, it would not be cost-effective to train Nicaraguan personnel and to establish the various mechanisms required to implement a Commodity Import Program.

Second, establishment of a CIP would impose an administrative burden which Nicaragua would find difficult to absorb at the present time. The Nicaraguan Government bureaucracy has undergone a considerable shake-up with the result that inexperienced staff are

already hard-pressed to carry out existing programs. Essential new programs, some of which may be financed with the local currency generated by A.I.D.'s dollar input, will further increase the strain on the public service. USAID/Nicaragua believes it would be inadvisable under these circumstances to burden the new Government and its inexperienced staff with CIP requirements for advertising, documentation, guarantees, and other administrative procedures.

Finally, and most importantly, a CIP would not provide the quickly disbursing balance of payments support which Nicaragua so urgently requires. A.I.D.'s experience in other countries (e.g. Jamaica and Egypt) indicates that significant start-up delays must be expected. Such delays, which would be exacerbated by the present disruption within the Nicaraguan public service, would sharply reduce the impact on the assistance program.

USAID/Nicaragua, therefore, proposed to utilize the Cash Transfer mechanism established in A.I.D. Handbook 4. A.I.D. loan funds will be provided as a lump-sum transfer and will be utilized to support a broad range of non-military imports needed by the private and public sectors. The Nicaraguan Government's commitment to reconstruction and equitable economic development provides assurance that A.I.D. funds will be appropriately utilized. Moreover, A.I.D. will share with the Nicaraguan Government responsibility for programming the equivalent of U.S.\$70 million in local currency, i.e., 700 million cordobas, which will be utilized for developmental expenditures. Through this local currency mechanism, A.I.D. assistance will reduce the Government's fiscal constraint, permit the extension of credit to small farmers and non-farm enterprises, support municipal development, and finance other activities which contribute to the establishment of long-term, equitable growth in Nicaragua.

2. Special Grant Assistance

The limited size and the restricted nature of the grant assistance that A.I.D. planned to provide to Nicaragua in FY 1980 and 1981 reflected U.S. Government concern about the human rights situation under the Somoza regime. Planned grant assistance was concentrated on OPGs, Project Development and Support and Special Development Activities.

Supplemental grant resources will now be required if the U.S. is to play a meaningful and constructive role during the transitional reconstruction phase now in process. This expanded A.I.D. role will also demonstrate the U.S. intention to cooperate with and assist the new Government. A.I.D. is, therefore, including in its request for supplemental FY 1980 Economic Support Funds \$5 million of grant funds which the A.I.D. Mission to Nicaragua will utilize primarily for short-term, high impact programs during the course of this fiscal year. Priority in the use of these grant funds will be given to (a) technical assistance and training required in conjunction with the developmental activities supported by the Special Cordoba Account created by A.I.D.'s loan assistance and PL 480 Title I programs, (b) technical assistance and training needs which emerge as new Government personnel experience managerial and technical constraints in their attempts to efficiently provide a broad range of economic and social services, and (c) support selected non-governmental organizations whose services are particularly important to the reconstruction and development efforts. A description of the tentative grant program is presented in Section IV.B. below.

3. PL 480 Title I

The USG has already agreed to provide 17.6 million in PL 480 Title I and \$10.5 million in Title II commodities during the FY 1979-80 period. These amounts are essential to ensure an adequate supply of basic grains to the Nicaraguan economy. The Mission is continuing to monitor the availability of basic foodstuffs and will request additional PL 480 assistance if conditions warrant.

IV. THE PROGRAM

A. Loan and Local Currency Program

1. Use of Loan Funds - The goal of the \$70 million loan is to contribute to overall economic reconstruction and to the establishment of an economic environment in which the private sector can participate fully. The loan purpose is to ameliorate Nicaragua's urgent balance of payments crisis and, with local currency generated from the loan, to finance high priority recovery measures and budgetary needs in several of the country's key productive and social sectors.

The \$70 million loan will be disbursed in three tranches of \$15 million, \$40 million, and \$15 million, respectively, although maximum effort will be made to provide essential balance of payment and budget support to the GRN on a timely basis. Limitations on the usage of the loan funds will be as follows

- funds shall not be used for the procurement of military equipment or services of any kind;
- at least an amount equal to 60% (\$42 million) of the loan will be used to support the foreign exchange requirements of the private sector;
- an equivalent of \$70 million will be used for procurement of goods and/or services, excluding defense items, from the U.S.

2. Local Currency Programs - Following the receipt of dollar loan funds, the GRN will place an amount of Nicaraguan currency equivalent to the loan amount disbursed (C\$700 million in total) into a Special Cordoba Account to be jointly programmed by USAID/Nicaragua and the GRN. The C\$700 million, in conjunction with local currency generated from the sale of PL 480 Title I commodities, will be utilized to provide credit to the private sector and to finance high priority reconstruction and rehabilitation programs and projects. The actual commitments of local currency from the Special Cordoba Account, including that generated under the PL 480 Title I program, will be jointly agreed upon by the GRN and USAID/Nicaragua.

The USAID will ensure that the following special conditions are applied in implementing the local currency program:

- disbursements from the local currency account will be made only on the basis of an activity agreement(s) signed between AID and the Government which includes a description of the activity, the institutional responsibilities, a financial plan, and implementation procedures;

-- only private individuals or firms will be eligible for credit. No state farms or state firms will be eligible. Procedures will be devised to ensure that credit is allocated on a non-discriminatory basis.

-- only private individuals will be eligible for housing and home improvement loans. In addition to the extent possible, small contractors will be involved in the construction activities.

-- that an estimated \$4 million of the public works construction will be done by private contractors and that maximum use of competitive bidding procedures will be applied. AID will monitor bidding and award procedures; and

-- that facilities for the Agricultural School will be built by private contractors under competitive bid procedures. AID will again monitor these procedures.

The following is the illustrative allocation plan tentatively agreed upon by the GRN and Mission:

a. Credit for Small and Medium-Sized Enterprises
C\$200 million

The development of small and medium-sized enterprises has been severely affected by the civil war. Many firms suffered war damage or looting, while others found themselves without adequate supplies or transport. Still others found the demand for their goods or services had temporarily dried-up. Many of these enterprises now require working capital to replace inventories and pay wages in order to resume operations. Medium and longer-term capital is required to repair or replace equipment, as well as provide the opportunity for future growth and expansion.

Expanding opportunities for small and medium-sized enterprises will play an important role in Nicaragua's long-term development. Because such firms generally provide more employment opportunities per unit of capital invested than larger-scale firms, their expansion will improve income distribution, promote decentralization, and contribute positively to rehabilitation and development of the overall economy.

To facilitate the immediate rehabilitation and longer-term growth process of small enterprises, C\$200 million will be used to provide essential credit and technical assistance to small and medium-sized enterprises. Eligible enterprises will include cottage industry, manufacturing, services, and wholesale and retail trade. The implementing agency will be the Fondo Especial de Desarrollo (FED), formerly part of the Central Bank of Nicaragua and now integrated into the Banco Nacional de Desarrollo (BND). In 1975, the FED established a special program of small enterprise financing with \$3.2 million provided by the Central Bank and \$3.2 million of A.I.D. funds from Loan 524-W-029 (Managua Reconstruction). While A.I.D. funds were fully disbursed by April 1978, the FED successfully continued the financing of small enterprises with other resources until April, 1979. As of that date, the program had financed over 2,700 sub-projects and provided almost \$9.0 million. In addition to credit, the FED has provided technical assistance to small enterprises in production, marketing, administration, operations, and controls.

Funds from the Special Cordoba Account will be utilized to expand capitalization of the BND/FED's small and medium-sized

enterprise credit facilities, thereby permitting it to extend loans to thousands of small businesses around the country. Although the FED has moved from the Central Bank to the BND, it will continue to function as a second-story institution, channeling resources through intermediate credit agencies to the designated target enterprises. An estimated six to eight ICIs -- principally banks with offices throughout the country -- are expected to participate in the program.

Both working capital and fixed assets will be financed. Maximum terms will be up to 10 years and the interest rate charged to sub-borrowers will be about 12%. Interest rate spread for participating ICIs will be structured to cover their operating costs and to provide adequate incentive for their participation. BND/FED officials estimate the credit demand to be far in excess of what can be provided even with the A.I.D. assistance.

b. Credit for Small and Medium-Sized Farms
C\$100 million

The provision of agricultural credit to small and medium-sized farms for either annual production or farm development purposes was seriously disrupted during the period of civil strife. The volume of loans granted by the principal lender to small and medium-sized farmers, the Rural Credit Program of the National Development Bank,^{1/} declined by more than 50% during the 1979 planting season. The lack of credit coupled with other disruptions of the war has resulted in substantial loss of agricultural production and a significant decline in the number of cattle and other farm animals. The consequences have included shortages in the supply of basic grains and other foods, a decline in foreign exchange earnings and a serious increase in rural unemployment and underemployment.

^{1/} Programa de Crédito Rural of the Government-owned Banco Nacional de Desarrollo.

The Government of National Reconstruction is strongly committed to restore and expand agricultural production and to raise rural living standards. To this end it proposes to strengthen agricultural credit services, restoring the services provided before the war and extending credit to the majority of smallholders who were formerly denied access to credit. The smallholders' sector is important in Nicaragua in both production of staple foods such as corn and beans and in the production of coffee, a major foreign exchange earner.

In addition to addressing that need, the Rural Credit Program also provides credit to agricultural cooperatives. Some of these are service cooperatives selling agricultural inputs, providing marketing facilities, and/or making sub-loans to their members for agricultural production. Others are production cooperatives that purchased their land before the war. Finally, the Rural Credit Program makes loans to rural enterprises, primarily small businesses engaged in cottage industry and trade. These businesses provide significant employment and income to low-income rural groups.

The Banco Nacional de Desarrollo estimates that it could utilize up to C\$865 million for its Crédito Rural Program in 1980. The GRN and A.I.D. plan to allocate approximately C\$100 million from the Special Cordoba Account to respond to these needs. It is expected that the Inter-American Development Bank will provide another C\$420 million; recuperation of earlier loans should provide C\$190, and other funds will presumably come from the Government and other donors.

c. Employment-Generating Public Works
C\$250 million

Like most developing countries Nicaragua's economic and social infrastructure has typically left much to be desired. Access to many regions is time-consuming and costly, communications are frequently interrupted, and substantial segments of the population are without clean drinking water, electricity, sewerage, and adequate shelter. However, unlike most other developing countries, Nicaragua's infrastructure has suffered two major blows in the past seven years. The first, the earthquake in December, 1972, resulted in the almost total destruction of the central part of Managua and caused extensive damage to outlying parts of the city. The rehabilitation of Managua required enormous investments,

which resulted in a shift of resources away from other parts of the country. The entire country was thus detrimentally affected.

The second major blow to Nicaragua's infrastructure was the Civil War which terminated in July of last year. Physical destruction resulted not only from bombing, mortars, looting, etc., but also from the virtual cessation of normal maintenance activities. The net effect of these events is that Nicaragua's basic economic and social infrastructure has deteriorated significantly - a factor which impedes economic activity and reduces the welfare of the people.

The new government has determined that a significant effort must be made to arrest and reverse the deterioration of recent years and to extend infrastructure to those poorer elements of the population not previously served. Emphasis in the short-run will be on maintenance and rehabilitation. Major efforts are being planned with respect to roads, water supply, sewerage, and housing. Implementation of these programs will also have the important benefit of generating thousands of jobs for the unemployed of Nicaragua.

Three government agencies are involved in the infrastructure efforts to be supported with funds from the Special Cordoba Account. The largest program, approximately C\$128 million, will be implemented by the Ministry of Construction. This program includes the maintenance or reconstruction of Nicaragua's principal highways and feeder roads and the paving of streets in some small towns, particularly in the normally neglected Atlantic Coast area. The repair of war-damaged schools and other public buildings may also be included in this program.

Potable water and sewerage systems are also in need of attention. It is anticipated that C\$33 million will be used to assist the National Institute of Water Supply and Sewage to implement a program largely in low income, urban areas.

Finally, it is anticipated that the Special Cordoba Account might provide C\$89 million to support the continuation of efforts to reconstruct Managua. The Junta for the Reconstruction of Managua plans to build or improve storm drains and other drainage and sewerage facilities, streets, a slaughter house and other necessary infrastructure.

f. National School of Agriculture C\$20 million

The National Agricultural School (ENAG) has a five-year curriculum, a student body of about 250 and a faculty of twelve. It was originally a dependency of the Ministry of Agriculture and had a small, but adequate campus on the outskirts of Managua. When the earthquake of 1972 destroyed the buildings of the Ministry of Agriculture in the center of Managua, the School had to share its land and buildings with the Ministry of Agriculture, especially the Agriculture Sector Planning Division and the Agricultural Research Institute.

The National Reconstruction Government has shifted the School from the Ministry of Agriculture to the National University, which is probably where it should have been in the first place. Considering the fact that the location is a favorable one for the Ministry of Agricultural Development, that the area and existing buildings are too small for the school in any case because large increases in the number of students are expected under University direction, a new location will be sought.

It is expected that the Institute of Agrarian Reform will assign a suitable piece of land in an area between Managua and Masaya for the National Agricultural School.

The project proposes to use a total of 20 million cordobas to finance the engineering design of the buildings for the school, including classrooms, laboratories, library, farm buildings, cafeteria and dormitories. The project will include financing to construct the buildings which are essential to start teaching, and to buy such agricultural production materials and equipment, and laboratory equipment as is needed to begin.

The development of an efficient, equitable agricultural sector is essential to the economic health of Nicaragua. Expansion and improvement of the National Agricultural School will make a substantial contribution to that effort by preparing a significant number of farm managers and agricultural technicians.

3. Obligation and Disbursement - Through the Cash Transfer mechanism, the loan will be disbursed directly to the Central Bank upon authorization of the PAAD. At this time the GRN will

MICROFILMED FROM BEST
AVAILABLE COPY

establish in the Central Bank the "Special Cordoba Account" at an equivalent value, i.e., C\$700 million cordobas.

Funds in the Special Cordoba Account will be reserved for specific activities described in Proposed Activity Summary Presentation (PASPs) prepared by USAID/Nicaragua in collaboration with the GRN. A PASP is a type of activity planning document first established under the Managua Urban Reconstruction Sector Loan 524-W-029. The PASP is conceptually similar to an abbreviated A.I.D. project paper and includes a description of the background, implementing procedures, financial plan, etc., of the proposed activity. ^{1/} A PASP usually varies from 10-20 pages in length, and forms the basis of an Activity Agreement between A.I.D. and the GRN's implementing agency.

Disbursements from the Special Cordoba Account will normally be made quarterly to support those activities agreed to by the GRN and the Mission. USAID/Nicaragua will monitor the implementation of these activities for compliance with the agreements, but will not seek the degree of supervision exercised on projects which receive direct A.I.D. funds. It is anticipated that 80% of the local currency funds programmed through the Special Cordoba Account, including that generated from the PL 480 Title I programs, will be obligated and disbursed by the end of FY 1981.

B. Special Grant Assistance

1. Uses of Grant Funds - The rationale underlying the request for \$5 million in grant funds is presented above in Sections III. B. and III D. Following are brief descriptions of the activities USAID/Nicaragua anticipates financing with the requested ESF grant funds.

^{1/} An outline of the PASP is provided in Annex B.

a. Cooperative Development (FUNDE) \$1.0 million

Approximately \$1 million will be utilized to finance the first tranche of a \$5 million program to assist the Fundacion Nicaraguense de Desarrollo (FUNDE) over the next 30 months. The AID grant funds will provide lending capital for 58 member cooperatives and strengthen the FUNDE cooperative system through the provision of technical assistance and commodities.

Approximately \$4.8 million of AID grant funds will be lent by FUNDE at eight percent to member cooperatives. The cooperatives will in turn lend these funds to their members for working capital and fixed capital needs of agricultural, industrial and service enterprises. Lending to individual cooperative members will be at prevailing interest rates, currently around 12 percent.

In addition, approximately \$200,000 will be utilized to (a) procure vehicles and office equipment; (b) develop special studies, data analysis and collection, and complementary services to the lending program; (c) design and implement a management information system within FUNDE; and (d) develop a master development plan for the FUNDE cooperative system.

Project beneficiaries will be the current and potential members of the FUNDE cooperative system. Currently there are 17,700 members included in 58 cooperatives and four branches. With continued growth and the creation of an estimated 20 new cooperatives, membership in FUNDE cooperatives is expected to increase by 61% to 29,100 people. As most cooperative members are heads of households, it is estimated that 145,000 people will directly benefit under the program. The principal benefits anticipated under the program include increased employment, production and income.

FUNDE plans to supplement AID's contribution with income from operations and with grant support from the Inter-American Foundation (IAF), Appropriate Technology International (ATI), and Private Agencies Collaborating Together (PACT).

b. Agricultural Institutional Development \$2.25 million

Nicaragua lost a considerable amount of technical and managerial talent during the war, and the unsettled political atmosphere following the war has further increased the number of technicians and managers leaving the country. Agriculture has been particularly affected by this out migration, and several key public and private sector agricultural institutions have been left without sufficient or qualified staff. The purpose of this project is to provide needed technical assistance to agricultural institutions involved in various phases of crop and animal production, storage and marketing. This in turn will contribute to the revitalization of the agricultural sector. The following is an illustrative indication of the institutions and areas to be supported:

Agrarian Reform Institute (INRA): Land and water legislation, land measurement, land titling, farm production;

Ministry of Foreign Trade (MCE): Export policy development, market information, export legislation;

Basic Foods Company (ENABAS): Operation of grain silos, bagging equipment development, pest control, packaging;

Ministry of Agricultural Development (MIDA): Quarantine procedures, coffee rust control, crop and animal surveys, survey technology.

To respond to specific requests for technical assistance from these and other agricultural related institutions, it is anticipated that the required expertise will be drawn from U.S. universities, private consulting companies, and individual contractors. The Mission plans to study the appropriateness of the Title XII mechanism for this activity.

c. Central American Institute for Business Administration (INCAE) \$400,000

Approximately \$400,000 of the grant funds will be utilized to supplement the normal income of the Instituto Centro Americano de Administración de Empresas (INCAE).

INCAE is a privately supported graduate school of business administration serving the Central American Common Market countries and other neighboring nations. Patterned after Harvard University's Graduate School of Business, with which it maintains close relations, INCAE offers a two-year Master's Degree Program, a six-week Advanced Management Program, a variety of three-day seminars, and management consulting services for industry and Government. The quality of INCAE's services is extremely high.

INCAE's primary sources of support are tuition, fees, donations from the private sector, and grants and contracts with international agencies. Among the countries served, only Nicaragua has provided budgetary support from public funds, and that assistance has now terminated. Since its inception in the mid-1960's, INCAE has received considerable amounts of A.I.D. grant and loan assistance.

This assistance was a critical factor enabling INCAE to expand its services and to meet its financial obligations.

Despite the disruption of normal activities following the Managua earthquake of December, 1972, INCAE was successful in maintaining a high quality program. However, the war has once again severely interrupted INCAE activities. Enrollment has dropped and projected revenue in 1979/80 is not sufficient to cover planned expenditures. While expenditures have been cut, the high level of fixed costs precludes expenditure cuts sufficient to balance the budget. Further cuts would reduce the size and quality of the INCAE program.

Although INCAE's orientation is toward the private sector, it has embarked on a program to demonstrate its potential effectiveness in the reform efforts of the new government. This effort has been well received by the GRN, and several seminars are planned for the immediate future.

The business community, particularly in Nicaragua where support has traditionally been most generous, has been considerably weakened by recent events, and it is unlikely that INCAE will be able to raise adequate revenue from this source. USAID/Nicaragua believes that under these unusual circumstances further A.I.D. assistance is warranted and, therefore, proposes to provide approximately \$300,000 from current fiscal year funds. An analysis of INCAE's expenditures and income generating capacity recently completed by an independent consultant strongly recommended that a grant of at least this size be made available.

d. Quick Response Development Fund \$800,000

These funds will be utilized to support GRN technical assistance and training needs and to give the Mission flexibility in assisting non-government activities. The rationale for the former is twofold: (1) to ensure that institutions implementing projects with funding from the Special Cordoba Account have access to non-Nicaraguan technical assistance and training and (2) to respond to needs that will arise during this transitional period in sectors of A.I.D. interest, especially but not exclusively Agriculture, Health and Education.

Assistance to the GRN will be administered by the Minister of the International Reconstruction Fund or the Minister of Planning. It will be available for contracts with U.S. and Latin American firms and individuals who can provide expertise needed for the reconstruction process in a variety of areas, e.g. fiscal planning, government organization, energy, technology, manpower planning. Training activities in the U.S. and Code 941 countries will also be financed.

The Mission will retain control of part of the fund to support non-government development activities.

e. Partners of the Americas (OPG) \$250,000
Three Years

The Partners, both in Nicaragua and Wisconsin, have requested funding to help them carry out a large variety of technical activities and development projects. Unlike most previous Partners' programs, this grant will finance Partners' efforts throughout Nicaragua and not be confined to northeastern Nicaragua.

This grant will allow the Partners to work with both the private sector and the GRN in such fields as agricultural development, cooperatives, basic adult education, water resources development, health and nutrition, and municipal development. It is based on the Partners desire to reactivate and strengthen their work, and to move from an emergency relief stage (during which they gave considerable assistance) to one of longer-term reconstruction and development. During the last several months, the Partners have provided human and material resources to Nicaragua. Under this grant, these services will be augmented and tied into continuous longer-term, experimental projects to benefit the Nicaraguan poor. The funds will complement Partners' resources to bring qualified short-term experts to Nicaragua, finance training of Nicaraguans in Wisconsin, enable the funding of specific development projects, help pay for one or more full-time Partners' project coordinator(s)/administrator(s) in Nicaragua to provide for continuous management of projects, and provide - if necessary and on a limited basis - for the transportation to Nicaragua of materials and equipment donated by the Wisconsin Partners.

The grant will consist at the outset of several specific programs, with flexibility built in so that other specific programs can be logically added later according to Nicaragua's needs

and matching of institutional, technical and material resources. Definite plans exist for agriculture. The grant will partially finance the trip of twelve young, poor farmers from the Matagalpa region to spend eight months on family farms in Wisconsin so they can learn the fundamentals of the dairy and cheese industries, including herd management, animal nutrition, silage procedures, and herd health care. A sub-project with the Food Technology Laboratory of the Central Bank will provide: (1) an advisor for six months in the management and operation of food processing plants; (2) a researcher for six months to work on improving and extending the varieties of Nicaraguan cheese; (3) an arrangement for supply of reagents with Central Bank financing; and (4) assistance in training staff through short courses. The Banco Nacional de Desarrollo (BND) has requested the Partners to assist with a project whereby hand tools, chemicals and seeds (vegetable and sunflower) would be distributed to small-seed farmers. The private Central American University (UCA) has requested help with a broad program of forestry research and reforestation. The Unión de Productores Agropecuarios de Nicaragua (UPANIC, also private) wants Partners' assistance in a rat control program (60% of the rice crop is being destroyed by rats) and for training Nicaraguan technicians in artificial insemination. This grant will also provide Partners' advisory assistance to the Ministry of Education's Agricultural Education Division in farm machinery usage, artificial insemination, basic grains, poultry, dairy cattle and various workshops.

f. Scholarship for the American School \$300,000

A special scholarship fund will be needed to make it possible for 100 Nicaraguan youngsters from families of limited means to study at the American School in Managua. A fund-raising campaign in the private sector is expected to pick up future financing of these scholarships. Selection of students will be made by a special committee made up of Nicaraguan and U.S. representatives.

2. Obligation and Disbursement - As in the case of Special Cordoba Account Activities, the Mission will prepare PASPs on the grant funded activities. Activity Agreements will then be signed with the grantee. An exception to these procedures will occur in the case of OPGs for which the Mission will follow normal A.I.D. procedures.

3. Source and Origin Waiver - It is requested that a blanket waiver be issued for the procurement of goods and services with grant resources to allow procurement from Nicaragua and countries listed in geographic code 941. Handbook 1, Supplement B, Chapter 5 outlines several criteria for waiving A.I.D.'s normal source and origin requirement. This request is based on two of those criteria: (1) circumstances which are critical to the success of project objectives -- in this case, the need in many cases for qualified Latin American contractors to perform the required services; and (2) impelling political considerations.

The GRN faces urgent problems daily and must be able to resolve them quickly to be able to reactivate the economy and public services. To do so, the GRN must be able to call upon experts who have faced similar operational problems during their careers. While much of this technical assistance can be obtained from the U.S., in some cases the people having the most relevant and applicable experience are from Latin America. For example, in the area of land reform, while U.S. experts are available for consultation who have done research in this area (and these will be utilized), they will need to be complemented by former members of land reform agencies who have had hands-on operational experience. The participation of Latin American contractors is therefore deemed critical for achievement of project objectives.

It is a foreign policy objective of the U.S. to promote greater ties between Nicaragua and other democratic nations of the hemisphere. The provision of third country technicians to help resolve problems faced by the new Government could help achieve this important political objective.

A blanket waiver is requested to avoid delays in responding to urgent requests from the GRN. Obtaining waivers on a case by case basis would be cumbersome and time-consuming. It is expected that the greatest need will be in the Quick Response Development Fund component. The blanket waiver should be prepared for an amount up to \$500,000.

C. PL 480 Program

The proposed PL 480 Title 1 Program is an integral component of A.I.D.'s response to the economic recovery of Nicaragua. With crop production estimated at 37% lower than the previous year and the acknowledged shortage of basic grains, the use of a PL 480 Title 1 program can provide immediate and short-term relief to the agricultural sector. After careful review of existing stocks and projected production levels, USAID/Nicaragua proposed a \$15 million Title 1 Program, of which \$10 million was authorized in February 1980 and the additional \$5 million in April, 1980. Commodities provided include wheat, rice and edible oils.

The PL 480 Title 1 Program for FY 1980 will increase the availability of food, improve the nutrition of the target group, and generate local currency needed for the rehabilitation of the agricultural sector. More specifically, the local currency generated through the Title 1 Program will be used to finance measures to increase agricultural production, to reduce harvest losses and to improve the living standards of the rural poor. These self-help measures will include, inter alia, agricultural credit, improved market facilities, research, expanded farmer training programs, and protection of stored grains.

<u>V. SUMMARY FINANCIAL PLAN</u> ^{1/}		<u>U.S. \$ Thousand</u>	
A.	Appropriated U.S. Dollar Assistance	75,000	
	1. Program Loan	70,000	
	2. Grant	5,000	
	FUNDE		1,000
	Agricultural Institutional Development		2,250
	INCAE		400
	Quick Response Development Fund		800
	Operational Program Grants		250
	Scholarships at American School		300
			<u>N. C\$ Thousands</u>
B.	Local Currency Generations	700,000	
	Credit for Small-Medium Sized Enterprises	200,000	
	Credit for Small-Medium Sized Farms	100,000	
	Employment-Generating Public Works	250,000	
	Low-Cost Housing	70,000	
	Municipal Development	60,000	
	Agricultural Education	20,000	

^{1/} PL 480 Title I is not shown here as this document does not constitute an action request for that program.

ANNEXES

- Annex A:** Statutory Checklist
- Annex B:** Outline of Proposed Activity
Summary Presentation (PASP)
- Annex C:** U.S. Assistance to Nicaragua,
July 13, 1979 - January 31, 1980

NICARAGUA RECOVERY PROGRAM
NON-PROJECT STATUTORY CHECKLIST
(\$70,000,000)

I. COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

No. The GRN has an active program to prevent narcotic use and traffic.

2. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?

Yes.

3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

There are reported cases of outstanding debts and seizure of property of U.S. citizens that remain outstanding. Because of the disorder that resulted from the civil war and the change in government, the matter of exhausting all legal remedies is not clear. New GRN legislation concerning this is in process. The GRN has consistently maintained that it will pay all legitimate claimants.

4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

5. FAA Sec. 620(f); App. Sec. 108. Is recipient country a communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos?

No.

A:

6. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

No, based on available information.

7. FAA Sec. 620(i). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

During the Civil War and the period immediately thereafter, there were lawless seizures of U.S. property. However, as public order and stability have returned, the GRN is taking adequate actions to prevent such incidents.

8. FAA Sec. 620(i). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

9. FAA Sec. 620(e); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,

Nicaragua has not seized or imposed any penalty or sanctions against any U.S. fishing activities in international waters.

a. has any deduction required by Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by AID Administrator?

10. FAA Sec. 620(q); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act, unless debt was earlier disputed, or appropriate steps taken to cure default?

Yes. Loans are being renegotiated because of the economic conditions described in this paper.

11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PRC/AC).)

Since the establishment of the new Government, current statistical information is not available. However, we are confident that such expenditures are substantially below that of the prior Somoza regime.

A.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? The GRN's U.N. payments are currently in arrears. USAID/Nicaragua has discussed this matter with the GRN, and expects that Nicaragua will meet its U.N. obligations.
14. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? No.
15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base? N.A.
16. FAA Sec. 655. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA? No.
17. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.? No.
18. FAA Sec. 670. Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device? No. The country is not a "nuclear weapon state."
19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? No.

MICROFILMED FROM BEST AVAILABLE COPY

B. FUNDING CRITERIA FOR COUNTRY

1. Economic Support Fund Country Criteria

- a. FAA Sec. 602B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section?

The Department of State's latest annual report on Human Rights does not find gross violations by the new Government.

01

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?

Yes

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Not applicable.

2. Development Assistance Country Criteria

a. FAA Sec. 102 (b). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.

Yes

b. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, has the Congress specifically authorized such funds, or is assistance for population programs, humanitarian aid through international organizations, or regional programs?

Yes. Congressional approval of \$75.0 million ESF supplemental is still pending as of this writing.

c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

The program will benefit the needy. The Department of State has not found evidence of gross violations of human rights in Nicaragua.

MICROFILMED FROM BEST AVAILABLE COPY

II. NON-PROJECT CHECKLIST

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

(a) All pertinent Congressional Committees have been notified of the program by means of a supplemental appropriation request. Congress was notified on 3/31/80 that this program would be initiated with \$15 million in reprogrammed D.A. funds.

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or no more than \$1 million over that figure plus 10%)?

(b) N.A.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? N.A.
3. FAA Sec. 209, 610. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate? No.
4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
(a) yes
(b) yes
(c) yes
(d) yes
(e) yes
(f) N.A.
5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
The borrower will be required to purchase an amount at least equivalent to the loan in U.S. exports.
6. FAA Sec. 612(b); Sec 622(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.
With regard to the \$15 million of D.A. funds, counterpart contribution will be at least 25%. U.S. owns no sizeable amounts of local currency.
7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? No.

D. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 631. How will this assistance support promote economic or political stability?

The program will directly address the GRN's severe balance of payments and internal resources crises, and stimulate domestic production and employment.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 231a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

The program will extend credit to rural poor for agricultural and rural enterprise applications. Cooperatives will be eligible for assistance under the famcredit component. Upgrading of the country's road network will improve access of rural poor to marketing and communications channels.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

026

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

Yes. Credit being made available will be utilized by rural poor to accelerate recovery of rural areas.

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?

N.A.

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

N.A.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) to help alleviate energy problems;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

N.A.

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

N.A.

c. FIA Sec. 207; Sec. 112. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

The program will provide funding for (1) credit assistance for both agricultural and rural enterprise applications, (2) employment generating public works projects (including roads), (3) the construction of low cost housing, (4) municipal development activities and (5) the expansion and improvement of the National Agricultural School. At least 60% of the credit being made available will be allocated to the private sector.

d. FIA Sec. 201(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The program responds to the needs and desires of the people of Nicaragua but is not directly aimed at institution building or training.

III. STANDARD ITEM CHECKLIST

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed? Yes, where applicable.
 2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him? Yes.
 3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase? Yes.
 4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients? Yes.
 5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed? Nicaragua does not discriminate against U.S. marine insurance companies.
 6. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? N.A.
 7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed? N.A.
-

PAGE NO. 3A(3)-2	EFFECTIVE DATE November 2, 1977	TRANS. MEMO NO. 4:6	AID HANDBOOK 4, App 3A
---------------------	------------------------------------	------------------------	------------------------

ANNEX A-1
Page 9 of 10

A

8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? Yes, wherever practicable
9. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. Yes.
10. International Air Transport. Fair Competitive Practices Act, 1974 N.A.
- If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States? Yes.
2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States? Yes.
3. Will arrangement preclude use of financing:
- a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? Yes.
- b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? Yes.
- c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? Yes.
- d. FAA Sec. 662. for CIA activities? Yes.

B3

ANNEX A-1
Page 10 of 10

- e. App. Sec. 103. to pay pensions, etc., for military personnel? Yes.
- f. App. Sec. 106. to pay U.N. assessments? Yes
- g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(ii)? (transfer to multilateral organization for lending). Yes
4. FAA Sec. 201(d) a) If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? b) Can the country borrower service the loan on harder than standard development loan terms? (a) Yes (b) No

AID HANDBOOK 3, App 5C(1)	TRANS. MF NO NO. 3:32	EFFECTIVE DATE June 7, 1979	PAGE NO. 5C(1)-1
---------------------------	--------------------------	--------------------------------	---------------------

NICARAGUA RECOVERY PROGRAM
PROJECT STATUTORY CHECKLIST
(\$5,000,000 GRANT PORTION)

5C(1) - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? Yes

2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the United States unlawfully? No.
The GRN has an active program to prevent narcotics use and traffic .

3. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? Yes

4. FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? There are reported cases of outstanding debts and seizure of property of U.S. citizens that remain outstanding. Because of the disorder that resulted from the Civil War and the change in Government, the matter of exhausting all legal remedies is not clear. New GRN legislation concerning this is in process. The GRN has consistently maintained that it will pay legitimate claimants.

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

PAGE NO. 5C(1)-2	EFFECTIVE DATE June 7, 1979	TRANS. MEMO NO. 3:32	AID HANDBOOK 3, App 5C(1)
---------------------	--------------------------------	-------------------------	---------------------------

A.

6. FAA Sec. 620(a), 620(f); FY 79 App. Act, Sec. 108, 114 and 606. Is recipient country a Communist country? Will assistance be provided to the Socialist Republic of Vietnam, Cambodia, Laos, Cuba, Uganda, Mozambique, or Angola?

No

7. FAA Sec. 620(1). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

No, based on available information

8. FAA Sec. 620 (1). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

During the Civil War and the period immediately thereafter, there were lawless seizures of U.S. property. However, as public order and stability has returned the Government is taking adequate actions to prevent such incidents.

9. FAA Sec. 620(1). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

Investment guaranty program in Nicaragua remains in effect although it is not presently active.

10. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters:

Nicaragua has not seized or imposed an penalty or sanctions against any U.S. fishing activities in international waters

a. has any deduction required by the Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by AID Administrator?

11 a. No, as of February 15, 1980

11. FAA Sec. 620; FY 79 App. Act, Sec. 603.
(a) Is the government of the recipient country in default for more than 6 months on interest or principal of any AID loan to the country?
(b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds?

11 b. Yes. Loans are being renegotiated because of the economic condition described in this paper.

12. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the

Since the establishment of the new Government, current statistical information is not available. However, we are confident such expenditures are substantially below that of the prior Somoza regime.

AID HANDBOOK 3, App 5C(1)	TRANS. MEMO NO. 3:32	EFFECTIVE DATE June 7, 1979	PAGE NO. 5C(1)-3
---------------------------	-------------------------	--------------------------------	---------------------

A.12.

amount spent for the purchase of sophisticated weapons systems? (An affirmative answer may refer to the record of the annual "Taking Into Consideration" memo: "Yes, as reported in annual report on implementation of Sec. 620(s)." This report is prepared at time of approval by the Administrator of the Operational Year Budget and can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

13. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

14. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?

The GRN's U.N. payments are currently in arrears. USAID/Nicaragua has discussed this matter with the GRN, and expects that Nicaragua will meet its U.N. obligations.

15. FAA Sec. 620A, FY 79 App. Act, Sec. 607. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?

No

16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?

No

17. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty?

No

B. FUNDING CRITERIA FOR COUNTRY ELIGIBILITY1. Development Assistance Country Criteria

a. FAA Sec. 102(b)(4). Have criteria been established and taken into account to assess commitment progress of country in effectively involving the poor in development, on such indexes as: (1) increase in agricultural productivity through small-farm labor intensive agriculture, (2) reduced infant mortality, (3) control of population growth, (4) equality of income distribution, (5) reduction of unemployment, and (6) increased literacy?

Not applicable

B.1.

b. FAA Sec. 104(d)(1). If appropriate, is this development (including Sahel) activity designed to build motivation for smaller families through modification of economic and social conditions supportive of the desire for large families in programs such as education in and out of school, nutrition, disease control, maternal and child health services, agricultural production, rural development, and assistance to urban poor?

Not applicable

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights?

The Department of State's latest annual report on Human Rights does not find gross violations by the new Government.

b. FAA Sec. 533(b). Will assistance under the Southern Africa program be provided to Mozambique, Angola, Tanzania, or Zambia? If so, has President determined (and reported to the Congress) that such assistance will further U.S. foreign policy interests?

No

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Not applicable.

d. FY 79 App. Act, Sec. 113. Will assistance be provided for the purpose of aiding directly the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

No

e. FAA Sec. 620B. Will security supporting assistance be furnished to Argentina after September 30, 1978?

No

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual fund sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Fund.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PRODUCT?

A. GENERAL CRITERIA FOR PROJECT

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| 1. <u>FY 79 App. Act Unnumbered; FAA Sec. 653 (b); Sec. 634A.</u> (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)? | All pertinent Congressional Committees have been notified of the \$75 million program by means of a supplemental appropriation request. |
| 2. <u>FAA Sec. 611(a)(1).</u> Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? | Yes |
| 3. <u>FAA Sec. 611(a)(2).</u> If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? | Not applicable (N.A.) |
| 4. <u>FAA Sec. 611(b); FY 79 App. Act Sec. 101.</u> If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973? | N.A. |
| 5. <u>FAA Sec. 611(e).</u> If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? | N.A. |
| 6. <u>FAA Sec. 209.</u> Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. | No |

PAGE NO. 5C(2)-2	EFFECTIVE DATE June 7, 1979	TRANS. MEMO NO. 3:32	AID HANDBOOK 3, App 5C(?)
---------------------	--------------------------------	-------------------------	---------------------------

ANNEX A-2
Page 6 of 12

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

Answer is yes for (a) through (e) when loan portion of the program of which this project is a part is considered.

(f) N.A.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Under the loan portion of the program, of which this project forms an integral part, the borrower will be required to purchase an amount at least equivalent to the loan of U.S. exports.

9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

Under loan portion of program using Development Assistance money, counter-part contribution will be at least 25%.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

12. FY 79 App. Act Sec. 608. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar, or competing commodity?

No.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); 111; 113; 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained

The technical assistance and Operational Program Grant support being provided in this grant will complement the \$70 million program which will extend credit to rural poor and upgrade the country's road network, thereby improving the access of the rural poor to marketing and communications channels.

B.1.a.

basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106, 107.

Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.)

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

Yes - Overall program makes credit available which will be utilized by rural poor to accelerate economic recovery of rural areas.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

N.A.

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

N.A.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(i) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

N.A.

(ii) to help alleviate energy problems;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

B.1.b.(4).

(v) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

c. [107] Is appropriate effort placed on use of appropriate technology?

N.A.

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

Yes (refer to A.9., above)

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to the Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

No.

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental and political processes essential to self-government.

Project responds to needs and desires of GRN and provides training as well as technical assistance to Nicaragua.

g. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase or productive capacities and self-sustaining economic growth?

Yes

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

N.A.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N.A.

MICROFILMED FROM BEST
AVAILABLE COPY

B.

3. Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

N.A.

b. FAA Sec. 533. Will assistance under this chapter be used for military, or paramilitary activities?

5C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| 1. <u>FAA Sec. 602</u> . Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed? | Yes, where applicable. |
| 2. <u>FAA Sec. 604(a)</u> . Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him? | Yes |
| 3. <u>FAA Sec. 604(d)</u> . If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed? | Nicaragua does not discriminate against U.S. marine insurance companies. |
| 4. <u>FAA Sec. 604(e)</u> . If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? | Not Applicable (N.A.) |
| 5. <u>FAA Sec. 608(a)</u> . Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? | Yes |
| 6. <u>FAA Sec. 603</u> . (a) Compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. | Yes |
| 7. <u>FAA Sec. 621</u> . If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the | Yes |

PAGE NO. 5C(3)-2	EFFECTIVE DATE June 7, 1979	TRANS. MEMO NO. 3:32	AID HANDBOOK 3, App 5C(3)
---------------------	--------------------------------	-------------------------	---------------------------

ANNEX A - 2
Page 11 of 12

A.7.

facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? N.A.

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available? N.A.

9. FY 79 App. Act Sec. 105. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States? Yes

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest? Engineering and professional services will be supplied by staff of Nicaraguan Government.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? Yes

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the United States not exceed \$100 million? Yes

C. Other Restrictions

1. FAA Sec. 122 (b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Yes

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N.A.

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-bloc countries, contrary to the best interests of the United States? Yes

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or guaranty of such transaction? Yes

AID HANDBOOK 3, App 5C(3)	TRANS. MEMO NO. 3:32	EFFECTIVE DATE June 7, 1979	PAGE NO. 5C(3)-3
---------------------------	-------------------------	--------------------------------	---------------------

ANNEX A - 2
Page 12 of 12

C.

5. Will arrangements preclude use of financing:
- a. FAA Sec. 104(f). To pay for performance of abortions or to motivate or coerce persons to practice abortions, to pay for performance of involuntary sterilization, or to coerce or provide financial incentive to any person to undergo sterilization? **Yes**
 - b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? **Yes**
 - c. FAA Sec. 660. To finance police training or other law enforcement assistance, except for narcotics programs? **Yes**
 - d. FAA Sec. 662. For CIA activities? **Yes**
 - e. FY 79 App. Act Sec. 104. To pay pensions, etc., for military personnel? **Yes**
 - f. FY 79 App. Act Sec. 106. To pay U.N. assessments? **Yes**
 - g. FY 79 App. Act Sec. 107. To carry out provisions of FAA sections 209(d) and 251(h)? (Transfer of FAA funds to multilateral organizations for lending.) **Yes**
 - h. FY 79 App. Act Sec. 112. To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields? **Yes**
 - i. FY 79 App. Act Sec. 601. To be used for publicity on propaganda purposes within United States not authorized by the Congress? **Yes**

ANNEX BPROPOSED ACTIVITY SUMMARY PRESENTATION

Reconstruction and rehabilitation activities financed under the Special Cordoba Account will be based on an approved Proposed Activity Summary Presentation (PASP) which will form the basis for each activity sub-agreement. Each PASP will include plans, scopes of work, implementation plans, etc., as required for the implementation of each proposed activity. The following is an illustrative list of items which will be covered in each PASP.

I. BACKGROUND AND CURRENT STATUS

- A. Pre-War Situation
- B. Impact of War
- C. Current Status and Identification of Major Constraints

II. GRN APPROACH

- A. GRN Objectives and Constraints to their Achievement
- B. Proposed Policies and Strategies for Rehabilitation and Development
- C. GRN Program Initiatives
- D. Institutional Arrangements

III. PROPOSED PROGRAM/PLAN OF ACTION

- A. Program Description
- B. Goal and Purpose
- C. Amounts Required (Foreign Exchange and Local Currency)
- D. Institutions to be Used
- E. Implementation Arrangements
- F. Financial Plan
- G. Disbursement Procedures
- H. Conditions and Covenants

MICROFILMED
AVAILABLE COPY

U. S. ASSISTANCE TO NICARAGUA
July 13, 1979 - March 31, 1980

	<u>QUANTITY</u>	<u>EXPENDITURES/ DELIVERED</u>
I. <u>FOOD</u>		
Direct Deliveries	17,381 MT	\$ 9,000,000
	Corn (6,220 ")	
	Wheat (5,000 ")	
	Powdered Milk (2,055 ")	
	Oil (1,767 ")	
	Rice (1,627 ")	
	Others (712 ")	
Concessional Sales	48,700	12,600,000
	Wheat (40,000)	
	Rice (3,000)	
	Edible Oils (5,700)	
Contribution to World Food Program	Powdered Milk 3,240	<u>1,488,000</u>
	Sub-Total 69,321 MT	<u>\$23,088,000</u>
II. <u>FINANCIAL ASSISTANCE TO GRN</u>		
Cash Grant		\$ 8,000,000
Disbursements from Loan Portfolio <u>1/</u>		3,946,666
Disbursements from Grant Portfolio <u>2/</u>		639,707
HIG Payments		<u>888,113</u>
	Sub-Total	<u>\$13,474,486</u>
III. <u>DONATIONS TO PRIVATE ORGANIZATIONS</u>		
International Committee of Red Cross		\$ 750,000
Catholic Relief Services (CRS)		600,000
CEPAD - Church World Services		500,000
FUNDE		500,000
EDUCREDITO		100,000
Nicaraguan Red Cross		75,000
CARE - (Emergency Program)		67,000
CARE School Repair		200,000
FECAENIC		<u>100,000</u>
	Sub-Total	<u>\$ 2,892,000</u>
IV. <u>OTHER</u>		
Agricultural Inputs and Transportation		\$ 250,000
Dextrose Solutions		210,000
Disaster Relief - (ATLANTIC COAST)		170,000
Medicines, beds, tents, etc.		146,000
Emergency Support - Malaria Activities		<u>40,000</u>
	Sub Total	<u>\$ 816,000</u>
	TOTAL	<u><u>\$40,270,486</u></u>
<u>1/</u> Total Loan Funds Available	\$27,701,269	
<u>2/</u> Total Grant Funds Available	\$ 1,307,583	