

UNITED STATES GOVERNMENT

PD-AAI-464-B1

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DUPLICATE

Memorandum

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TO : LA/DR - AID/W

DATE: Sept. 30, 1976

FROM : Mr. Ronald F. Venezia, CRDO/ROCAP *RFV*

SUBJECT: CABEI Integration Fund - AID Loan No. 596-L-008

REF : Loan Completion Review and Report

Pursuant to M.O. 1264.1(IV), please find enclosed the Loan Completion Report on subject loan.

Also enclosed is CABEI's Final Report on this loan, which is acceptable to ROCAP.

Enclosures: a/s

cc: -Mr. Gerald Schwab, LA/DP

-Bureau for Program and Policy Coordination's
Loan Review Division

CRDO:RFVenezia:jk



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Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

REGIONAL OFFICE FOR CENTRAL AMERICAN PROGRAMS
(ROCAP)

Loan Completion Review and Report

Per M.O. 1264.1 (IV)

A.I.D. Loan No. 596-L-008

Borrower: CABEI

Project Title: Económico Integration Fund (3rd)

Loan Authorized: July 5, 1968

Loan Agreement signed: April 25, 1969

Amount and Terms: \$30 Million
40 years - 2% during 10-year grace
period and 2½% thereafter

Date Initial CP's Met: December 16, 1969
(Implementation Letter No. 3)

Date Fully Disbursed: June 30, 1976

CABEI Contribution: \$7.5 Million

Purpose:

The loan was to provide supplemental financing to the Central American Fund for Economic Integration. CABEI was to use proceeds of the loan together with a \$5.0 million contribution from its Member Countries to continue a program to finance up to 100% of the cost of regional infrastructure projects primarily in the public sector including the Central American Regional Telecommunications Project, if awarded to a U.S. or Central American firm. 1/

1/ Subsequently the regional telecommunications project was financed from other sources (Japan); thus CABEI increased its contribution to the program from \$5 million to \$7.5 million to match at the ratio of 1 to 4 the total \$30 million in AID funds (Implementation Letter No. 4).

Extension of Terminal Dates: Two ^{2/}

	<u>Commitment</u> <u>Documents</u>	<u>Disburse</u>
Initial Terminal Dates:	4/30/73	6/30/73
Final Terminal Dates:	3/31/76	6/30/76

The main reason for the extensions was to permit completion of sub-projects according to revised construction schedules submitted to ROCAP by CABEI. The second extension was mainly to provide the necessary time to complete the construction of the Gotera/Perquín highway project in El Salvador.

Amendments to the Loan Agreement: Two.

The Loan Agreement was amended on October 21, 1970 to conform to the new Procurement Policy for AID Loans to Latin American countries, and to make certain other changes in the Loan Agreement. The new Latin American policy "unties" the source of U.S. dollar procurement of Loan funded goods and services from solely the United States to Code 940 of the AID Geographic Code Book, and excluded for purposes of this Loan the CACM countries. Implementation Letter No. 5 explains in detail the changes effected through Amendment No. 1. The Loan Agreement was amended further on April 10, 1974 deleting the last paragraph of Section 5.05 (Assignment of Security) and a new Section 5.11 was added to Article V of the Loan Agreement (Status of Borrower's Obligations to AID.)

Implementation:

ROCAP's implementation of the project was a responsibility of its Engineering and Capital Development offices. Sub-projects were monitored by ROCAP and CABEI staff, but the sub-borrowers were responsible for their general supervision and execution. Construction contractors were selected and prequalified by the sub-borrowers with the approval of CABEI and ROCAP, and the basis for selection was the lowest responsive bid submitted based on unit prices.

^{2/} See Implementation Letters No. 9 - 1/29/73
No. 13 - 8/12/74

Construction was periodically inspected by ROCAP and CABEI engineers to insure compliance with plans and specifications.

The only major difficulty in the overall program was the completion of the Gotera/Perquín Highway project in El Salvador. Construction of this highway was suspended for several months due to problems affecting the construction firm in charge of the sub-project. The surety, Holiday Town of Costa del Sol, eventually resumed the work through a new construction firm. However, as of June 30, 1976 the sub-project was only 80% completed. The main reason for the delay is the contractor's inability to work at full scale due to other GOES priority work; also, heavy rains in the area have affected work progress considerably. The sub-project is not expected to be completed before June 30, 1977; however, all AID loan funds assigned to it were fully disbursed by the TDD. The sub-borrower's Loan Agreement with CABEI includes a clause stipulating that the sub-borrower shall provide promptly as needed the funds required for the completion of the sub-project. ROCAP has reiterated to CABEI its responsibility to assure project completion. ROCAP engineers will continue to make inspection visits to this sub-project to determine progress and to make sure it is completed.

The \$30 million in project funds were used to finance construction and engineering supervision on fifteen highways, one airport, one Atlantic Coast inland waterway, and two highway signal projects. Construction of all but one project (Gotera/Perquín, as noted above) was completed.

In order to avoid a further extension of the Terminal Disbursement Date, CABEI proposed and ROCAP agreed to transfer \$1.1 million of construction work accomplished under Loan 596-L-014 to Loan 596-L-008. (See Implementation Letter No. 19.)

A status report on each sub-project is contained in the attached Final Report of CABEI of June 1976. Chart No. 1 of the report contains a breakdown of each project by country, its length in kilometers, and AID Loan 008 participation in each sub-project.

Compliance:

CABEI has carried out the program in conformity with all conditions and covenants of the Loan Agreement. With respect to the "Special Covenants", CABEI complied on July 27, 1970, with the requirements of Section 5.09(a) which relates to a \$40 million Member Country guarantee of CABEI's borrowings or bond sales and the introduction of a bond issue, under such guarantee, in the CACM. The requirement was completed with the signing by all Central American countries of a protocol to CABEI's charter establishing the \$40 million guarantee fund, which enables the Bank to borrow up to that amount with a full guarantee of the five member countries. This guarantee is over and above the obligations incurred by the C.A. governments as a result of their capital subscriptions. With respect to Section 5.09(b), Export Diversification and Tourism, the requirements were satisfied by CABEI's \$30 million Loan Application of May 13, 1970, and the fact that this loan (596-L-010) was authorized by AID on June 19, 1970.

Maintenance of facilities constructed under the loan is the responsibility of the sub-borrowers and this was included in the Borrower's Sub-Loan Agreements. ROCAP and CABEI engineers have conducted inspections to assure compliance with the maintenance requirement. When maintenance was not being satisfactorily performed, ROCAP called it to CABEI's attention and requested CABEI to take corrective action.

In order to promote the improvement of maintenance systems in Central America, SIECA and CABEI financed jointly the preparation of the Central American Manual of Maintenance of Highways, Culverts and Bridges, published in July 1974 by SIECA. Further, CABEI and SIECA have worked together to produce a regional highway sign and signals manual and a manual on load control and vehicle dimensions.

ROCAP and CABEI staff are presently conducting an ex-post benefit/cost analysis of several roads constructed under the program. The analysis, which will concentrate on the development impact of the roads, is expected to be completed in November 1976. Upon completion, it will be submitted to LA/DP Evaluation Office.

Outstanding Covenants:

In the post-disbursement period of the Loan there are two covenants which require action on the part of the Borrower, in addition to the requirements to amortize the loan:

(1) Pursuant to Section 4.08 of the Loan Agreement, the Borrower is required to keep records on the Project for at least five years after the final disbursement of funds, that is, until June 30, 1981. (2) Section 5.03 of the Loan Agreement requires the Borrower to use income derived from operations financed under the Loan for the following purposes in order of preference listed:

- a. To pay debt service on the AID loan
- b. To pay costs of Borrower in administering the Integration Fund; and
- c. To finance further Integration Fund activities.

No problems are foreseen in complying with these covenants and no specific monitoring actions are called for in this regard. Since all sub-projects have been completed except for one, and this one will continue to be inspected by ROCAP and CABEI to assure its completion, no post-disbursement reports are required. However, ROCAP will report to AID/W from time to time important developments on this sub-project.

The ROCAP Controller has the only specific continued monitoring responsibility, that of overseeing the Loan's amortization.

All things considered, CABEI has performed well in implementing this Loan. CABEI is currently implementing another AID Loan with similar purposes (Loan 596-L-014). Close contact between ROCAP and CABEI permits a continual flow of information regarding sub-projects financed under the Loan and the effective covenants.

Prepared by: ACDO:LE Rojas *LE Rojas* - 9/30/76

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