

Memorandum

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TO : Mr. James Lockard, ARA-LA/CEN, AID/W

DATE: Nov. 11, 1975

FROM : Mr. Barry Sidman, DD/ROCAF

24p

SUBJECT: Draft IGA Report on ROCAF Loan No. 596-L-010

This memo comments on the subject report, with particular reference to the numbered items identified in your October 24, 1975 letter.

I. IMPACT ON U.S. ECONOMY

Issue: Loan Paper did not evaluate the impact of the proposed program on the U.S. economy.

Response:

- A. The impact of the Loan on the U.S. economy was discussed in Section III.E. of the CAP entitled, Impact on the U.S. Economy (Pages 26 and 27 of the CAP). The analysis of this aspect of the program complies with the requirements of Manual Order 1242.1 - Section IV. I.
- B. Adverse impact of this program on the U.S. economy was not identified as an issue during the intensive review of the program or during discussions at the AID/W loan review meetings. It was not then considered that a loan which sought to improve Central America's balance of payments (page 20 of the CAP states "The proposed loan leads a new thrust in the FY 71 program designed to counter unfavorable balance-of-payment trends prevailing throughout the region...") would be for this reason antithetical to the best interests of the U.S. economy. A.I.D. was following established policy in pursuing projects which were to improve a country's or region's foreign exchange picture. The policy would particularly apply in Central America, with which the United States maintained a very favorable balance of payments. Moreover, it was the case at the time the loan was authorized that local currency financing was fully consistent with the purposes of the FAA. The IGA report appears to be flogging a horse that died some years ago. We cannot



agree that the loan paper should have discussed, in what in the light of existing policy would have been a patently academic manner, the possible disturbances to the trillion dollar economy of the United States of a \$30 million loan, half of which in any event was to be spent in the U.S.

Of equal importance, it appeared in 1970 and it appears now that export promotion loans are two way streets, benefitting the borrower and the lender. \$7.5 million of the A.I.D. loan will be spent in the U.S. largely on capital goods, equipment and machinery. Of the dollars converted to local currency a good portion will generate a further demand for imports from the U.S., the major supplier of Central America. Moreover, secondary effects of the project should include an increased demand for U.S. replacement equipment and parts.

Of the increase in C.A. exports generated by projects financed under the loan, about half will be sold in the U.S. market. It is expected that the products developed for export to the U.S. will have been selected on the basis of inadequate U.S. domestic supplies, so that the additional exports to the U.S. should not cause dislocation or harmful competition to U.S. producers. Resulting increases in foreign exchange earnings will in turn permit an increase in C.A. imports. Trade statistics suggest that about 50% of the increase will come from the U.S. Thus, over the long term the A.I.D. program should have a positive effect on the U.S. economy. By supporting economic and financial growth and stability in the region the Loan should increase U.S. private trade and investment abroad through increased facilities for tourists and businessmen in the area, and the furnishing of goods and services by the U.S. private sector. Since the investment resulting from this loan (\$260 million compared to an initial estimate of \$100 million) will be greater than anticipated, the positive effects on the U.S. economy will also be greater than anticipated. These considerations, and the absence of an issue with regard to adverse impact on the U.S., obviated the need for an extended discussion of the matter in the CAP.

- C. The IGA report (page 8) notes that "some" industries financed by the A.I.D. loan are competing with "U.S. industries already hard hit by foreign competition." In this regard, the report cites two examples out of 119, a mushroom grower and a textile exporter. The mushroom project is partially owned by a U.S. mushroom company and was approved by AID/W for A.I.D. financing, and the "textile" exporter sells indigo denim to the U.S. where the demand is apparently unlimited and is not being met by U.S. manufacturers. There is a proverb which goes, "For example is no proof". In this instance it is particularly apt. In any event, it was not possible at the time of the loan's authorization to precisely identify each and every benefitting sub-borrower, and the competitive impact, by industry, in the U.S. of any assistance to each sub-borrower. Further, it was not and is not A.I.D. policy to prohibit sub-loans to a sub-borrower identified during the course of loan implementation, where the loan theoretically would have an adverse impact on one or more firms in an industry in the U.S. Accordingly, the loan agreement did not reserve that right.
- D. Finally, at the time this loan was approved, there were no facts available to ROCAP or to AID/Washington to indicate any possible adverse effect in areas of U.S. labor surplus which would result from the program. Accordingly, no discussion of this matter was required.

II. EXMIBAL

Issue: The largest single sub-loan (\$6 million) under Loan 010 was committed to a wholly-owned Canadian-U.S. company which could obtain financing from other sources.

Response:

- A. At the time Loan 010 was authorized and negotiated there were no A.I.D. requirements stipulating that CABEI had to demonstrate in the case of each sub-loan that sub-borrowers had no alternative sources of financing. It is doubtful that ROCAP would have had a right under its Loan Agreement to object to the Exmibal project on these grounds even if it had not supported the project.

- B. CABEI has developed new disbursement projections for the Exmibal sub-loan. It has reduced the commitment of A.I.D. funds from \$6 million to \$2 million (see Attachment A) due to delays in meeting CABEI's legal requirements for disbursement. CABEI does not expect more than \$2 million to be disbursed with Loan 010 funds by the TDD, 12/31/76.
- C. CABEI interest in approving the Exmibal loan rested on Exmibal plans to offer share participation in the company to C. A. investors. This is a requirement of the CABEI/Exmibal loan agreement. This feature of the Exmibal loan was viewed by ROCAP as a positive contribution to regional integration, one of the important objectives of the loan and the ROCAP program.
- D. ROCAP fully supports the policy statement contained in AIDTO Circular A-482 dated August 12, 1975, with regard to the financing of subsidiaries of foreign firms through A.I.D.-assisted development banks, is adhering to this policy now, and will continue to do so in the future.

III. DEOBLIGATION

Issue: ROCAP's consideration of deobligation. Ref. "White Paper", dated September 5, 1973. (Ref. page 12 of the IGA report).

Response:

- A. The "White Paper" containing the observation that "deobligation is a certainty" and a covering letter to the RLO are included in Attachment B. It is abundantly clear that the "White Paper" was a negotiating document designed to stimulate CABEI to take corrective action to improve loan performance and not an internal Mission analysis of the options open to A.I.D. on that point. It was the spectre of deobligation that ROCAP employed to spur CABEI into action. The document should not be read as some newly discovered "evidence" of ROCAP's desire to "move money" at all costs; such an interpretation is not only simplistic, but it is wrong.

It should be noted that the IGA report views deobligation as a "viable action"... presumably to "hasten CABEI's straightening out its problem in dealing with the private sector." This makes poor sense. The threat of deobligation can prompt a borrower's improved performance. ROCAP followed this strategy. Deobligation itself, however, accomplishes nothing if the object is to improve performance. It does, of course, prevent wasted or inefficient utilization of appropriate funds, and this is important. But the point at issue in 1973 was how to spur Borrower performance, and the IGA report appears to miss it.

IV. LOCAL CURRENCY FINANCING

Issue: Was additional local currency required and were fewer dollars needed under the A.I.D. Loan to finance the Program?

Response:

A. The IGA report asserts that ROCAP's review of CABEI's request for additional local currency financing was not based on an "objective appraisal" (Page 10):

- At ROCAP's request, CABEI developed in November 1973 a detailed cash flow analysis (Application and Source of Funds Statement) to support its request for additional local currency financing. The analysis supported the need for \$7.5 million and was described fully in ROCAP airgram CAPTO A-160 dated December 10, 1973. Exhibit A of that airgram contained the Application and Source of Funds Statement (Attachment C to this paper). We are not aware of reasons why this Statement was inadequate for the purpose. Nor for that matter are we aware of pertinent evidence to support the IGA's belief that the ROCAP review was subjective and not supported by data and analysis.

B. The IGA report states that ROCAP made no analysis as to whether CABEI's Integration and Housing Funds could be used to meet the local currency shortage of the Ordinary Fund from which Loan 010 is administered (Page 14a).

- Page 2, paragraph 2 of Airgram CAPTO A-160 stated that funds in the other two Funds were not available for transfer to the Ordinary Fund. The Integration (public infrastructure) and Housing Funds operate under separate books and records and can only be used to meet the specific loan demands prescribed for each Fund. The Charter of the Integration Fund prohibits the transfer of its balances including earnings to another Fund. The Housing Fund, due to restrictions imposed by A.I.D. under the Housing Investment Guaranty Program, is prohibited from transferring balances of any kind to another Fund. This accounts for the cash flow analysis being made of the Ordinary Fund only, the other funds not being relevant to Loan 010.

C. The IGA report makes reference to a surplus of foreign exchange "in an amount which exceeded the local currency shortage by more than \$9 million... and much of the surplus could have been converted by CABEI into needed local currencies" (page 15).

- ROCAP cannot precisely identify the source of this figure; the IGA report is not helpful in this regard. We think it might relate to item 10 on the Application and Source of Funds Statement, since the U.S. dollar Ending Cash figure is shown as \$24.5 million and the local currency deficit as \$15.2 million. If it does, the IGA did not take into account the deficit of \$3.2 million for Other Foreign Exchange, which reduces the Ending Cash figure (item 10) to \$6.1 million, not \$9 million.

The \$6.1 million figure was to remain as cash to operate the Ordinary Fund - to service creditors, to be available to meet disbursement requests on a timely basis, and to pay salaries, expenses, etc. of the Bank. It was an amount fixed by CABEI management for such legitimate purposes, rather than for financing additional local currency costs.

D. The report suggests CABEI could have used the \$23.5 million in temporary investments (time deposits) for financing its local currency needs under Loan 010.

- The \$23.5 million is a consolidated statement figure and represents short-term investments as of June 30, 1973 - \$12.0 million for the Ordinary Fund, \$9.5 million for the Integration Fund and \$2.0 million for the Housing Fund. As stated above, Loan 010 is being administered from the Ordinary Fund and since transfers of funds from one Fund to another are prohibited, the \$12.0 million in the Ordinary Fund only is pertinent to Loan 010, and even these funds cannot be used for local cost financing, as explained below.

Temporary investments are important to CABEI in the management of its overall loan and investment portfolio to insure earnings, liquidity and prompt servicing of its private and public creditors in the U.S., Europe and Japan. Funds so invested give a balance to the bank's portfolio and off-set the higher-risk loans. The extent of the time deposits is determined regularly by senior management. They are not available to finance CABEI sub-projects, and bank management keeps a close watch on these investments so they can be increased or decreased as circumstances demand in the management of the Bank's portfolio and its operations.

The above relates to temporary investments. This is not to be confused with CABEI's free cash deposits (not interest bearing) which CABEI can and does convert to finance local currency requirements of its sub-projects. (See paragraph E below and Attachment C).

E. The IGA report states that CABEI used \$7 million of free foreign exchange for purchases from Europe and Japan; this contrasts with purchases from the U.S. with its free foreign exchange of only \$2.6 million (page 17). The report asserts that CABEI could have used the \$7 million to purchase the needed local currency instead of purchases from Europe and Japan. If A.I.D. had not agreed to the \$7.5 million increase in local cost financing, this amount would have been available for foreign exchange costs.

- First, the \$2.6 million is to finance U.S. procurement that is ineligible for financing under the A.I.D. Loan (i.e., tobacco equipment) or that cannot be adequately supported by the required A.I.D. documentation.

With reference to the estimated \$7 million (as of March 31, 1975) of "free foreign exchange" to be used for purchases from Europe and Japan, the amount is actually \$5 million; CABEI projects that \$2 million will be used for financing local costs. The IGA report incorrectly assumes that this money would have inevitably been spent in the U.S. All these European/Japanese purchases cannot automatically be substituted for U.S. purchases. Many involve equipment which is not available in the U.S. because of differences in size, specifications, etc. In other words, the demand for eligible U.S. procurement to be financed under AID/CABEI \$60 million program is not expected to exceed \$15 million, and "reserving" another \$7.5 million for U.S. procurement would not increase that amount. If A.I.D. had not increased the local currency availability to \$15 million, a good portion of the U.S. dollar component (\$7.5 million) would not have disbursed. CABEI would have encountered serious difficulty in obtaining this amount from commercial banks which it could mix with concessional A.I.D. funds and its cash rollovers to pass on to its clients at reasonable interest rates and terms, as required under the program. And, most significantly, the objectives of the project would have been adversely affected.

F. The IGA report repeatedly suggests that CABEI was unwilling to meet the needs for additional local cost financing.

- As we have demonstrated the "available" resources for this purpose were in fact by no means freely available for this purpose. Beyond this, the record reflects CABEI's clear willingness to meet the project's substantially increased needs for local currency financing, and to meet these needs at a not inconsiderable cost.

In evaluating this comment, the following breakdown of CABEI and A.I.D. FX and local costs, one prepared

shortly before the loan was authorized (May 1970), and the other activity as of March 31, 1975, both of which are referred to in the IGA report. The table shows that CABEI has substantially increased its local currency financing of project costs.

Projected FX and Local Project Costs

^{1/}
May 1970
(in millions US\$)

	<u>Total</u>	<u>Local</u>	<u>FX</u>	
			<u>U.S.</u>	<u>Other</u>
A.I.D.	30.0	7.5	22.5	--
CABEI	24.8	9.6	--	15.2
Private	<u>65.0</u>	<u>49.0</u>	<u>16.0</u>	<u>--</u>
T O T A L	119.8	66.1	38.5	15.2
	100%	55.2%	32.1%	12.7%

Actual and Projected FX and Local Project Costs

March 31, 1975
(in millions US\$)

	<u>Total</u>	<u>Local</u>	<u>FX</u>	
			<u>U. S.</u>	<u>Other</u>
A.I.D.	30.0	15.0	15.0	--
CABEI	37.1	19.0	2.6	15.5
Private	<u>190.0</u>	<u>190.0</u>	<u>--</u>	<u>--</u>
T O T A L	257.1	224.0	17.6	15.5
	100%	87.6%	6.4%	6.0%

^{1/} These CAP projections, used by the IGA, do not reflect the increase in the Borrower's contribution to \$30 million, required by AID/W during its final review of the project.

The CABEI contribution to the program is steadily increasing. In March 31, 1975 it was \$37.1 million (as shown in the above chart) increasing to \$59.4 million on June 30, 1975 and to \$64.8 million on September 30, 1975, a \$34.8 million increase (116%) over the required \$30 million. 1/

The increase is financing a good proportion of local costs, evidencing the high demand for local currency financing and CABEI's willingness to finance same.

This willingness was also reflected in the cash flow analysis (page 2 of Attachment C) which showed that in November 1973 CABEI was converting \$9.5 million of its cash balances to local currencies, plus an additional \$8.6 million in dollar borrowings from its commercial bank lines of credit. CABEI was financing this local currency demand largely through borrowings from its U.S. commercial bank lines of credit. This "free foreign exchange" was and is expensive but CABEI has no other resources for local cost financing. The \$16.7 million for financing working capital and construction, mentioned on page 17 of the IGA report, is financed in this manner to cover these local project costs.

G. Page 16 of the IGA report states: "CABEI's unwillingness to pay a \$75,000 service charge led CABEI to request A.I.D. to take action which resulted in a \$7.5 million balance-of-payments outflow to the United States."

1/ CABEI's contribution contains an increasing amount of dollar borrowings under its U.S. commercial bank lines of credit. These have been shown as dollar costs in its status reports whereas they are mostly to meet local currency costs, thereby overstating the dollar component of the program and understating the local currency component. CABEI progress report for the September 30, 1975 quarter will show the actual breakdown of foreign exchange (including U.S. and others) and local currency costs. Because the IGA reported on Loan 010 activity as of March 31, 1975, CABEI will revise this and the June 30 progress reports to show the actual foreign exchange and local currency costs projected as of these dates.

- CABEI converts its dollar borrowings and cash availabilities into local currencies. When CABEI disburses dollars to its sub-borrowers, they do the converting, paying the conversion fee. This is a normal and accepted banking practice in Central America. CABEI does not pay the fee; it is routinely passed on to the sub-borrower as part of his costs.

V. FINAL COMMENT

Viewed in light of the foregoing comments and analysis, the statements on pages 2 and 10 of the IGA report appear particularly baseless. ROCAP did not "fear" an AID/W partial deobligation. Rather, it sought to stimulate CABEI concern with that distinct possibility, so as to generate improved performance. ROCAP did not support CABEI's request for an increase in A.I.D. local cost financing on subjective grounds and simply because CABEI made the request. On the contrary, the data and projections available to ROCAP and to AID/W demonstrated the need for increased local currency financing and the constraints on CABEI in meeting that need. The IGA report's attempt to delve into the motivations of the Mission, largely on the basis of a document (the White Paper) designed to spur the Borrower on, has itself a particularly subjective ring.

A T T A C H M E N T S

- A. Loan 010 Disbursement Projections
- B. ROCAP White Paper
- C. Application and Source of Funds Statement

PROYECCION DE DESEMBOLSOS DEL PRESTAMO AID No. 596-L-010
(30 DE SETIEMBRE DE 1975)

(CIFRAS EN US\$)

PRESTAMO No.	PRESTAMOS APROBADOS	MONTO TOTAL	POSIBLE MONTO DEL 010 QUE SERÁ UTILIZADO AL 31/12/76	TOTAL DESEMBOLSADO CON EL 010 AL 30-9-75	PROYECCION DE DESEMBOLSOS	
					31/Dic./75	30/JUNIO/76
	<u>GUATEMALA</u>					
384	EXMIBAL	6,000,000	2,000,000	-.-	-.-	-.-
385	HOTEL LA HACIENDA	90,000	90,000	-.-	10,000	60,000
400	TENERÍA LA CONSTANCIA	334,800	133,809	53,935	31,255	48,619
432	CORPORACIÓN FINANCIERA NACIONAL (CORFINA)	500,000	500,000	87,000	163,000	250,000
437	PASCUAL MÉNDEZ Y CÍA.	300,000	300,000	169,586	25,000	94,874
472	HOTEL DEL LAGO (*)	1,100,000	900,000	-.-	-.-	400,000
473	JUÁREZ BELLOSO Y CÍA. (*)	450,000	450,000	-.-	20,000	430,000
	SUB - TOTAL	8,774,800	4,373,809	310,521	249,255	1,263,493
	<u>EL SALVADOR</u>					
404	SALVADOR MATHIES MONTALVO	214,000	214,000	133,126	-.-	80,874
434	SOCIEDAD TORRE DEL SOL	3,000,000	2,500,000	-.-	-.-	1,000,000
440	FINANCIERA DE DESARROLLO E INVERSIÓN	500,000	500,000	274,000	22,000	100,000
451	MOLINA HERMANOS - MUEBLES	170,000	129,725	63,409	66,316	-.-
	SUB - TOTAL	3,884,000	3,343,725	470,535	88,316	1,180,874
	<u>HONDURAS</u>					
289-Am.	EMPRESA DE CURTIDOS CENTROAMERICANOS	400,000	265,760	140,614	100,000	25,146
330-Am.	MEJORES ALIMENTOS DE HONDURAS	600,000	500,257	429,315	51,308	19,634
420	BANCO NACIONAL DE FOMENTO	450,000	114,855	14,855	-.-	50,000

PROYECCION DE DESEMBOLSOS DEL PRESTAMO AID No. 596-L-010
AL 30 DE SETIEMBRE DE 1975

(CIFRAS EN US\$)

<u>PRESTA-</u> <u>MO No.</u>	<u>PRESTAMOS APROBADOS</u>	<u>MONTO</u> <u>TOTAL</u>	<u>POSIBLE MON-</u> <u>TO DEL 010 QUE</u> <u>SERÁ UTILIZADO</u> <u>AL 31/12/76</u>	<u>TOTAL DE SEMBOL-</u> <u>SADO CON EL 010</u> <u>AL 30-9-75</u>	<u>PROYECCION DE DESEMBOLSOS</u>		
					<u>31/Dic./75</u>	<u>30/JUNIO/76</u>	<u>31/Dic./76</u>
459	BANCO FINANCIERA HONDUREÑA	225,000	100,000	-.-	100,000	-.-	-.-
468	CÍA. GENERAL HOTELERA (*)	5,000,000	430,600	-.-		54,000	37,000
	SUB - TOTAL	6,675,000	1,411,472	584,784	251,308	148,780	42,000
	<u>NICARAGUA</u>						
328-Am.	POLÍMEROS CENTROAMERICANOS (*)	5,240,000	822,500	-.-	-.-	329,000	49,000
334-1	INSTITUTO DE FOMENTO NACIONAL	500,000	500,000	308,741	191,259	-.-	-.-
334-2	INSTITUTO DE FOMENTO NACIONAL	500,000	500,000	-.-	200,000	300,000	-.-
373	CÍA. MARÍTIMA MUNDIAL	258,000	258,000	-.-	-.-	220,000	3,000
383	INSTITUTO DE FOMENTO NACIONAL	670,257	340,554	220,554	-.-	50,000	7,000
436	POLÍMEROS CENTROAMERICANOS	1,400,000	1,400,000	592,620	247,380	560,000	-.-
456	DESARROLLO Y TURISMO DE OCCIDENTE (*)	600,000	600,000	-.-	-.-	600,000	-.-
	SUB - TOTAL	9,168,257	4,421,054	1,121,915	638,639	2,059,000	60,000
	<u>COSTA RICA</u>						
298-Am.	MAGDA, S. A.	110,000	108,955	91,262	17,686	-.-	-.-
428	CAMARONES, S. A.	1,000,000	972,908	952,541	20,367	-.-	-.-
431	AZUFRERA GUANACASTE, S. A.	400,000	400,000	-.-	-.-	-.-	40,000
453	MARICULTURA, S. A. (*)	378,000	378,000	-.-	378,000	-.-	-.-
	SUB - TOTAL	1,888,000	1,859,863	1,043,810	416,053	-.-	40,000

PROYECCION DE DESEMBOLSOS DEL PRESTAMO AID No. 596-L-010
AL 30 DE SETIEMBRE DE 1975

(CIFRAS EN US\$)

<u>PRÉSTA-</u> <u>MO No.</u>	<u>PRESTAMOS APROBADOS</u>	<u>MONTO</u> <u>TOTAL</u>	<u>POSIBLE MON-</u> <u>TO DEL O10 QUE</u> <u>SERÁ UTILIZADO</u> <u>AL 31/12/76</u>	<u>TOTAL DESEMBOL-</u> <u>SADO CON EL O10</u> <u>AL 30-9-75</u>	<u>PROYECCION DE DESEMBOLSOS</u>		
					<u>31/Dic./75</u>	<u>30/JUNIO/76</u>	<u>31 Dic./76</u>
	TOTAL	30.390.057	15.409.923	3.531.565	1.643.571	4.672.147	5.562.640
	INVERSIONES DEL BCIE EN PROYECTOS DE EXPORTACIÓN	1.410.000	1.410.000	150.000	-.-	1.260.000	-.-
	MONTO DEL O10 UTILIZADO DENTRO DE VARIOS PRÉSTAMOS DESEMBOLSADOS	12.351.673	12.351.673	12.351.673	-.-	-.-	-.-
	GRAN TOTAL	44.151.730	29.171.596	16.033.238	1.643.571	5.932.147	5.562.640
	(*) PRÉSTAMOS ASIGNADOS EN FORMA ALTERNA AL O10.						
	D O P 6/OCTUBRE/75						

UNCLASSIFIED

John R. Kahle, RLA

Sept. 4, 1973

Robert R. Parker, ADD

A.I.D. Loan 596-L-010

Attached is a white paper which will be given by me personally to Dr. Ortez tomorrow morning at the airport. It is self-explanatory and, I hope, clearly reflects our very serious concern about this loan.

Would you please examine the loan authorization and loan agreement to determine what would be necessary to:

1. remove the limitation on loans to intermediate credit institutions; and
2. increase the local currency component to \$15,000,000.

Please put your response in the form of draft cable to AID/W predicated with a statement more or less as follows:

"The President of CABEI by letter to the Director of ROCAP has proposed that CABEI move from a "retail" lending operation under subject loan to a "wholesale" procedure where the overwhelming majority of money would be loaned to financially viable financieras and to intermediate credit institutions in the public sector guaranteed by the Central Bank of the country of the institution.

"ROCAP strongly endorses this plan as experience has shown that efforts by CABEI to promote, evaluate and administer loans by long distance are inefficient and tend to place CABEI in competition with local financial institutions, both of which ROCAP believes are undesirable and tend to be in conflict with CABEI's proper role as a regional development bank."

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This change in concept will require certain changes to the Loan Authorization and to the Loan Agreement.

ROCAP recommends the following changes in the Loan Authorization:

ROCAP will negotiate an appropriate loan agreement amendment.

We urge AID/W to favorably consider this request, to amend the Loan Authorization as detailed above and to delegate authority to the Director to negotiate and sign a loan agreement amendment. Delegation of Authority should be valid for 45 days from date of issuance.

cc: Mr. Wolf

Enclosure: As stated

RRP/dwc

UNCLASSIFIED

September 5, 1973

THE HARD FACTS - AID LOAN 596-L-010
(\$30 Million: Export Industries and Tourism)

I. The Situation

ROCAP analysis and information received informally from AID/W forces the conclusion that it is a certainty, unless dramatic action is taken, that AID/W will deobligate up to \$15,000,000 of this loan on June 30, 1974.

Drs. Tragen and Parker are going to Washington on Sept. 30 and will have to defend against proposals to deobligate. The most meaningful evidence of progress would be the disbursement of the undisbursed balance of all existing loans to intermediate credit institutions (about \$4,000,000) before Sept. 28, 1973 so that Tragen and Parker can use this in their argumentation to prevent untimely prejudicial action. Lacking this tangible proof of CABEI's ability to move, neither Tragen nor Parker are in a position to defend CABEI against deobligation.

II. Recommendation

1. That CABEI wholesale the loan through intermediate credit institutions and not try to review individual projects. Compliance with the Loan Agreement would be through the terms of the sub-loans and would be confirmed by post audit. Ineligible loans would be corrected by a substitution of eligible loans as necessary. Collateral would be Central Bank guarantees where they can be obtained (public sector institutions) or the general credit worthiness of the sub-borrower (private financieras). Some of the institutions which can use the money quickly are GUATEXPRO and FIASA in Guatemala; the BNF, BANCASHA and Financiera Hondureña in Honduras; The Financiera de Desarrollo e Inversiones in El Salvador; INFONAC in Nicaragua; COFISA and the Export Development Bank in Costa Rica; and, there are others.

2. That the CABEI Board reconsider its position and authorize 7% loans to intermediate credit institutions as well as direct borrowers.

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3. That CABEI not consider direct loans under \$2,000,000. With respect to pending applications, it is suggested that CABEI decommit with the consent of the applicants and refer these applications to national intermediate credit institutions.

III. Conclusions

1. In order to save the loan, ROCAP is convinced that a minimum of \$25 million of the A.I.D. loan must be disbursed prior to June 30, 1974.

2. ROCAP is convinced that only by taking extraordinary measures can CABEI hope to answer the serious complaints from its clients and respond to the demand for prompt, efficient service from the private sector. The Bank must divest itself of time-consuming details of implementation and loan processing, and turn these activities over to the intermediate credit institutions.

3. With all due respect for the effort which has been made, the so called evaluation of Loan 010 has progressed too slowly and time has now run out.

4. Finally, we believe that such a deobligation, should it come to pass, would have disastrous effects on CABEI's negotiation with the IBRD for a private sector loan.

IV. ROCAP Cooperation

Upon receipt from you of a clear statement of intention, including the 7% rate to intermediate credit institutions, ROCAP will use its best efforts to obtain authority to amend the Loan Agreement and Implementation Letters to facilitate the change-over by CABEI from a wholesale to a retail role.

F A C T S H E E T

CABEI-AID Loan 596-L-010: \$30 Million, Export Industries & Tourism
Activity to 31 August 1973

Date authorized: 19 June 1970 Date signed: 9 September 1970
Terminal dates - Commitments: 31 March 1974 Disbursements: 30 June 1974
AID Loan funds disbursed to date: \$5.4 Million

A. Total Program

	(In Millions \$US)		
	<u>Total Budget</u>	<u>Committed to Date</u>	<u>Disbursed to Date</u>
Dollar Costs	\$ 22.5	\$ 10.0	\$ 3.0
Local Currency Costs	7.5	7.3	2.4
AID Loan	\$ 30.0	\$ 17.3	\$ 5.4
CABEI Contribution	30.0	22.0	7.1
Total AID & CABEI	\$ 60.0	\$ 39.3	\$ 12.5
Private Sector Contribution	40.0	26.0	--
<u>Total Program</u>	\$100.0	\$ 65.3*	\$ 12.5

* Represents 78 sub-projects.

B. Uses of AID Loan

Export Industries	\$ 14.5	\$ 7.6	\$ 2.9
Tourism Industries	7.5	5.1	1.2
National Financieras & Fomentos	5.0 ^{1/}	4.6	1.3
Equity Investments in Export/Tourism Industries	2.5 ^{1/}	--	--
Feasibility Studies & Technical Assistance	0.5 ^{1/}	--	--
<u>Total AID Loan</u>	\$ 30.0	\$ 17.3 ^{2/}	\$ 5.4

^{1/} Loan Authorization and Loan Agreement restrict the amounts in these categories to the figures shown above.

^{2/} \$8.4 Million represents authorized-unsigned sub-loans and \$8.9 Million represents authorized-signed sub-loans. In addition to the \$17.3 Million, \$3.7 Million are pending authorization (full applications submitted) and \$14.1 million in partially completed loan applications are under review. Thus, CABEI has loan applications in various stages of processing that utilize \$35.1 million, in theory more than fully committing the AID Loan.

ORDINARY FUND
APPLICATION AND SOURCE OF FUNDS STATEMENT
(In thousand U.S.\$.)
Fiscal years ending June 30, 1974 to June 30, 1976

	Total	Local Currency ^{1/}	Foreign Exchange	
			Dollars	Other
<u>APPLICATION OF FUNDS</u>				
1) Sub-loan disbursements				
AID Loan 010 subloan disbursements ^{2/}	25.051	12.540	12.511	
CABEI's contribution Export-Tourism Program ^{3/}	22.967	7.742	2.614	12,641
CABEI's normal subloan demand	56.278	12.572	30.997	12,709
Total sub-loan disbursements	<u>104.296</u>	<u>32.854</u>	<u>46.122</u>	<u>25.320</u>
2) Loan repayments, interest and operating expenses	53.886	13.688	33.268	6.930
Total disbursements (1+2)	<u>158.182</u>	<u>46.542</u>	<u>79.390</u>	<u>32.250</u>
<u>SOURCE OF FUNDS</u>				
3) Beginning cash	13.602	1.781	10.706	1.115
4) External financing				
AID-010 loan	25.051	5.040	20.011	-
Eximbank, IDB and other lines of credit	26.146	1.369	8.897	15.880
Total external financing	<u>51.197</u>	<u>6.409</u>	<u>28.908</u>	<u>15.880</u>
5) Financing under negotiation	15.000	2.400	8.600	4.000
6) Future financing pending negotiation ^{6/}	16.957	6.243	8.167	2.547
7) Recoveries ^{7/}	37.402	7.014	24.860	5.528
8) Income ^{8/} : CABEI	29.100	6.412	22.688	-
9) Paid in capital)	1.041	1.041	-	-
Total (5+9)	99.500	23.110	64.315	12.075
Total availabilities (3+9)	<u>164.299</u>	<u>31.300</u>	<u>103.929</u>	<u>29.070</u>
10) Ending cash ^{9/}	6.117	(15.242)	24.539	(3.180)
New AID application	-	7.500	(7.500)	-
New position	6.117	(7.742)	17.039	(3.180)
11) Ending cash adjusted	6.117	780	5.337	-

*Actually cash accounts would need to be adjusted to make up shortfalls in local currency and other currencies.

ORDINARY FUND

Local Currency

Application and Source of Funds Statement
(in millions US dollars)

Fiscal Years Ending June 30, 1974 to June 30, 1976

Uses

New export program sub-loan	\$20.2
Other sub-loan	12.6
Debt servicing & operating expenses	<u>13.7</u>
<u>Total Uses</u>	<u>\$46.5</u>

Sources

Assured Availabilities

IDB & other lines of credit	1.4
Loan repayments	7.0
Income on loans & investments	6.4
Approved calls of capital	<u>1.0</u>
	\$15.8

Additional Requirements

AID loan 010	12.6	7.5
Additional call of capital, sale of bonds and additional bank lines of credit	8.6	
Draw-down of cash balances	<u>9.5</u>	
		\$30.7

Total Sources \$46.5

- 1/ For detailed local currency breakdown see page 2 - Exhibit A.
- 2/ Total AID Loan: \$30 M. Disbursed to date: \$2.4 M. in local currencies, \$2.6 M. in dollars.
- 3/ Total CABEI contribution: \$30 M. Disbursed to date: \$2.6 million in local currencies, \$1.7 million in dollars and \$2.8 million in other foreign exchange. Note: 55% of the CABEI contribution finances about \$12.6 million in foreign exchange procurement from Europe and Japan.
- 4/ Other Loans: \$26.6 M. - \$20 M. is already assigned to specific projects. \$6.6 M. is pending assignment as follows:
 - \$1.2 M.: foreign exchange (U.S.A.) - Eximbank
 - \$2.3 M.: foreign exchange (Mexico & Switzerland)
 - \$3.1 M.: U.S. commercial bank lines of credit.
Available for conversion to local currencies to meet project needs.
- 5/ Future financing under negotiation. Intraregional projects (not export or tourism) - \$15 M. assigned to specific projects:
 - \$6 M. - IDB (Silos)
 - \$5 M. - CABEI bonds (part of \$20 million issue, CABEI's first.
Too expensive for export/tourism program)
 - \$4 M. - German equipment

with the exception of \$2.4 M. in IDB loan the balance of \$12.6 M. will be used to finance foreign exchange costs.

6/ Future Financing pending negotiation (intraregional and export/tourism): \$17 million - consisting of \$10.8 million in foreign exchange from the IBRD and European lines of credit and \$6.2 million in U.S. commercial bank lines of credit which are freely convertible for local cost financing. To date CABEI has already committed about \$21 million in commercial bank lines of credit in financing industrial projects many of which (about \$5 million) are under the Loan 010 program.

7/ Recoveries: 37.4 M. of this amount \$12.8 is available for relending as shown below:

\$37.4 M. - Total recoveries
-24.6 M. - Amount needed to meet amortization schedules on outstanding loans; not available for relending
\$12.8 M. - Total availability

6.4 M. - local currency project financing
5.3 M. - convertible for additional local currency financing
1.1 M. - to maintain required level of liquidity

8/ Income: \$29.1 M.

6.4 M. - available for local currency project financing and local cost administrative expenses
20.0 M. - to cover Bank Commitments - interest, commissions, etc.
2.2 M. - to cover Bank's local cost administrative expenses
0.5 M. - to maintain adequate level working capital (three months needs)

9/ Local Currency deficit of \$15.2 M. is made up of \$7.5 M. from AID Loan and conversion of \$7.7M. in foreign exchange to local currency. See page 2, Exhibit A for further breakdown of CABEI's local currency needs and how CABEI proposes to meet its overall local currency requirements (\$28.5 M.) needed to finance its export/tourism projects as well as to take care of its normal private industrial lending activity.