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ISN 40036

AGENCY FOR INTERNATIONAL DEVELOPMENT **PROJECT DATA SHEET**	1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) Amendment Number	DOCUMENT CODE 3
2. COUNTRY/ENTITY: ROCAP	3. PROJECT NUMBER: 596-0114	
4. BUREAU/OFFICE: Latin America and the Caribbean 05	5. PROJECT TITLE (maximum 40 characters): Regional Economic Recovery	
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY: 08 31 88	7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY 85 B. Quarter 4 C. Final FY 85	

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE		FIRST FY 85 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total							
(Grant)		(40,000)	(---)	(40,000)	(40,000)	(---)	(40,000)
(Loan)		(10,000)	(---)	(10,000)	(10,000)	(---)	(10,000)
Other U.S.	1.						
	2.						
Host Country		---	700	700	---	53,438.9	53,438.9
Other Donor(s)							
TOTALS		50,000	700	50,700	50,000	53,438.9	103,438.9

9. SCHEDULE OF AID FUNDING ($000)

	A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1)	FN	730		810	---	---	---	10,000	---	10,000
(2)	ES	773	810		---	---	40,000	---	40,000	---
(3)										
(4)										
TOTALS					---	---	40,000	10,000	40,000	10,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 840 | 040 | 800

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	BL	BF				
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To improve CABEI's financial and administrative viability and increase the Bank's investment impact on the region while strengthening its private sector program development

14. SCHEDULED EVALUATIONS: Interim MM YY 08 86 | MM YY | Final MM YY 06 88

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☐ 000 ☒ 941 ☐ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY	Signature 1. [signature] 2. [signature]		18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
	Title 1. T.Totino, Controller 2. J.Eyre, Acting Director	Date Signed MM DD YY 07 08 85	MM DD YY

AID 1330-4 (8-79)

REGIONAL ECONOMIC RECOVERY
596-0114

Table of Contents

I. PROJECT SUMMARY AND RECOMMENDATIONS

A. Recommendations

The Project Development Committee recommends that $50 million ($40 million ESF grant and $10 million DA loan) be authorized to carry out the Regional Economic Recovery project.

B. Summary Description

1. Goal and Purpose

Investment levels are still below the levels required for the economic recovery of the region and a greater effort is needed to encourage multilateral development banks (MDBs), other donors, and commercial banks to provide more external resources. The goal of the project is to mobilize increased levels of external resources to the Central American region and to stimulate growth of extra-regional exports in order to help achieve AID's short term stabilization and medium and longer term growth and equity goals. The Central American Bank for Economic Integration (CABEI) has played an important role in mobilizing external resources in the past and in channeling investments to meet the region's development needs. The purpose of the project will be to improve CABEI's financial and administrative viability and increase the Bank's present investment impact on the region while strengthening its private sector program development.

2. Background and Project Activities

The economic crisis of the Central American region has not yet been overcome and levels of investment remain inadequate to assure achievement of AID's overall strategy goals for stabilization and longer term growth and equity. The National Bipartisan Commission on Central America (NBCCA) estimated that to achieve 1980 per capita income levels by 1990, $21 billion in aggregate external financing would be needed for the region during the 1984 to 1990 period. The NBCCA report recognized that about half of the extenal financing required would need to be met from sources other than A.I.D. The NBCCA report called for an effort to increase assistance from IBRD, IDB, Mexico, Venezuela, the European countries and Japan. The report also recognized that commercial banks must play an important role in providing external financing, initially by rescheduling part of their existing debt and later by providing fresh capital.

While the $21 billion estimate for external financing was based on balance of payments analyses (i.e. the sum of the projected current accounts), another way of looking at the need for external financing and investment is that the current economic crisis has precipitated a dramatic decline in the stock of productive and social capital in the region. Foregone investments in agroindustry, manufacturing, agriculture, infrastructure and services must be overcome if the Central American economy is to achieve positive real rates of growth and to diversify the productive sectors into activities that offer the best promise for future growth. Achieving equity within this growth framework will also require very large investments in housing, educational facilities, potable water and other social areas to make up for inadequate investment in the past and to keep pace with rapid population growth.

CABEI has played an important historical role in mobilizing external resources to meet the region's development needs, accounting for almost 20% of the external financing flowing to the region. These funds have been used primarily to finance high priority infrastructure projects (e.g. regional roads, an interconnecting energy grid, telecommunications, electric power, ports, etc.) where CABEI has had a major role, accounting for 13% of public investment. CABEI has also played an important role in the housing sector using HIG and local resources which have financed more low cost housing than all of the bilateral HIG programs combined. Loans to the productive sectors have been of lower priority under CABEI's past mandate and account for a relatively small part (15%) of CABEI's portfolio. CABEI's experience here has been mixed. Most of CABEI's direct loans to the productive sectors and tourism involve large projects which are experiencing serious problems. These are due mostly to the economic crisis, the collapse of the Central American Common Market and political problems within the region. CABEI's indirect loans, as a second tier lender, to national ICIs under a previous AID project to assist rural agribusiness are being repaid and the subprojects financed by the ICIs for small and medium sized projects have had important impacts on non-traditional exports, employment and incomes.

While CABEI is still the region's largest and most creditworthy financial institution, it is going through a serious short term liquidity problem which has not permitted the Bank to contribute to increasing the levels of investment needed by the region. In fact, CABEI's net disbursements to the region have been seriously reduced over the past few years and many important public sector investment projects have been delayed or postponed as a result of a lack of financing. CABEI recognizes that it must obtain the resources needed to increase disbursements to the countries for infrastructure projects and that it must continue to play a major role in this area. It also realizes that more of a priority must be given to private sector investment, particularly for projects to increase exports. New initiatives along these lines have been encouraged by CABEI's Board of Governors, composed of the member governments' central bank presidents and ministers of economy, but these as well as efforts to increase disbursements on approved projects have been frustrated by CABEI's liquidity problem and delays in obtaining appropriate levels of external resources.

The NBCCA report recognized the important role that CABEI has played in the region's development and its potential importance in achieving stabilization and growth with equity for the region in its recommendation that the U.S. join CABEI:

> "The Central American countries are opening membership (in CABEI) to countries outside the region. We urge the U.S. to join this institution and to encourage other creditor countries to seek membership. The infusion of new resources would help invigorate the bank, which could channel much-needed funds to small scale entrepreneurs and farmers, provide working capital to existing private sector companies, and encourage the development of new industries."

While it is not possible for the U.S. to join CABEI for long standing overall policy reasons regarding sub-regional banks, the project will carry out the intent of the NBCCA recommendation and thus is an integral part of the U.S. Government's Central American Initiative. The project is based on a comprehensive institutional analysis carried out by Price Waterhouse and follow-up design work by the same firm. In essence, the analysis indicates that CABEI's overall strategy and reforms to put the Bank in a position to assist the region's recovery by mobilizing and transfering external resources and again play a significant role in meeting the region's development/investment needs are appropriate and feasible, but that U.S. assistance will be crucial to these efforts.

The project is designed to help CABEI overcome its short term liquidity problems, carry out approved high priority public sector investment projects while at the same starting a new initiative to assist export oriented agribusiness projects in the private sector as a second tier lender. Substantial technical assistance has also been included in key areas to help the Bank continue and consolidate its overall administrative reforms and strengthen its capabilities to rehabilitate its direct loan private sector portfolio as well as to carry out the agribusiness initiative working with ICIs in the region. Project conditionality has been negotiated out with CABEI and is an integral part of the overall effort to strengthen the Bank and improve its creditworthiness and thus the Bank's ability to attract external financial resources from new extraregional members, MDBs, bilateral donors and commercial sources. The project includes the following three components:

(a) Improving CABEI's Short Term Financial Viability

This component involves $30 million of project assistance which will provide CABEI with a rapid injection of capital for its public sector investment program to complete projects which have already been approved, but delayed in implementation or postponed by CABEI's liquidity problem. CABEI will provide $48.4 million in counterpart funding for this effort. Besides the benefits of the projects and their impact on investment and employment, a positive net flow of funds from CABEI to the countries will provide a strong incentive to the member governments to comply with their commitments to provide an increase of $50 million in paid-in capital to strengthen the Bank and to remain current on their repayment obligations. Both will be conditions to the project.

This component will also involve assistance to CABEI in rehabilitating its private sector direct loan portfolio. Based on recommendations of the IBRD, CABEI has established a separate unit for this effort as part of the Bank's major reorganization carried out in the Fall of 1984. Based on Price Waterhouse recommendations and technical assistance from UNIDO/UNDP, CABEI has now developed a plan for the rehabilitation effort which involves selling off foreclosed properties to private investors and rehabilitating other industries which are still operating through appropriate technical assistance and efforts to bring in new investors. A.I.D. financed technical assistance will assist the unit to carry out the rehabilitation plan.

A.I.D. financial and technical assistance as well as related conditionality will have an important impact on the Bank's liquidity and creditworthiness. CABEI negotiated a $119 million "Club" loan with 34 international commercial banks in the Spring of 1984. CABEI's self help steps and A.I.D.

assistance should facilitate the negotiation of a new "Club" loan by mid 1986 involving rescheduling on very favorable terms and at least some fresh capital. Negotiation of the new loan will be one of the conditions of the project.

(b) Strengthening CABEI's Organizational Structure

CABEI carried out a major reorganization and reduction in force during the Fall of 1984 based on recommendations from studies carried out by Lazard Freres, the IBRD and CABEI's own internal analysis. Well qualified individuals have been selected to head up the various divisions and offices resulting from the reorganization and it should result in a more effective and streamlined institution. Price Waterhouse identified some areas where further organizational adjustments may be needed as well as the need for carrying out a major effort to design and implement an integrated management information system and several small specific studies to help consolidate and implement the reorganization. This component will finance technical assistance in these areas which will help further strengthen the Bank's organizational structure. In addition, CABEI has indicated an interest in incorporating environmental planning and analysis in anticipation of carrying out expanded lending programs. Technical assistance and training for this purpose is also included in this component.

(c) Strengthening CABEI's Private Sector Program Development

A total of $15 million in A.I.D. resources plus $7.5 million in counterpart will be made available for agribusiness sublending under this component of the project. The same general lending criteria that were applied under the first CABEI agribusiness loan will also be applied under this project, although a greater emphasis will be placed on extra-regional exports. A.I.D.-funded long and short term technical assistance and training will be provided under the project to a) increase CABEI's project review capabilities; b) assist CABEI in strengthening the participating ICI staffs in export-related project identification, promotion and implementation; and c) provide guidance directly to subborrowers in areas such as export marketing, quality standards, production technology and others.

3. Summary Financial Plan ($000)

	A.I.D.	CABEI	ICIs	TOTAL
1. Public Sector Investment Program	30,000.0	43,878.9	-	73,878.9
2. Working Capital for Private Sector Portfolio Rehabilitation	-	2,000.0	-	2,000.0
3. Agribusiness Credit	15,000.0	2,500.0	5,000.0	22,500.0
4. Technical Assistance and Training	5,000.0	60.0	-	5,060.0
5. TOTAL	50,000.0	48,438.9	5,000.0	103,438.9

C. Summary Findings

The Project Committee has reviewed all aspects of the proposed Regional Economic Recovery project and finds that it is technically, financially, socially, and economically sound and consistent with the strategy goals and objectives approved by AID/W in the ROCAP 1985 Program Statement and FY 1986 Action Plan. The Committee has further found that CABEI is institutionally capable of carrying out the components with the technical assistance and training which has been included in the project.

USAID comments on the PID as well as AID/W guidance in the PID approval cable have been incorporated into the project design. Consultations have been carried out with the USAIDs by the Price Waterhouse PP design team as well as by ROCAP management. Copies of the PP have been distributed to the USAIDs for their further comment and ROCAP believes that there is a consensus that the project is an important regional initiative complementary to USAID efforts.

The proposed project and its conditionality have also been discussed with the Central Banks of the member countries. They understand that the effort to revitalize CABEI is a cooperative one and that self help efforts on their part will need to be made to meet the conditionality on paid-in capital and repayments. Without exception, the Central Banks view the project and CABEI's potential role as highly important to the region's development and needs for external financing. Private sector leaders consulted also recognize CABEI's importance and welcome the AID initiative to channel more resources through CABEI as a second tier lender to the private sector. Finally, the IDB and IBRD have been consulted during the PP design process and they agree on the importance of the financial parts of the project as well as the specific areas selected for technical assistance. The AID project will help facilitate the approval process for a pending IDB loan of $80 million to CABEI for regional road rehabilitation as well as IBRD consideration of initiating major lending programs through CABEI.

D. Composition of the Project Development Committee

1. Mission Project Committee

Edward Nadeau, Acting Deputy Director
Michael Deal, Project Development Officer
Arthur Warman, Private Sector Officer
Julian Heriot, Regional Economic Advisor
Alejandro Pontaza, Financial Analyst

2. Mission Review Committee

John Eyre, Acting Director
Thomas Totino, Controller
Richard Delaney, Program Officer

3. Consultants

Auguste E. Rimpel, Jr., Price Waterhouse
Leopoldo Torres, Price Waterhouse
Samuel E. Hale, Jr., Price Waterhouse
James S. Munson, Price Waterhouse
Leonard J. Horwitz, Price Waterhouse
Carlos Koncke, Price Waterhouse
Joseph Borgatti, Price Waterhouse
Yamille Nasralla, Price Waterhouse
Dr. John Horberry, International Institute for Environment and Development

4. CABEI

Jorge Papadopolo, Finance Manager
Mario Alberti, Project Coordinator
Arnaldo Pasquier, Chief, RECAP Unit
Federico Alvarez, Manager, Studies and Promotion Division
Leonel Preza, Chief, Productive Sector Promotion Unit
Felix Martinez, Legal Advisor
Leon Paredes
Orlando Castro, Chief, Project Analysis Unit

II. PROJECT BACKGROUND AND RATIONALE

A. Background

From 1979 to 1983, the Central American region suffered through one of the worst --if not the worst-- economic recessions in its history. Between 1979 and 1984, real per capita GDP for the region declined some 16%. Falling incomes mean, of course, rising unemployment. Between 1978 and 1984 there were perhaps 150,000 - 200,000 new entrants into the regional labor force. With GDP stagnant or falling in absolute terms, these people have joined the ranks of the open unemployed or underemployed.

The origins of this crisis are well known. They include a world-wide recession, increased oil prices, falling commodity prices, political turmoil, a reduction in net capital flows and a near collapse of regional trade. In addition, the Central American governments have been unable to continue countercyclical fiscal policies due to substantial cuts in current and capital expenditures required by economic stabilization programs.

One of the most serious of these economic problems has been the virtual disappearance of private capital flows from abroad and capital flight from the region. In 1979, concerned by their overall exposure in the developing world, the world-wide recession and the downturn in the Central American political situation, foreign suppliers ceased to extend short term credits and foreign bankers began to cut back on long term lending. This cutback has continued, with long term credit from foreign sources having almost completely dried up. The prospects of renewed resource transfers and financing from private sources are dim and rely heavily on guarantee mechanisms and innovative initiatives to reduce credit risks. Capital flight encouraged by overvalued exchange rates and political insecurity in the region has further diminished stocks of investment capital and has only recently begun to slow, and in some cases, reverse itself.

Official capital flows have not offset the reduction in net private capital flows. In general, the United States has increased its ESF assistance and the International Monetary Fund (IMF) has provided important compensatory financing. But project lending for recovery and development from both bilateral and multilateral official sources other than the U.S. has not increased significantly. Table I shows official development assistance (ODA) to Central America from OECD countries, from multilateral lenders such as the IBRD and from OPEC countries. Total ODA flows on a disbursement basis (less USAID) to the four countries of the region increased only 12% in nominal terms between 1980 and 1983. In real terms, flows decreased by perhaps 8% between those two years. On a commitment or obligation basis, the picture may be worse. Data from the IBRD indicate that the Bank obligated between 1981 and 1984 only 60% of the amount obligated between 1973 and 1980. These numbers point to the conclusion that whereas official flows have not experienced the sharp drop as that recorded in the private accounts, they must be increased far beyond present levels in order to reach the scale of investment activity recommended by the NBCCA.

Table I

Total ODA Flows to Four Countries of Central America 1/

	1980	1981	1982	1983
Costa Rica	65.3	52.6	42.2	56.6
El Salvador	55.3	72.1	51.5	68.3
Guatemala	58.3	59.9	46.3	42.8
Honduras	87.5	78.0	93.9	130.7
TOTAL	266.4	262.6	233.9	298.4

1/ on a disbursement basis and less U.S.
Source: OECD, DAC

The decline in private capital flows has naturally contributed to the deep cut in the stock of productive capital in the region. National accounts data, as well as anecedotal evidence, point to declining investment rates in the private sector. In the private sector throughout the region (less Nicaragua) between 1980 and 1983, there was a US$1.4 billion (in 1970 prices) shortfall in investment.2/ This number reflects replacement investment that did not occur and

2/ This number was derived by calculating the difference between private sector investment at its actual levels between 1980-83 and what it would have been if the level had been 14% of GDP, or the rate that was achieved during the last high growth period for the region, 1971-78. It is worth noting that this level of investment drove the regional economy at a 5.5% real rate of growth annually.

increases in plant capacity that would have been necessary to expand the GDP in real terms beyond the 1980 level. The anecdotal evidence of the consequent erosion of the industrial base is apparent in each of the countries. Most plants are old, have obsolete equipment, and many have closed.

The decline in public sector investment has not been as steep as that in the private sector since, as a group, the Central American governments continued traditional rates of investment expenditure through 1983 supported in large part by continuing official foreign assistance. But due to constraints on governments' current expenditure, erosion in the infrastructure base is becoming apparent. Many of the region's major highways are reaching the point where heavy rather than routine maintenance is required to prevent the need for very costly reconstruction. And, as pointed out above, a restructuring of the regional economy will likely require a greater public sector investment effort.

In sum, these foregone investments -- in infrastructure, agroindustry, manufacturing, agriculture and services -- must be undertaken if the Central American economy is to regain 1978's real level of output, if it is to achieve positive real rates of growth beyond the 1978 level, and, most importantly, if it is to diversify the productive sectors into products that offer the best promise for future economic growth.

B. The Problem

Given this backdrop, the challenge is clear: significant new capital resources must be attracted to the region, and efficiently disbursed once received, in order to fuel the investment levels necessary to achieve the short term stabilization and longer term growth and equity goals desired.

The National Bipartisan Commission on Central America (NBCCA) estimated that to achieve 1980 per capita income levels by 1990, $21 billion in aggregate external financing (i.e., the sum of projected current accounts) would be needed by the five countries during the 1984-90 period.* The NBCCA report recognized that about half of the external financing needs would need to be met from sources other than AID. The NBCCA report called for an effort to increase assistance from the IBRD, IDB, Venezuela, Mexico, the European countries and Japan. The report also noted that commercial banks could play

*Other sources, including AID in its presentation to the NBCCA, made roughly similar projections.

an important role in external financing, initially by rescheduling part of their existing debt and later by providing fresh capital.

The task of mobilizing adequate levels of external assistance is formidable. Most of the financing will need to be on highly concessional terms because of the region's debt problems. Central American governments and the various credit intermediaries, both public and private, must undertake a serious effort to provide the necessary stimulus for higher investment rates, principally in new dynamic export sectors. The governments of the region are gradually shifting their policy matricies to reflect strategies of export diversification rather than import substitution. Exchange rate regimes, tariff regimes, tax policies and domestic interest rate policies are all coming under careful scrutiny. With the assistance of external donors (principally AID), a number of credit intermediaries are being strengthened or, in some cases, established to address the financial service requirements of the productive sectors.

In spite of these measures and the assumption that improvements in the world economy and the Central American political situation will materialize during the balance of this decade, significant increases in capital resource mobilization will be hindered by the lack of depth in the region's capital market structure. Existing national level financial intermediaries (e.g., commercial banks, financieras, credit unions and national development banks) do not possess, individually or as a group, sufficient scope or leverage to attract the external capital flows necessary to insure the region's economic recovery.

The prospects of increasing external official capital flows, particularly from non-A.I.D. sources are also hindered by the economic and political problems of the individual countries. Several could be considered to be uncreditworthy or to have political systems or particular political problems too controversial to risk increasing donor assistance on a bilateral basis.

On the demand side, there are significant opportunities to increase investment in the short and medium-term with external financing in infrastructure and to a lesser extent in responding to agroindustry needs. Many important infrastructure projects have had detailed feasibility studies and lack only financing in order to be initiated. Other infrastructure projects have been initiated only to be paralyzed by a lack of finnancing. Investments in such projects can have almost an immediated impact on increasing employment and incomes in addition to their longer term impact of providing the infrastructure base for social and economic development. While the investment climate for the productive sectors remains poor, there is significant unmet demand for investments in agroindustry projects. Financing for such projects can also have a relatively quick impact on employment and, as many of the agroindustries are exporting or have the potential to export, they offer part of the solution to the region's longer term economic problems.

In summary, the problem is to find new mechanisms to mobilize additional external financial resources from AID, the MDBs, other donors and commercial banks to meet the region's current and future investment needs. Such mechanisms would need to overcome the lack of depth in the region's capital structure and the political and economic problems that impede lending.

C. Project Rationale

1. Overview

This project will complement and augment bilateral approaches to the problem of resource mobilization and increasing external investment levels to meet the NBCCA projections. The underlying rationale for the project emphasizes the necessity of employing a regional approach in addition to the bilateral USAID's support to national level financial intermediaries. This regional approach focuses on CABEI, which is Central America's largest and most creditworthy financial institution.

In pursuing a regional rationale for resource mobilization enunciated above, ROCAP intends to embark on a multi-year program of assisting CABEI to (a) overcome its short term liquidity problem through support of the Bank's various self-help measures described in the following sections; and (b) expand its focus to include a greater emphasis on private sector productive enterprises, especially with respect to extra-regional agribusiness opportunities.

This strategy recognizes that (a) CABEI is at a critical turning point; (b) U.S. leadership and support for CABEI's self-help measures in the form of a timely and appropriate level of assistance can make a crucial difference in terms of invigorating the bank; (c) this in turn will encourage other donors (particularly the IBRD) to provide project assistance and new members to join; and (d) CABEI's emphasis must be re-oriented from that of the past, to one of greater support of the private sector as a second tier lender.

The project will focus on some of CABEI's most pressing financial and technical assistance needs. At the same time, it will permit CABEI to proceed with its re-orientation process by providing the necessary liquidity to complete a wide variety of major public sector investment programs, providing technical assistance to rehabilitate problem loans to private companies, and channeling credit to small farmers, entrepreneurs and new industries through a proven agribusiness program.

A reoriented CABEI will be a key element in a comprehensive approach to the region's problems. The Bank can continue to mobilize external resources from donors for traditional investments to expand and maintain the region's infrastructure base while at the same time bring in new resources from both donors and private capital sources to meet the requirements of the productive sectors. The Bank can then channel such funds through national institutions which do not have CABEI's overall financial strength and creditworthiness.

The project will build upon CABEI's emerging function as a second tier lender which was pioneered under ROCAP's Regional Rural Agribusiness Development project (596-T-016). This function is further substantiated by the December 1984 Price Waterhouse institutional study of CABEI which defines the Bank's niche as an apex institution.

2. CABEI's Past

CABEI, established by the five Central American Common Market (CACM) countries in May 1961 "to promote the economic integration and balanced economic development of the member countries," has historically accounted for almost 20 per cent of the external financing flowing into the region and approximately 5 percent of the region-wide investment (13 percent of public sector investment). As of June 30, 1983, the year of the highest total of loans outstanding, CABEI had committed $1.7 billion corresponding to 935 projects, as shown in Table II.

TABLE II

CABEI's Total Lending Activity as of
June 30, 1983
($ Millions)

Sector	No. of Loans	Amount	Percent
Agriculture and Fisheries	35	$ 56	3.2%
Mining	7	8	0.5
Manufacturing	318	183	10.5
Electricity and Water	69	271	15.5
Infrastructure	187	643	36.8
Transportation, Storage and Communication	66	164	9.4
Tourism	81	78	4.5
Intermediary Financing	62	43	2.5
Social Services	31	67	3.8
Housing	79	235	13.4
TOTAL	935	$1,748	100%1/

1/ Sum does not relate precisely due to rounding.

The resources mobilized by CABEI to finance the investments included in Table II totaled $1.4 billion, with $325 million from paid-in capital and retained earnings and $1.1 billion from external resources. Foreign commercial banks provided almost one-half of CABEI's external resources through direct loans and the purchase of CABEI bond issues. The high degree of creditworthiness which CABEI has enjoyed with foreign lenders has been one of CABEI's major institutional accomplishments. No other financial institution in Central America has been able to place bonds in private capital markets at similarly favorable rates. Probably no other institution or nation in the region has CABEI's potential to attract a broad range of potential donors and fresh capital from commercial banks.

Many of CABEI's development accomplishments have been in connection with its objective of promoting the economic integration of the countries and specifically the need to improve communications. A regional highway system was put in place, ports and airport facilities were modernized and telecommunications systems were improved and made compatible. These types of infrastructure investments supported the rapid growth in intraregional exports which went from a very low base of $30 million in 1960 to $1.1 billion in 1980 and contributed to the high growth rates that the region achieved during the two decades. CABEI also supported the growth in the industrial base through direct loans to industries, a number of which, according to an evaluation carried out in 1975, were sufficiently competitive to also engage in extra-regional exports. Tourism projects were supported in both the public and private sectors to complement industrial growth. CABEI has also helped the region respond to the oil price increases by giving hydroelectric power projects a high priority and an interconnecting regional electrical grid is nearing completion. In addition, CABEI has become an important element in housing finance ($235 million in total loans) and agroindustry by channeling resources through national level institutions in both the public and private sectors.

The combination of CABEI's track record and its regional scope makes it a central figure in any plan to assist Central America in restoring external capital flows. CABEI is a more credible and reliable channel for external financing than the various national financial institutions and, hence, is in a position not only to attract more such financing but also to apply it more efficiently.

CABEI's role in the future, however, must reflect the changing needs of the region. CABEI's Board of Governors is composed of central bank presidents and ministers of economy, who, as key policy makers, are well aware of the need for the Bank to shift its operational focus, in marked emphasis, from public sector infrastructure to extra-regional export industries. Table II points out that in the past, private sector projects (in agriculture, mining, manufacturing, some tourism and financial intermediation) represented 40 per cent of total loans extended but only 16 per cent of total financing. In preparing its five-year, $1.0 billion investment program for the 1984-89 period, CABEI's project identification effort shows a marked shift in the proportion of loan commitments, as compared with the past, from infrastructure toward the directly productive sectors.

Thus, the overall rationale for the project includes assisting CABEI to reorient its role in meeting the region's future development needs by placing emphasis on increased private sector investment, productivity and extra-regional exports.

3. CABEI's Recent Performance

From the late 1970s, CABEI has been faced with serious and growing difficulties caused by both external and intra-regional circumstances described earlier in the Background section. The consequences for CABEI have been: (a) some slackening of demand for loans, largely for the private sector; (b) a sharp increase in the level of arrears, initially affecting mostly the private sector portfolio but, more recently, government obligations as well, largely due to the economic crisis and the scarcity of foreign exchange; (c) a liquidity problem, the combined results of the arrears and the growing concern of foreign commercial banks about the credit-worthiness of the Central American countries and, by extension, of CABEI itself and thus an unwillingness on their part to provide CABEI with fresh bridge financing; and (d) CABEI's inability, therefore, to fund a large volume of pending new loans (approximately $408 million as of March 31, 1985) which the Bank had studied and approved in principle.

To a large degree, CABEI's current situation can be summarized by reviewing its loans and recoveries since 1976, as shown in Table III.

TABLE III

Summary of CABEI Loans, 1976-1984
($ millions)

Financial Year (July-June)	Net Commit-ments	Disburse-ments	Repay-ments	Arrears at Year-End
1976/77	134.2	121.3	35.4	8.0
1977/78	154.2	115.6	30.8	11.3
1978/79	136.5	119.7	35.9	19.3
1979/80	181.7	87.3	46.2	23.9
1980/81	201.0	98.3	44.9	49.7
1981/82	168.7	101.0	35.3	77.6
1982/83	53.0	92.0	55.3	92.7
1983/84	10.7	68.0	53.5	106.4

Source: Institutional Assessment of CABEI, Price Waterhouse, December, 1984.

The rise in arrears reflects the deterioration of the Central American economy over the past several years. Until 1983, the arrears affected private sector loans, which constitute a relatively small proportion of CABEI's portfolio. In 1983/84, however, the total of public sector arrears increased by 75 per cent, while those for private sector debts were actually reduced by nearly one-fifth. The public sector arrears (as of June 30, 1984) were very unevenly distributed, with 65 per cent attributable to Nicaragua and approximately 13 per cent each to Costa Rica and Honduras.

As a result of CABEI's liquidity problem, new project approvals have dropped from a level of just over $200 million in 1980/81 to about $10.7 million in 1983/84. Disbursements under approved projects are now being made (1983/1984) at the rate of approximately $6 million a month, compared to the pre-economic crisis period when disbursements were averaging about $10 million a month. Inflation has eroded the impact of even this low level of disbursement in terms of its investment and employment impact. Levels of disbursement are presently below the level of repayments from the countries. Thus, instead of carrying out its traditional role of mobilizing and transferring resources to meet the region's development needs, CABEI is now adding to the contractionary pressures causing the economic crisis to continue.

As a critical part of the project's rationale, it is important to discuss the various measures which CABEI has placed in motion in order to remedy its current financial troubles and resume its role as a vital conduit for transferring financial resources from both official and private sources to the region.

4. CABEI's Self-Help Measures

CABEI has taken a number of measures to start to resolve its liquidity problem and carry out a longer term strategy to provide the financial base which can help the bank make a substantial future contribution to growth and development.

Some of the measures taken over the past year have been particularly important. In mid-1984, CABEI signed a $119 million loan, called the "Club Loan", with 34 private foreign banks. The loan is for five years including a two year grace period and carries an interest rate of 1.75% over prime or LIBOR at the option of the creditors. Two of the participating banks also made a commitment for a short term line of credit for $9 million for three and one-half years.

CABEI also negotiated an advance disbursement of $18 million in loans from private U.S. banks covered under A.I.D. Housing Guaranty agreements.

CABEI contracted with Lazard Freres in 1984 to carry out an analysis of the Bank's liquidity problem, the need for administrative changes and other measures to strengthen its financial structure. The IBRD also provided substantial assistance and guidance to CABEI in these areas. As a result of these studies, as well as CABEI's own analysis, a major reorganization and reduction in force were recently carried out. More important is the fact that these were initial steps in carrying out a strategy to resolve CABEI's current problems and start to build for the future.

The strategy basically involves:

(1) Putting CABEI's own house in order by cutting administrative costs, improving its accounting system, and establishing a more effective management and administrative structure to solve the arrearage problem, including establishing a special unit to rehabilitate the private sector portfolio;

(2) Negotiating with its member governments to pay public arrearages and to provide further increases in paid-in capital;

(3) Negotiating major new programs with both traditional and nontraditional donors and shifting the emphasis of CABEI's lending to meet the region's current development needs;

(4) Expanding CABEI's capital base and credit-worthiness by bringing in new members from outside the region;

(5) Raising funds in the international capital markets for the region's development on the basis of the above efforts.

The self-help steps taken by CABEI to resolve the private sector arrearage problem have started with the creation of a new unit reporting directly to the Vice President. This unit has prepared a strategy and list of priority projects that offer the best prospects of being rehabilitated as well as their financial and technical assistance requirements. CABEI has also taken the legal steps needed to proceed to sell the buildings, equipment and other assets of firms which have closed down

CABEI's efforts to resolve the public sector arrearage problem have already started and, for example, the Bank is enforcing a new rule which stops disbursements to member governments for public sector projects when arrears exceed 60 days. Successful negotiations involving member governments took place in early 1985 on arrearage and other payment problems and an agreement was reached to increase paid-in capital by the equivalent in local currencies of $50 million before December 31, 1985.

5. CABEI's Special Fund for Economic and Social Development

The annual meeting of CABEI's Board of Governors held in El Salvador in mid-February 1985 was an important turning point in CABEI's self-help efforts to resolve its liquidity problem and act as a catalyst in increasing external capital flows to the region from official sources and from private capital markets. The Board approved resolutions calling not only for an increase in paid-in capital as mentioned above but also for the establishment of a special "Fund for Central American Economic and Social Develpment" which would be used as a mechanism to attract extraregional members.

The Fund would be capitalized at up to $1.0 billion with initial capital contributions of $250 million to be paid in over a four-year period with the remainder being similar to callable capital. The Fund would thus strengthen CABEI's overall creditworthiness and ability to obtain private capital in the international markets. The Fund is also expected to provide a sufficient guarantee mechanism to encourage the IBRD to increase its lending to the region through CABEI. The Fund is viewed by CABEI as a transitional step to eventual full participation in the social capital of the bank by extraregional members. The advantages of the interim measure are that the Fund does not require changes in CABEI's basic treaty and the lengthy process of obtaining approvals from each of the member governments through a ratification and legislative process. CABEI intends to pursue a dual track approach seeking the participation of extraregional members in the Fund while proceeding with the process of amending its basic treaty to permit the acceptance of extraregional members in the social capital of the Bank.

The Fund was presented to the donor and international financial communities at a special meeting held in conjunction with the annual IDB board of governors meeting held in Vienna in late March 1985. The U.S., represented by A.I.D., noted the importance of CABEI's role in Central America's development and regional integration and expressed strong support for financial assistance to the region. The U.S. address also endorsed strengthening CABEI's financial position in conjunction with management and administrative reforms and improved performance on the part of the Bank and its member countries. The U.S. also announced that the $50 million CABEI Regional Economic Recovery project was well advanced and that the U.S. would study the Fund concept in light of CABEI's performance in revitalizing its loan management and of other donor decisions regarding financial support. Mexico announced that it would participate in the Fund and other Latin American countries including Brazil, Chile, Colombia, Ecuador and Panama supported the Fund concept. The majority of donor countries expressed support for the general objectives of the bank, but deferred decisions regarding participation in the Fund. These included Italy, France, Canada, Sweden, Norway, and the FRG. Neither the UK or Japan made formal statements, but indicated privately that the Fund would need further study. Subsequently, Japan has expressed strong interest and invited CABEI to visit Japan for further discussions.

CABEI has prepared a document "Analysis of the Incorporation of Extra-Regional Members into the Central American Bank for Economic Integration" which outlined in general terms how the Fund would work. Subsequently, CABEI has drafted proposed statutes which are being discussed with potential participants in the Fund. In general, CABEI is taking a flexible approach, particularly in regard to possible U.S. participation through A.I.D. which would not involve membership. Recognizing the importance of U.S. support to CABEI in its efforts to solicit the participation of potential extraregional members, A.I.D. provided CABEI with a letter in late May 1985 indicating strong support for the establishment of the Fund and interest in possible A.I.D. participation. CABEI is now making contacts with several key countries and Colombia and perhaps several others are expected to announce their intention to joint the Fund over the next few months.

6. <u>Other CABEI Efforts to Strengthen its Financial Position and Increase Net Capital Flows to the Region</u>

CABEI has also made a major effort to obtain concessional assistance to carry out new projects and agreements have been signed within the past year for $103.5 million in new assistance.

IDB-Preinvestment	$ 16.5 million*
Mexico-Various Projects	$ 72.0 million**
EEC-Small and Medium Industry	$ 15.0 million***
	$103.5 million

Negotiations for additional concessional assistance projects totalling $165 million are well advanced and all are expected to be signed prior to the end of 1985.

AID-Regional Economic Recovery	$ 50.0 million
IDB-Region Roads Rehabilitation	$ 80.0 million
KFW/Germany-Various Projects	$ 10.0 million
EXIMBANK/Japan-Various Projects	$ 25.0 million
	$165.0 million

Over the medium-term, CABEI contemplates additional concessional assistance on the order of $400 million from multinational donors and extra-regional governments. This amount does not appear to be unduely optimistic, if the IBRD decides to initiate lending to CABEI based on its self-help efforts and success in obtaining extraregional members. In the past, the IBRD has contemplated a series of programs over the medium-term totalling about $180 million. The target for paid-in capital for the Fund is $250 million over the next four years.

Another important effort on the part of the Bank to resolve its liquidity problem and increase capital flows to the region is to renegotiate its short and medium term debts to commercial banks. CABEI's debt is primarily short to medium term in nature and currently involves the repayment of about 44% of its total idebtedness of about $667 million over the next four and a half years. Negotiations are expected to be completed by the end of 1985, or at the latest by mid 1986, on a new Club loan which should contain similar if not improved terms over the loan signed in 1984.

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*Includes a technical cooperation grant of U.S. $1.5 million.

**Includes U.S. $14.4 million from Mexico as an advance to its participation in the Fund.

***Includes a grant from Italy of U.S. $1.2 million.

7. Central American Support for CABEI

Support by the Central American Member governments for CABEI has been indicated by the Board of Governors' resolutions calling for an increase of paid in capital of $50 million and supporting the establishment of the Fund. CABEI has also been successful in negotiating agreements with Costa Rica, El Salvador and Honduras for payment of public sector arrears and currency convertibility which have grown over the past few years in connection with the economic crisis. These agreements call for clearing all the arrears by the end of 1985 with the exception of one relatively small payment owed by Costa Rica which will be made in early 1986 (see Annex H, Financial Analysis). Support for CABEI is also indicated by the Board of Directors' decisions to support the Bank's reorganization and reduction in force, authorizing the establishment of the private sector rehabilitation unit recommended by the IBRD, enforcing a 60 day cutoff rule on arrears, etc.

As part of the PP design process, ROCAP corresponded and consulted with each of the Central Banks regarding their support for CABEI. In general ROCAP found strong support and appreciation for CABEI's unique role. The Central Banks indicated that the member governments intend to meet their obligations to provide the increase in paid-in capital by the end of 1985 and to fulfill their responsibilities under the arrears repayment agreements. They also understand the need to stay current in order to help CABEI in its broader effort to establish the Fund and take other measures to increase capital flows. In general, the Central Banks welcomed the proposed A.I.D. project and did not object to the related conditionality which was discussed in detail. Central Bank presidents or their representatives stated that they now believed that CABEI was being well managed and moving in the right direction. They believe that a strengthened CABEI is vital for the region's recovery and future development.

ROCAP also met with private sector leaders in each of the countries to discuss CABEI and its role. In general, private sector leaders tended to be more critical of CABEI and its management, but also shared the view that CABEI needed to be strengthened in order to assist in the region's development. Regarding the Bank's possible role in assisting the private sector, most of the private sector leaders agreed with the need for CABEI to mobilize external resources and deepen the over all capital market by acting as a second tier lender.

D. Relationship to A.I.D. Policy and Projects

1. Relationship to A.I.D. Policy

The overall rationale for the project is within the broad context of the analysis and recommendations of the NBCCA. The NBCCA report included a strong emphasis on taking a regional approach to resolving some of the area's most pressing problems. Many of the NBCCA's recommendations involve CABEI directly or have implications for the role and types of programs that CABEI might carry out, as well as for related U.S. assistance and for a policy dialogue with that institution on regional policy issues. For example, the NBCCA's eight key elements in the proposed economic stabilization program included recommendations for policy dialogue, a comprehensive approach to the economic development of the region, the reinvigoration of the Central American Common Market, an emergency credit to the Central American Common Market Fund administered by CABEI, the involvement of the private sector in the stabilization effort, an expansion of labor intensive infrastructure and housing projects, and concluded with a firm recommendation that the U.S. join CABEI.

The proposed assistance to CABEI was included in the ROCAP Program Statement, prepared in April 1984, and in the related ROCAP Action Plan, prepared in April 1985, under the Reconstruction and Development/Economic Growth Goals. Specifically the project responds to the following ROCAP strategy goals:

"To encourage the resumption of external capital flows to the region,"

"To stimulate export-led growth and a more outward looking regional economy through regional policy reforms,"

"To help remove key investment, marketing, management and financial constraints to agroindustry and non-traditional export growth using regional financial and technical assistance mechanisms."

Policy level questions on the overall desirability of providing support to CABEI and specifically on the issue of whether A.I.D. should use a publically controlled institution to channel credit through IFIs to the private sector were discussed during the PID review. These issues were presented to the A.I.D. Administrator who made the final decision to go ahead with the project design as proposed in the PID. The A.I.D. Administrator also decided to send a special representative to the IDB meeting in Vienna who announced that A.I.D. was moving ahead on the CABEI project and that A.I.D. strongly supported the need to increase financial flows to the region.

2. Relationship to Bilateral USAID Projects in the Region

The PID for the project was sent to the USAIDs. Comments were received from all of the USAIDs and, in general, they were positive and constructive. ROCAP has taken the USAID suggestions and criticisms into account in designing the PP and has briefed the USAIDs on the final design and conditionality of the project. They have also been provided final copies of the PP and are expected to provide comments on the project prior to the DAEC.

In carrying out the demand analysis for the public sector investment and agribusiness components of the project, the IQC contractor Price Waterhouse met with USAID staff to insure that the proposed projects were complementary to USAID projects and concerns. In the case of the public sector projects, USAID recommendations resulted in dropping two proposed road projects which were believed to be of relatively low priority. In the case of the agribusiness component, the CABEI program was perceived to be generally complementary to bilateral efforts although there was a perceived need for further coordination after the project was in the implementation stage. CABEI has agreed to coordinate the project with the USAIDs as it develops.

A major concern in the design process was to insure that there was adequate demand for the proposed CABEI agribusiness component in light of the bilateral activities designed to provide credit to this sector. The Price Waterhouse consultants discussed this issue with the USAID Private Sectors Officers in each of the countries and reviewed related USAID studies on demand which had been prepared in conjunction with the design of the bilateral projects. As detailed in other sections of the PP, Price Waterhouse concluded that there is sufficient demand for the CABEI agroindustry program taking into account USAID bilateral activities.

III. PROJECT DESCRIPTION

A. Goal, Purpose and Beneficiaries

The goal of the project is to mobilize increased levels of external resources to the Central American region and to stimulate growth of extra-regional exports in order to help achieve short term stabilization and longer term growth with equity.

The purpose of the project is to improve CABEI's financial and administrative viability and increase the Bank's present investment impact on the region while strengthening its private sector program development.

The direct beneficiaries under the project will be those private agribusiness credit recipients, suppliers of agricultural produce and products, laborers directly employed by these businesses and public sector investment programs and the CABEI and ICI personnel who participate in project training and technical assistance activities.

B. Project Objectives

The objectives of the project are to assist Central American economies by encouraging a resumption of capital flows to the region, continuing implementation of major public sector investment projects sponsored by the region's governments and expanding the capacity of CABEI and a wide variety of credit intermediaries throughout the region to more effectively address the investment and financial constraints to agribusiness and export growth.

In addition, the various project activities described below will result in the following end of project status:

1. CABEI will have resumed a positive net flow of funds to its member countries;

2. A.I.D. assistance will have supported CABEI's effort to attract contributions to its Special Fund for Economic and Social Development and/or other donor assistance on concessional terms of at least $150 million over the life of project;

3. Public sector accounts with member countries remain current and paid-in capital increases by at least 40 million;

4. CABEI's private sector portfolio will demonstrate significant improvement in terms of loans rehabilitated and/or assets liquidated;

5. CABEI will have implemented an integrated management information sytem and a series of organization and management improvements;

6. CABEI will have strengthened its capability to assess the potential environmental impact of the projects it finances and improved its project design and monitoring activities accordingly;

7. Approximately twenty credit intermediaries will have received technical assistance and training from CABEI in order to improve their project identification, review, approval and monitoring capabilities in agribusiness, especially with respect to extra-regional export opportunities; and

8. Increased productivity, foreign exchange earnings, employment, incomes and standard of living as a result of credit made available to new or expanding agribusinesses.

C. Project Activities

The project is composed of three basic components which will be carried out simultaneously: improving CABEI's short term financial viability; strengthening CABEI's organizational structure; and strengthening CABEI's private sector program development, including an expansion of its agribusiness lending activities with special emphasis on extra-regional exports.

1. Improving CABEI's Short Term Financial Viability

A number of measures have already been employed by CABEI to remedy its current financial resource position. This component will support CABEI's initiatives by supplying financial and technical assistance in several ways: a) meeting immediate public sector investment priorities; b) restructuring problem projects in CABEI's private sector portfolio; and c) assisting CABEI to expand its access to extra-regional capital.

a. Public Sector Lending

CABEI's liquidity problem has restricted its capacity to finance public sector development projects, primarily infrastructure, at rates of disbursement called for by the projects to maintain their development and employment impact. As a result, a significant backlog of funding requirements has accumulated. Based on a careful review of these accumulated requirements by CABEI, it was determined that on a priority basis the project could most effectively address the Bank's liquidity problem by concentrating on a group of 33 loans, the majority of which had already commenced at least initial disbursements and for which, in most cases, full disbursement could be achieved during the first eighteen months of project implementation. The undisbursed balance for these 33 loans as of May 31, 1985 was approximately $74 million. These loans involve a variety of projects located in Costa Rica, Honduras, El Salvador and Guatemala, including roads, industry, agriculture, energy, telecommunications, education, water resources and preinvestment. An illustrative list of the projects eligible for financing under this component is included in Table IV.

It is anticipated that up to $30 million in AID funds will be required over primarily the first eighteen months of project implementation, which coincides with the projected disbursement schedule for the loans identified. CABEI's own cash flow will permit it to cover the remaining requirements. By helping CABEI to resume normal disbursement on these priority projects, member governments will have an added incentive to fulfill their outstanding commitments to CABEI regarding payment of arrears and subscribed equity contributions. In fact, project disbursements will be tied to progress in fulfilling these commitments. These payments will, in turn, serve to further revitalize CABEI's level of activities in the region.

During the intensive review, a group of consultants was contracted under an IQC mechanism to carefully review each of the selected CABEI loans to insure continued relevance to host government priorities, complementarity with bilateral USAID programs and objectives and financial viability.

b. Rehabilitation of the Private Sector Portfolio

With the establishment of the Portfolio Rehabilitation Unit (RECAP) in late 1984, CABEI has made notable progress in diagnosing the extent of the problems in

TABLE IV
ILLUSTRATIVE LIST OF
PUBLIC SECTOR PROJECTS

COUNTRY	PROJECTS	AMOUNT IN THOUSANDS OF $(1)
Costa Rica	Central American livestock school	3,093.1
Costa Rica	Coffee rust control	1,400.0 (2)
Costa Rica	Educational expansion (National Vocational Training Institute)	1,935.0
Costa Rica	Road construction (various)	6,459.7
Costa Rica	Completion of telecommunications bldg.	868.0
Costa Rica	Educational buildings (Technological Institute and National University)	1,621.8
El Salvador	Transmision lines	250.0
El Salvador	Road and bridges connecting CA-12/CA-4	5,273.9
El Salvador	Coffee rust control	5,000.0 (2)
El Salvador	San Salvador city water supply	3,000.0
El Salvador	Road construction (various)	25,179.8
Guatemala	Guatemala city water supply	500.0 (2)
Guatemala	Rural communities development	4,000.0 (2)
Honduras	Cashew production	722.7
TOTAL		59,304.0

NOTES:

(1) Amounts represent the net portion eligible for the program, that is excluding the portions having ineligible dates of disbursement or sources of procurements.

(2) These are projects for which execution had not started as of March 31, 1985. For all others, execution was underway.

the private sector portfolio. RECAP working with the Project Supervision Unit (SUPRO) has reviewed and classified each private sector loan and has detailed requisite actions in revitalizing each loan in the private sector portfolio (Annex I). Currently, RECAP and SUPRO have developed a private sector portfolio recovery plan which is to be jointly implemented by the two units. This plan, which is currently under review for approval by the Bank's Board of Directors, details general operating procedures, financial resources and technical assistance needs based on the internal diagnostic work to date.

As part of the recovery plan, a joint A.I.D., UNIDO/UNDP and CABEI technical assistance plan has been developed by the Bank. UNIDO/UNDP assistance will consist of one long term (six months) advisor to RECAP to assist in the coordination and general implementation of the Bank's recovery plan and two short term (three to six months) advisors to provide assistance to larger portfolio segments having similar problems such as hotels (marketing), textile (quality control) and fisheries (marketing). The UNIDO/UNDP assistance is scheduled to begin in July, 1985, and provides the framework for the longer term recovery of the private sector portfolio.

A.I.D. assistance will consist of development of rehabilitation plans for individual projects and the provision of short term advisors, as needed, to implement the plans. Annex I details A.I.D. and CABEI inputs for each private sector project to receive assistance over the three year life of project. Examples of A.I.D. short term technical assistance includes production and quality control, finance, administration, plant layouts, etc. Rehabilitation plans will consist of detailing overall recovery actions. This will include, as appropriate, options on loan rescheduling or financing, marketing, administration and general operating procedures.

For its part, the staff of RECAP and SUPRO will supervise day-to-day implementation of the recovery plan. In addition, for certain projects CABEI will undertake to provide short term advisors and/or development of rehabilitation plans. The bank will also provide assistance of its legal department as well as maintenance of adjudicated properties.

Table V details implementation of the three year recovery plan as to source and application of A.I.D., UNIDO/UNDP and CABEI inputs. Its relationship to the overall project financial plan is more fully elaborated in Section V.A.3 of the paper.

TABLE V
(US$000)

ACTIVITY	1st Year	2nd Year	3rd Year	TOTAL	Source
General Coordinator Assistant	50	-	-	50	UNIDO/UNDP
Evaluations to determine rehabilitation feasibility	100	-	-	100	CABEI
Industrial sector experts in specific industry activities	191	138	-	327	UNIDO/AID/CABEI
Preparation of rehabilitation plans	645	485	75	1,205	AID/CABEI
Maintenance, insurance and supervision of adjudicated assets	420	290	205	915	CABEI
TOTALS	1,406	913	280	2,599	

2. Strengthening CABEI's Organizational Structure

a. Technical Assistance and Training to Support CABEI's Reorganization

CABEI carried out a major reorganization and reduction in force during the Fall of 1985 based on recommendations from studies carried out by Lazard Freres, the IBRD and CABEI's own internal analysis. In general, well qualified individuals have been selected to head up the various divisions and offices resulting from the reorganization which should result in a more streamlined and effective institution. The bank's reorganization is going through a shakedown period and further adjustments and fine tuning will be needed over the next few years. Some of the initial adjustments are now being studied by the Bank based on an internal evaluation and the recommendations of the Price Waterhouse institutional study of CABEI. Some of the major Price Waterhouse recommendations being considered include:

- Refine collection functions and procedures to give the Operations Division primary responsibility for planning and executing collection strategies and programs. Assign full-time personnel to collection functions.

- Establish a Department of Systems and Organization including the Organization and Methods Unit.

- Restructure the Financial Division to incorporate the present Department of Operations Control as a new office co-equal with the Office for Resource Development.

- Transfer short time financial projection functions from the Area of Financial Programming to the Financial Division.

- Establish a new Department of Administration combining the present Department of Personnel and the Department of Administrative Services.

It is expected that CABEI will develop a work plan to carry out further adjustments in the reorganization over the next few months. In its report analyzing the AID project proposal, Price Waterhouse recommended technical assistance and training which has been included in the project in the following major areas: (1) assistance to design and implement organization and management improvements at CABEI; (2) assistance to design and implement an integrated management information system; and (3) assistance to improve personnel and training activities within CABEI.

(1) <u>Assistance to Design and Implement Organization and Management Improvements</u>

An expert experienced in bank management and organization will be assigned to CABEI for a period of one year to assist CABEI in carrying out the major recommendations from the Price Waterhouse Institutional Study and resulting from CABEI's own internal evaluation of the reorganization as well as to assist the Bank in carrying out related studies to strengthen CABEI's organizational structure. A long term PSC Liaison Officer, with overall responsibilities to assist in project implementation, will also participate in this effort and will have follow-on monitoring and implementation responsibilities after the departure of the expert in bank management and organization. The various adjustments in the reorganization and the studies financed under the project should by then be in the implementation stage.

(2) <u>Assistance to Design and Implement an Integrated Management Information System</u>

The need for an improved information system is well known and accepted within CABEI and Price Waterhouse's recommendations along these lines have been most welcome. IBRD and IDB officials have also encouraged AID's initiative to provide assistance to CABEI in this area under the project. This is the major technical assistance component under the project and will involve:

- Definition of information requirements for all bank organizational units (some work now underway)

- Review of existing computer programs in the memory to remove obsolete or infrequently used data

- Preparation of a conceptual design of management information systems and subsystems (financial, portfolio, and economical and statistical data)

- Design the architecture of the system and

- Plan implementation

- Operational requirements for software/hardware configuration

- Cross impact analysis (impact of proposed system on organization, management, personnel, training and space utilization)

- Detail system design, including program design, coding and testing, and system testing

- Preparation of procedures and operation manuals

- Training of operators, users and management personnel

- Implementation and acceptance of the systems

CABEI will contract a firm to assist them in carrying out this major program. The first phase of the program will be to carry out a diagnostic study of the information systems which will develop a refined scope for the second phase to design and implement the information system. Scopes for the two phases and related cost estimates are included in V.B. Institutional Analysis.

(3) Assistance to Improve Personnel and Training Activities within CABEI

The earlier Price Waterhouse Institutional Study of CABEI included several specific recommendations for improvement in personnel and training activities within CABEI. The study carried out by Price Waterhouse to design the project recommended assistance in the following areas:

- Undertake study and implement new personnel evaluation system

- Undertake staff training needs assessment and prepare medium and long term training program

- Undertake job classification and salary survey.

b. <u>Technical Assistance and Training to Support CABEI's Efforts to Incorporate Environmental Planning and Analysis in its Programs</u>

In developing the PID for the project, ROCAP became aware that, while CABEI had demonstrated a concern for the environment, environmental planning and analysis had not been addressed by CABEI in a systematic way. Given the resources provided under the project and the expectation that CABEI with other donor assistance and contributions from extraregional members to its Special Fund for Economic and Social Development will again become a major lender for both infrastructure and productive sector projects (as well as CABEI's interest), it seemed appropriate to include environmental assistance as part of the effort to strengthen CABEI's organizational structure and CABEI itself. Accordingly, a contract was arranged with the International Institute for Environment and Development (IIED) which carried out a study entitled "Environmental Procedures and Guidelines for the Central American Bank for Economic Integration". IIED recommended assigning a long term advisor to CABEI, which would be supplemented by short term consultancies and training activities. The overall scope of these activities include:

- to introduce the system of environmental procedures into CABEI's project cycle, starting with the program preparation, promotion and eligibility phases, and subsequently the feasibility dictamen, loan approval and supervision phases;

- to design and incorporate appropriate technical guidance in support of these procedures making use of existing guidelines from other development agencies as appropriate or preparing specific inputs for CABEI guidelines and documents;

- to manage CABEI's participation in establishing the environmental planning system in terms of counterpart selection and guidance and of securing the necessary commitments and actions by CABEI;

- to identify and coordinate the specific short-term technical assistance and training activities in response to the programs and projects that are given funding priority;

- to carry out specific studies and activities to contribute to CABEI's program preparation, project identification, and project analysis as required to initiate the environmental planning system, and to provide ad-hoc environmental planning guidance to CABEI borrowers;

- to introduce the environmental planning system concepts and methodology;

- to promote the further development of a funding program for environmental protection and management and to assist CABEI in identifying possible funding sources outside the region; and

- to carry out environmental assessment and management activities.

A three year technical assistance plan has been developed for the above activities to strengthen CABEI's organizational structure with technical assistance and training to support CABEI's reorganization and efforts to incorporate environmental planning and analysis in its programs as well as to provide project liaison support.

3. Strengthening CABEI's Private Sector Program Development

CABEI's traditional mandate has been essentially to finance public sector infrastructure, a role which it has fulfilled creditably. CABEI's strategy for the future, however, as clearly portrayed in the December 1984 Price Waterhouse Institutional Analysis report and fully recognized by CABEI itself, must seek to shift emphasis toward the productive sectors and especially toward extraregional export industries. This does not imply an abandonment of infrastructure financing, rather it highlights the need to bring about an overdue balance to CABEI's portfolio.

In order to achieve this balance, AID resources will provide technical assistance and training to CABEI in order to strengthen its role as a second-tier lender, working through a network of ICIs throughout the region. The project will also include a major credit component for building upon the experience gained in this regard under the 1977 ROCAP Regional Rural Agribusiness Development project (A.I.D. Loan 596-T-016).

A total of $15 million in A.I.D. resources plus $7.5 million in counterpart will be made available for agribusiness sublending under this component of the project.

The same general lending criteria that were applied under the first CABEI agribusiness loan will also be applied under this project, although a greater emphasis will be placed on extra-regional exports. A.I.D.-funded long and short-term technical assistance and training will be provided under the project to a) increase CABEI's project review capabilities; b) assist CABEI in strengthening the participating ICI staffs in export-related project identification, promotion and implementation; c) provide guidance directly to subborrowers in areas such as export marketing, quality standards, production technology and others. Three long-term advisors will be contracted: one assigned to advise CABEI's agribusiness program coordinator for a period of 12 months and two specialists in agribusiness marketing and technology for 18 months each to help CABEI regional offices in working directly with participating ICIs. A total of 42 person months of short-term technical assistance will be provided for firm-level consulting services. In addition a training fund of $100,000 will be established for CABEI personnel to attend short courses or seminars in the region or the U.S. on project evaluation and loan administration.

Project-funded technical assistance and training will also facilitate the implementation of a greatly streamlined sublending strategy recently adopted by CABEI. This revised strategy decentralizes much of the subloan approval process as compared to the earlier ROCAP agribusiness project and strengthens the role of ICIs and CABEI regional offices. More emphasis will be placed on the selection of ICIs and, once selected, ICIs will be given greater autonomy to approve subloans. CABEI has also decided to grant its regional offices greater redelegation of authority in project monitoring and subloan approvals while, at the same time, adding new staff at the regional level to address these expanded responsibilities.

IV. COST ESTIMATES AND FINANCIAL PLAN

The cost of the three-year project is currently estimated to be $103.4 million, of which the ROCAP contribution will be $50.0 million. Table VI represents a summary of the budget by component. The ROCAP contribution will finance $45 million in short, medium and long term credit for CABEI onlending to agribusiness and public sector productive activities and related infrastructure. In addition, $5 million will finance technical assistance requirements under the strengthening of CABEI's organizational structure, environmental planning, private sector portfolio rehabilitation and agribusiness activities plus expenses for a project liaison officer and project evaluations.

CABEI itself will contribute $48.4 million in counterpart for the public sector and agribusiness credit programs in addition to $2.0 million in working capital for rehabilitation of the private sector portfolio and $60,000 for one half of the environmental advisor's contract in year two. Salaries and per diem for counterpart technicians to the technical advisors and personnel receiving specialized training as well as in-kind costs for office space and in-country travel are not included in the cost estimates.

ICIs participating in the agribusiness program will contribute $5.0 million in counterpart funding for subloans plus salaries and per diem for their technical personnel participating in project-sponsored training sessions.

TABLE VI

Summary Budget
($000)

	AID	CABEI	ICIs	TOTAL
1. Public Sector Investment Program	30,000.0	43,878.9	N.A.	73,878.9
2. Working Capital for Private Sector Portfolio Rehabilitation	-	2,000.0	-	2,000.0
3. Agribusiness Credit	15,000.0	2,500.0	5,000	22,500.0
4. Technical Assistance and Training	5,000.0	60.0	-	5,060.0
TOTAL	50,000.0	48,438.9	5,000	103,438.9

TABLE VII

FINANCIAL PLAN
($000)

	1985			1986			1987			1988			TOTAL		
	A.I.D.	CABEI	ICIs	A.I.D.	CABEI	ICIs	A.I.D.	CABEI	ICIs	A.I.D.	CABEI	ICIs	A.I.D.	CABEI	ICIs
1. Agribusiness Credit	1,300	215	435	5,200	865	1,735	5,000	835	1,665	3,500	585	1,165	15,000	2,500	5,000
2. Public Sector Lending	5,000	-	-	20,000	8,000	-	5,000	22,000	-	-	13,878.9	-	30,000	43,878.9	-
3. Working Capital - Private Sector Portfolio	-	50	-	-	650	-	-	800	-	-	500	-	-	2,000	-
4. Technical Assistance															
a) Agribusiness Component	135	-	-	465	-	-	195	-	-	85	-	-	880	-	-
b) Strengthening CABEI's Org. Structure	130	-	-	690	-	-	450	-	-	100	-	-	1,370	-	-
c) Environmental Planning	30	-	-	240	-	-	90	60	-	-	-	-	360	60	-
d) Private Sector Rehabilitation	200	-	-	750	-	-	475	-	-	75	-	-	1,500	-	-
e) Long Term Liaison Officer	30	-	-	120	-	-	120	-	-	90	-	-	360	-	-
f) Evaluations	-	-	-	50	-	-	-	-	-	50	-	-	100	-	-
g) Inflation and Contingencies	50	-	-	218	-	-	125	-	-	37	-	-	430	-	-
Total Technical Assistance	575	-	-	2,533	-	-	1,455	60	-	437	-	-	5,000	60	-
TOTAL	7,375	265	435	27,733	9,515	1,735	11,455	23,695	1,665	3,937	14,963.9	1,165	50,000	48,438.9	5,000

V. SUMMARY PROJECT ANALYSES

A. Technical Analysis

1. Public Sector Investment Program

As of March 31, 1985, CABEI's outstanding public sector commitments to member countries totaled $407.6 million, of which 34 percent, or $137.4 million, corresponded to existing arrangements with funding from external resources. An additional $33.3 million, or 8.2 percent of total commitments, represent counterpart contributions to on-going housing programs. The balance of $236.9 million, or 58 percent of total commitments, represent other financing requirements for which CABEI must use its own resources.

The projects which comprise this balance of $236.9 million can be classified into three groups: loans under implementation ($95.1 mn.), loans contracted ($99.4 mn.) and loans approved ($43.4 mn.). CABEI's most urgent priority is to provide financing for those loans which have begun implementation (33) but, because of CABEI's lack of liquidity, have been suspended or constrained considerably.

During the intensive review, a Price Waterhouse consultant team reviewed the 33 loans under implementation, plus certain loans which had been contracted but had not yet been initiated, in order to determine their continued viability and eligibility for A.I.D. financing (taking into consideration bilateral USAID concerns, source and origin of existing procurement contracts, amended IEE considerations and dates of disbursement). The result was the list of illustrative projects included in Table IV on page 28 for which A.I.D. funds could be directed. The revised IEE, included as Annex G, contains an assessment of only those projects included in the illustrative list of projects which was described in the PID. Thus for those projects not already reviewed for their potential environmental impact, the Regional Environmental Management Specialist (REMS) will be requested to make a positive determination or specify further analysis prior to disbursement of A.I.D. funds under this component.

Based on its interviews with bilateral USAIDs, the Price Waterhouse consultant team determined that the illustrative public sector projects are regarded as either supportive of the bilateral A.I.D. strategies, or as not conflicting with their programs and policies (see Annex F, Chapter 2). There were a few exceptions, however, including two road projects in Guatemala considered to have little or no priority and one road project in Honduras which was regarded as conflictive. These projects have been eliminated from consideration for project funding.

It should be pointed out that while the projects on the illustrative list are not evenly distributed among the four countries, CABEI counterpart funds freed up by the A.I.D. contribution will permit the Bank to address requirements in a more proportionate manner.

A brief description of the public sector projects, as stated in CABEI reports, is presented in Annex F, Ch. 2, Appendix B.

2. Private Sector Portfolio Rehabilitation

CABEI has a total of ninety ongoing private sector loans which comprise fifteen percent of the bank's lending activities. Loans to the private sector are classified as normal, problematic, critical, closed or foreclosed as follows:

> Normal companies. These are companies which are operating profitably at a sufficient level to pay interest and principal. Historically, they have serviced debt and are expected to remain capable of meeting loan commitments.
>
> Problematic companies. These are companies operating with varying degrees of difficulties, have erratic financial records in repaying CABEI; yet are considered capable of debt service.
>
> Critical companies. These are firms which are in arrears on loan payments, operating with losses, and which are having structural problems such as weak management or inadequate financing.
>
> Closed or foreclosed companies. These are firms which are not operating and are either in liquidation or have been adjudicated to CABEI in settlement of the outstanding loan.

As of January, 1985, arrearages in payment of the private sector portfolio was approximately $100 million, including principal and interest. It was $68 million two years ago. The not yet matured principal of portfolio in arrears is some $50 million more. CABEI has increased its bad debt reserve from $10 million to $19 million in June 1985 and has committed the Bank to increase the reserve to $25.0 million during the next two reviews of portfolio arrearage. In addition to the existing $19 for possible non-repayable loans, CABEI has established an additional $9 million in reserves for losses in interest payments and commission, bringing total existing reserves to $28 million. As part of the project, annual reviews and adjustments to bad debt reserves are planned for during the life of project.

Of the seventy-two projects in arrears, forty-seven are under the supervision of RECAP)critical, closed or foreclosed) and twenty five are under SUPRO's direction (problematic). Of the accounts, ten represent half of the exposure; four represent properties taken in foreclosure; three are "critical companies and three "problematic" companies. Honduras has the largest number of projects in arrears (12) while El Salvador ($27 million) and Costa Rica ($24 million) have the largest amounts in arrerage of payment. To see the arrears in another perspective, of the total private sector portfolio, only about $10 million is normal and up-to-date as to principal and interest.

In its 1984 reorganization, recognizing the growing severity of the problem, the bank following recommendations of the World Bank established RECAP. This unit is administratively attached to the Operations Manager but functionally reports to the Executive Vice President, reflecting the serious need to resuscitate the delinquent private sector portfolio.

Internally, the unit consists of six professionals who are assigned the projects classified as critical, closed or foreclosed. The RECAP works jointly with the regional offices and with the five person Project Supervision Unit (SUPRO) which is responsible for bank portfolio management and control and for supervising normal and problematic loans.

Since its inception, RECAP has worked with SUPRO to determine, on a case by case basis, the degree of performance of each private sector loan. This has resulted in assigning to RECAP projects classified as critical, closed or foreclosed. The normal or problematic loans are administered by SUPRO. For those projects classified as critical, additional assessments have been made to determine other causes for nonperformance and to determine the degree of feasibility in rehabilitating the loan.

Having reviewed, analyzed, classified and assigned all private sector loan projects between their respective divisions, SUPRO and RECAP have developed a recovery plan to revitalize the private sector portfolio. This plan is currently before CABEI's Board of Directors for approval and details greater RECAP operational autonomy, internal operating procedures, policies, and includes recommendations for selling off adjudicated assets as well as the type and mix of assistance needed to turn the problem projects around. This includes technical assistance, loan rescheduling and, in very limited cases, refinancing.

Technical Assistance

Since the beginning of 1984, the World Bank, UNIDO/UNDP, A.I.D. and CABEI have undertaken various studies and/or provided technical assistance to assist in private sector portfolio rehabilitation. This assistance has enabled RECAP and SUPRO to detail specific technical assistance inputs to the recovery plan. A $2.6 million three year joint A.I.D., UNIDO/UNDP and CABEI technical assistance package has been developed. As indicated in the financial analysis section, the combined technical assistance package is projected to result in 75% recuperation of the private sector arrearages.

UNIDO/UNDP technical assistance to RECAP has determined a general mix of technical assistance needed by the unit as well as projected needs for individual projects identified as being rehabilitative. Recently, CABEI has concluded an agreement with UNIDO/UNDP to provide one long-term (six months) advisor to assist RECAP in management of the recovery plan and two short-term advisors (approximately three months each) to work with segments of the private sector portfolio that have across the board similarities.

In addition to assistance to RECAP and broader segments of the portfolio, diagnostic work on the private sector loans has identified the need for development of detailed recovery plans and in many instances short-term technical assistance to initiate their implementation (see Annex I). A.I.D. and CABEI resources will be utilized in carrying out these activities.

Loan Rescheduling and Refinancing

Although technical assistance needs are identified for each rehabilitative project, it is expected that implementation of the assistance will in some cases identify the need for loan rescheduling and/or refinancing. It is CABEI's policy that while loan rescheduling will be considered on a case by case basis it does not want to provide refinancing except in very select exceptions. As such, a modest $2.0 million from the Ordinary Fund is being set aside for refinancing. In addition to establishing its own set aside, CABEI will seek to include other investors in any refinancing needs. This will include discounting their own investments in select companies as well as seeking financing from commercial or donor resources for projects which are rehabilitated.

3. Agribusiness Program

a. Credit Demand

The PID included an estimate of credit demand totaling $ 40.2 million, based on field interviews by CABEI staff. During the intensive review, the Price Waterhouse consultant team was tasked with verifying and updating the CABEI estimates, an exercise which resulted in the identification of an inventory of 89 projects for a total investment of $ 65 million (see Table VIII). An additional $12 million was identified by the Banco Nacional de Costa Rica for which detailed information was not available. These estimates are based on interviews with 15 ICIs in Guatemala, El Salvador, Honduras and Costa Rica. The complete demand analysis is included in chapter 2 of Annex F.

Fifty-one of the 89 projects identified, totaling $ 32 million, are export-oriented, with the remainder focused primarily on the local market. Approximately 75 per cent of these projects have already had pre-feasibility or feasibility studies performed. The number of projects were evenly divided between those requiring up to $ 250,000 in loan capital and those requiring more than $ 250,000. Credit requirements ranged from a low of $ 20,000 for an orchid growing project in Costa Rica to $ 6.5 million for a sisal processing project in El Salvador. (See Annex F for more detailed summaries of the individual country demand assessments).

With the exception of certain ICIs for whom the resources obtained through the CABEI program would represent only a small component of their total operations, all ICIs interviewed expressed a strong interest in participating in the CABEI program. Most ICIs felt that CABEI funds could be used to satisfy immediate needs for which firm commitments from other sources did not exist.

In addition to interviews with the 15 ICIs, the consultant team interviewed CABEI management and staff, high level executives of the four central banks, a sample of potential sub-borrowers and USAID private sector officers in all four countries. A review was also made of current bilateral demand analyses and other relevant documents supplied by those interviewed. In the absense of more exhaustive field work, the consultants' report concluded that, given certain assumptions described below, if only somewhat more than 20 per

TABLE VIII

AGRIBUSINESS CREDIT DEMAND
SUMMARY OF PROJECTS BY COUNTRY AND TYPE OF ACTIVITY
(In Thousands of US$)

Type of Activity	GUATEMALA		EL SALVADOR		HONDURAS		COSTA RICA		TOTAL	
	Number of Projects	Total Investment	Number of Projects	Total Investment	Number of Projects	Total Investment	Number of Projects	Total Investment	Number of Projects	Total Investment
Export-Oriented:										
1) Cultivation/Commercialization of Fruits and vegetables	1	$ 25	2	$ 950	6	$ 3,050	12	$ 6,740	21	$ 10,765
2) Cultivation/Commercialization of Ornamental plants and Flowers	-	-	-	-	-	-	10	$ 3,054	10	$ 3,054
3) Processing/Commercialization of Fish and Seafod	-	-	4	$ 9,725	-	-	5	$ 3,442	9	$ 13,167
4) Other Non-Traditional Crops (Medical plants, spices)	-	-	1	$ 3,225	1	$ 150	7	$ 798	9	4,173
5) Other	-	-	-	-	1	$ 750	1	$ 40	2	$ 790
Subtotal	-	$ 25	7	$ 13,900	8	$ 3,950	35	$ 14,074	51	$ 31,949
Local-Market Oriented:										
1) Dairy, Livestock and Fish/Seafood Processing	2	$ 150	7	$ 6,938	-	-	4	$ 848	13	$ 7,936
2) Cultivation/Industrialization of Grain	4	$ 2,950	1	$ 250	-	-	-	-	5	$ 3,200

Type of Activity	GUATEMALA Number of Projects	GUATEMALA Total Investment	EL SALVADOR Number of Projects	EL SALVADOR Total Investment	HONDURAS Number of Projects	HONDURAS Total Investment	COSTA RICA Number of Projects	COSTA RICA Total Investment	TOTAL Number of Projects	TOTAL Total Investment
3) Agricultural Production — Infrastructure	-	-	3	$ 1,650	-	-	-	-	3	$ 1,650
4) Commercialization of Agricultural Production	1	$ 300	1	$ 1,500	-	-	-	-	2	$ 1,800
5) Industrialization of Traditional Crops (Coffee, Sugar, Cocoa, Banana)	2	$ 1,575	1	$ 169	-	-	-	-	3	$ 1,744
6) Feed and Fodder	1	$ 500	2	$ 1,381	-	-	-	-	3	$ 1,881
7) Forestry	1	$ 300	-	-	-	-	-	-	1	$ 300
8) Other	1	4 250	5	$ 12,708	-	-	2	$ 1,350	8	$ 14,308
Subtotal	12	$ 6,025	20	$ 24,596	-	-	6	$ 2,198	38	$ 32,819
TOTAL	13	$ 6,050	27	$ 38,496	8	$ 3,950	41	$ 16,272	89	$ 64,768

cent of the projects identified materialize into effective demand for CABEI's program, total utilization of funds will be assured. This conclusion is strengthened by adding to these estimates the fact that new projects will be coming on stream and that the demand analysis did not cover all the ICIs which could participate in the program.

Critical assumptions used in developing the conclusions stated above include: a) CABEI will not be required to distribute project funds equally among the four participating countries, but rather, will be able to respond flexibly to the different circumstances prevailing in each country; b) CABEI will adopt distinctive strategies and levels of effort to suit the needs of each country; and c) CABEI will utilize technical assistance under the project to strengthen the capabilities of participating ICIs, particularly in the evaluation of non-traditional export projects.

All bilateral Missions considered valid the objective of helping CABEI reorient its activities toward increasing support for the productive sectors. However, reactions to more specific implications of the project reflected whether or not the country was expected to have unmet demand for non-traditional export projects. In Guatemala and Costa Rica, the project is considered essentially complementary to bilateral USAID projects, however, in El Salvador and especially Honduras, the project is seen as potentially competitive with bilateral projects having similar objectives.

To avoid overlap, CABEI will adopt a very selective implementation strategy based on close coordination with bilateral USAIDs. Through careful selection of ICIs (e.g. emphasis on the cooperative sector) and the provision of financing for projects not covered by bilateral project eligibility criteria, such as large projects or those oriented toward the local market, and through selective use of technical assistance to generate its own demand, CABEI will be able to maximize the complementarity of its efforts with those of the bilateral programs.

b. Sublending Strategy

The previous ROCAP-funded Regional Rural Agribusiness Development project was CABEI's first major effort as a second-story lender. Despite initial delays and a cumbersome subloan approval process, this program proved to be quite effective. It differed significantly, however, from the proposed project in that its focus was on rural agribusiness projects oriented to domestic or regional markets as opposed to non-traditional exports. This shift in focus presents the major challenge to both CABEI and participating ICIs since these institutions have had relatively little experience lending to non-traditional export projects.

Discussions with CABEI have resulted in a sublending strategy substantially revised from that of the earlier program and which is meant to address both the institutional strengthening needs implicit in the project's export focus and the recommendations for improving CABEI's loan approval and disbursement procedures identified in the June 1983 evaluation of the earlier agribusiness program conducted by DEVRES, Inc. This revised strategy involves the following elements: 1) greater emphasis on selection of ICIs; 2) technical assistance and training for ICI staff in subloan promotion, approval and monitoring; 3) greater autonomy for ICIs in subloan approval; 4) increased redelegation of authority to regional CABEI offices; and 5) increased personnel for project implementation tasks assigned to regional CABEI offices together with project-funded technical assistance and training.

By not requiring that each subloan be reviewed and approved by the CABEI credit committee in Tegucigalpa, which would essentially duplicate the ICIs' own review process, the project will greatly streamline its operations in comparison to the earlier project. At the same time, CABEI will place stronger emphasis on the initial ICI selection process and on institutional strengthening activities to be carried out over the life of the project. The Price Waterhouse consultant report found that the majority of the ICIs interviewed have the institutional capacity to implement a line of credit from CABEI without having to add to their fixed costs. The exception was the cooperative sector, for which ICIs would require a much more detailed analysis to determine, on a case by case basis, specific plans for intensive technical assistance and institutional strengthening efforts on the part of CABEI.

<u>Selection of ICIs</u>

CABEI has experience working as a second tier lender to nineteen ICIs in the region as a result of the earlier ROCAP agribusiness project. Prior to approving the selection of individual ICIs under the proposed project, however, CABEI will review the following for both ICIs which participated under the previous program and new ICIs with which CABEI has had no previous experience:

1. Audited financial statements for the previous 3 years;

2. Portfolio analysis, detailing outstanding balances, delinquency, terms and sectors;

3. Legal reserve requirements;

4. Procedures that will be used in processing subloans, including:

   a) application forms;

   b) technical, economic and financial review standards;

   c) guaranty requirements (not to exceed 150 percent of the subloan amount); and

   d) ownership status of enterprise (not to exceed 49 per cent control by a state-run entity).

5. Organization and personnel, including staff size and qualifications at branch offices, technical qualifications of agribusiness staff (specifying whether full or part time) and their supervisors; and

6. Program reporting requirements.

<u>Technical Assistance and Training for ICI Staff</u>

Once ICIs are selected, CABEI will develop technical assistance and training plans tailored to the individual needs of the intermediary with the support of project-funded long and short term technical assistance. Some of the more established ICIs or those more experienced in export projects will require little or no assistance, while others, especially cooperative organizations, will require considerable attention. Emphasis will be placed on increasing ICIs' familiarity with issues relevant to the export process, such as market accesibility, quality control requirements, distribution channels and others important for evaluating export-oriented projects.

Two banking specialists, one with experience in export marketing of agribusiness products and the other with experience in agribusiness technology, will be contracted under the project for 18 months each. These two experts will focus their attention primarily on increasing the institutional capacity of the ICIs to appraise, evaluate and administer export oriented agribusiness projects. They will be expected to assist CABEI agribusiness staff to conduct seminars in the participating countries for ICI personnel. The long term advisors will be complemented by a pool of short term technical assistance totaling approximately 42 person months, to be drawn both from the U.S. and the CA/P region. These experts will provide assistance directly to the subborrowers in the areas of export markets and marketing, quality standards, production technology and other key areas important in assessing the viability of the proposed subloans. It is expected that subborrowers will cover at least 25 per cent of the cost of this assistance. Additional assistance in these areas will be available through CA/P private sector export federations which will be the focus of ROCAP's Non-traditional Agriculture Export Support project (596-0108).

Greater Autonomy for ICIs in Subloan Approval

Based on the initial selection process undertaken by CABEI, ICIs will be granted the authority to approve subloans up to $200,000. This level of delegation will be reviewed periodically and adjusted according to the measures each ICI takes to strengthen its project review capabilities together with participation in project funded technical assistance and training activities. The previous ROCAP agribusiness program called for all subloans to be reviewed and approved by CABEI s credit committee in Tegucigalpa. It is expected that this redelegation of authority will greatly enhance the responsiveness of the program to the region's credit needs.

Increased Redelegation of Authority to CABEI's Regional Offices

In addition to the greater autonomy for ICIs, CABEI has also decided to decentralize its subloan review and approval procedures by granting its regional offices the authority to approve subloans under this project up to $500,000. For subloans in excess of $500,000, the regional office will submit the application and related analysis together with its own assessment and recommendations to the implementing unit within the Bank's Productive Sector Studies and Promotion section (PROMEP). PROMEP would proceed with its own review which, if positive, would then follow the Bank's normal credit approval procedures. A.I.D. approval will also be required for each subloan over $500,000.

Increased Staff Support for Regional Offices

In order to implement the agribusiness component, CABEI will assign personnel from its existing staff or recruit qualified technicians to fill four new positions established for this purpose. These new positions consist of a project coordinator, based in Honduras and responding directly to the Chief of PROMEP as well as assuming project implementation responsibilities for Honduras, and three project officers, one of which will be assigned to each of the other participating countries. The long term advisors mentioned above will also provide assistance to CABEI project officers in implementing the various project activities. A senior consultant will be contracted with project funds for one year to assist the project coordinator in identifying areas in which ICI and CABEI staff require additional training, conducting training sessions, organizing subborrower technical assistance support and providing guidance on the overall management of the agribusiness program. In addition, the project will provide $100,000 to cover expenses for CABEI staff to attend special short term training programs for project evaluation and loan administration either in the region or the U.S.

Joint reviews of progress under the agribusiness component will be conducted by CABEI and ROCAP after the commitment of $5.0 million and $10.0 million in A.I.D. funds respectively. As requested in the PID guidance cable, CABEI and ROCAP have agreed to a system which will allow ROCAP to insure that subloans are being lent at market rates and that state-controlled enterprises are excluded from being credit recipients. Quarterly reports submitted to ROCAP by CABEI will detail each subloan by borrower, activity, ownership status, A.I.D. contribution, CABEI contribution, ICI contribution, repayment and grace periods and interest rate charged. In addition, all subloans approved or submitted for approval by the ICIs will include a certification that all subborrowers are private individuals or firms or, in the case of mixed enterprises, controlling interest belongs to private individuals or firms. CABEI quarterly reports will also state the prevailing market interest rate for similar projects in each of the four countries.

c. Subloan Terms and Conditions

CABEI will lend to the ICIs on the same terms (e.g. repayment and grace periods) that the ICI lends to its subborrowers. The maximum repayment period is 13 years with a maximum grace period of 5 years, determined through negotiations on a project-by-project basis. Negotiations with the central banks in each of the four countries are nearly finalized. It is expected that the central banks will assume the foreign exchange risk on project funds in exchange for a one per cent margin on the interest rate spread and, at the same time, will permit ICIs to operate directly with CABEI for opening letters of credit for the importation of raw materials and intermediate goods. Presentation of signed agreements with each of the central banks acceptable to A.I.D. will be a condition precedent to initial dibursement under the agribusiness component.

Appropriate spreads to be allowed for participating ICIs will be examined as a part of CABEI's selection process. Currently, spreads range from a low of 2 - 3-1/2 per cent in El Salvador to 4-5 per cent in the other three countries. CABEI itself will receive a two per cent spread to cover its administrative expenses.

A.I.D. funds will cover two thirds of the credit requirement for each subloan with the remaining third to be provided by CABEI and ICI counterpart. ICIs will contribute two-thirds of the counterpart requirement for each subloan (approximately 22 per cent of the total subloan amount) and CABEI will contribute the balance.

B. Institutional Analysis

Price Waterhouse carried out a major institutional study of CABEI under an IQC arrangement prior to the preparation of the PID for the project. The institutional study was presented in A.I.D./W at a meeting which included key LAC Bureau as well as other A.I.D. officials and representatives from State and Treasury. Subsequently, Price Waterhouse was contracted to carry out most of the design analysis for the PP. As part of the design analysis, the consultants' efforts focused on the technical assistance and training needed by the Bank to successfully carry out the project. In addition, ROCAP made a contract with the International Institute for Environment and Development (IIED) to provide a supplemental study containing analysis and recommendations on the technical assistance and training needs of CABEI in order to strengthen its capability to carry out environmental planning and analysis. These three studies are available in LAC/DR.

The summary institutional analysis presented here highlights some of the major conclusions and recommendations from the studies and provides part of the background and detail on the major technical assistance and training to be included in the project components. Detailed scopes of work and cost estimates for the major technical assistance contracts to be financed under the project are included in the Price Waterhouse and IIED studies.

1. Summary of the Recommended U.S. Government Assistance Strategy Toward CABEI (Price Waterhouse Institutional Study of CABEI, dated December 28, 1984)

"It is the Project Team's recommendation that U.S. foreign policy interests in Central America will be well served by providing A.I.D. concessionary assistance to CABEI in FY 1985. We consider such assistance to be crucial to CABEI's institutional recuperation and long term viability as well as its capacity to play a constructive role in advancing an updated strategy for regional integration and development, emphasizing private sector, export-oriented productive growth.

A demonstration of U.S. support to CABEI is important to reinvigorate its members' own support for the institution, particularly by meeting its financial commitments. It will also help attract new members and external funding sources.

In summary, we believe that CABEI has an important role to play in the region and that the U.S. government should support it. In particular, we recommend that:

- U.S. government support of CABEI should be conditioned on concrete evidence of support for the institution by member governments.

- U.S. government financial assistance to CABEI should be on a concessionary basis, represent a contribution to its capital structure, and be designed to leverage generation of additional external financing.

- U.S. assistance should be conditioned on these funds being used to further U.S. government development priorities (e.g., private sector, export-oriented productive activities).

- U.S. assistance to CABEI should be coordinated with other donors such as the World Bank and IDB."

2. <u>Summary of Organization and Management Issues (Price Waterhouse Institutional Study of CABEI, dated December 28, 1984)</u>

"We reviewed organization and management issues in light of the recent reorganization and from the standpoint of assessing CABEI's capabilities to support a reoriented and revitalized program. Our conclusions and recommendations are summarized below:

o Key problems identified were:

  - lack of management information system

  - need to improve its external image as an agile, efficient financial institution

  - inadequate staff capability in relating to the private sector

  - need for improved strategic, operational and administrative planning

  These problems are generally similar to those afflicting several other development finance institutions in the region to which A.I.D. assistance is being provided for management improvement.

- Bank senior management is fully aware of its organization and management problems and have taken constructive steps to address them through the 1984 reorganization process.

- Organization/management problems appear to be surmountable but they require high priority management attention and diligence in undertaking remedial action. With such action, the Bank should be fully capable of meeting institutional requirements for supporting strategic plans. The important cadre of experienced, highly professional Bank personnel should provide a basis for success of institutional improvement efforts.

- Priority should be given to organization/management problems since the Bank's external image will be judged by the quality of its management and operational efficiency. Its external image is a key factor in obtaining external financing.

- Present organizational structure and management practices can be improved by:

    - adjusting the structure of certain existing organizational units; relocating and/or combining units and functions as necessary to improve operations and management control;

    - clarifying certain functions and relationships in the financial area;

    - filling vacancies of key executive positions with qualified bank managers; and

    - strengthening loan supervision and collection practices.

- Priority attention should be given to developing a management information system using short-term and medium-term approaches:

    - the short-term approach involves urgent selection of banking software programs for general ledger, financial reporting and portfolio management needs.

- the medium-term approach is to begin study of the conceptual design and implementation of an integrated management information system including financial management, portfolio management, and economic/statistical data base sub-systems.

o Undertake studies to:

- design and implement a new personnel evaluation system;

- prepare qualifications statements to accompany position descriptions;

- assess medium- to long-term manpower needs;

- assess training needs for senior and middle level managers; and

- analyze possibilities of reducing steps in operating procedures"

3. Summary of CABEI's Technical Assistance and Training Needs to Implement the Project (Price Waterhouse Project Design Study dated May 23, 1985).

In assessing CABEI's institutional ability to carry out the project, Price Waterhouse made an important distinction between the public and private sector components of the project. In general, Price Waterhouse noted that CABEI had a good track record in carrying out public sector infrastructure projects and "should have no problem in disbursing the public sector loans over the proposed eighteen months of the program since in most cases all of the projects have been approved and simply awaiting funds to be able to proceed." Price Waterhouse noted the availability of personnel to deal with this component and that this had not been affected by CABEI's reduction in force. Price Waterhouse, therefore, concentrated on refining the general areas identified for assistance in the previous institutional study and concluded that CABEI will require assistance in the following specific areas over the next three years:

- Assistance in implementing the agribusiness project

- Assistance to rehabilitate the private sector portfolio

- Assistance to design and implement organization and management improvements in CABEI

- Assistance to design and implement an integrated management information system

- Assistance to improve personnel and training activities within CABEI.

The specific technical assistance and training needs to strengthen CABEI's ability to work with the private sector in agribusiness and in the rehabilitation of the private sector portfolio are discussed in the preceeding "Technical Analysis" section of the Paper. This section describes the technical assistance and training needed to strengthen CABEI's organizational structure.

(a) <u>Organization and Management Improvement</u>*

The earlier Price Waterhouse institutional assessment of CABEI resulted in a number of recommendations for organization and management improvements, including the following:

- Refine collection functions and procedures to give the Operations Division primary responsibility for planning and executing collection strategies and programs. Assign full time personnel to collection functions.

- Establish a Department of Systems and Organization including the Organization and Methods Unit.

- Restructure the Financial Division to incorporate the present Department of Operation Control as a new Sub-Division co-equal with the Office of Resource Development.

- Transfer short term financial projection functions from the Area of Financial Programming to the Financial Division.

- Establish a new Department of Administration, combining the present Department of Personnel and the Department of Administrative Services.

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*An Organizational Chart reflecting 1984 organization is included at the end of this section as Table IX

- Prepare qualification statements for all senior and middle management position descriptions.

- Analyze operating procedures to reduce the number of steps in loan request screening, appraisal, approval monitoring and supervision processes.

- Strengthen loan supervision by assigning local agents in member countries to monitor financial health of private sector clients.

- Design and implement procedures for early warning system for detecting problems with Bank's clients.

To implement these recommendations in a timely fashion, an expert experienced in bank organization and management should be assigned to CABEI for a period of one year who would also conduct specific studies required to implement other recommended changes. The total cost for this assistance will be $120,000.

(b) <u>Integrated Management Information Systems</u>

The earlier Price Waterhouse report on CABEI clearly identified the lack of an effective management information system as a major impediment for the successful functioning of CABEI as a development institution. CABEI has so far taken a piecemeal approach to resolving this problem, but has now accepted the fact that a major restructuring with outside assistance is the only mechanism to effect this change within a short time frame.

The design and implementation of an integrated management information system should include: (1) definition of information requirements for all bank organizational units (some work now underway); (2) review of existing computer programs in the memory to remove obsolete or infrequently used data; (3) preparation of a conceptual design of management information systems and subsystems (financial, portfolio, and economical and statistical data); (4) design the architecture of the system; and implementation planning; (5) operational requirements for software/hardware configuration; (6) cross impact analysis (impact of proposed system on organization, management, personnel, training and space utilization); (7) preparation of procedures and operation manuals; (8) training of operators, users and management personnel in computer systems and programs; and (9) implementation and acceptance of the systems.

CABEI will need to contract a firm to assist them in carrying out this information p[illegible] T[illegible] t[illegible] estimated $1.0 million (125 man months). Th[illegible] t[illegible] te[illegible] in [illegible] program would be to c[illegible] v out [illegible] di[illegible] g [illegible]

[illegible] The estimated budget for the diagnostic study is $100,000 (approximately 10 man months).

(c) Personnel and Training Activities

The earlier Price Waterhouse study on CABEI also made a number of specific recommendations for improvement in personnel and training activities within CABEI. These included among others the following:

- Undertake study and implement new personnel evaluation system

- Undertake staff training needs assessment and prepare medium and long term training program

- Undertake job classification and salary survey.

These three studies can be carried out at an estimated cost of $150,000.

(d) Assistance in Developing Environmental Procedures and Guidelines

As indicated in the project component "Strengthening CABEI's Organizational Structure", the need to provide assistance in this area was identified in the project design process and ROCAP sponsored a study by IIED for this purpose. In summary, the study concluded that an environmental planning and management expert should be appointed to CABEI to establish an environmental focal point and initiate the system of procedures and guidelines. ROCAP support of the post should be phased out eventually and CABEI should assume the costs at a point where the start-up effort has been completed. Full support for this post should be provided for one year and one-half support for another year to encourage CABEI to take up responsibility.

The cost of the advisor, whose scope is outlined in the project component, would be: 1 + (1x1/2) man-years	$ 180,000

Budget for travel, guidelines preparation, technical literature, ad-hoc technical assistance for CABEI borrowers and promotion of CABEI environmental protection program	50,000
Sub-Total	$ 230,000

In support of the work of the environmental advisor, the technical assistance package should also include short-term consultancies for the following activities:

Cost:	6 man months including travel and subsistence	$ 60,000

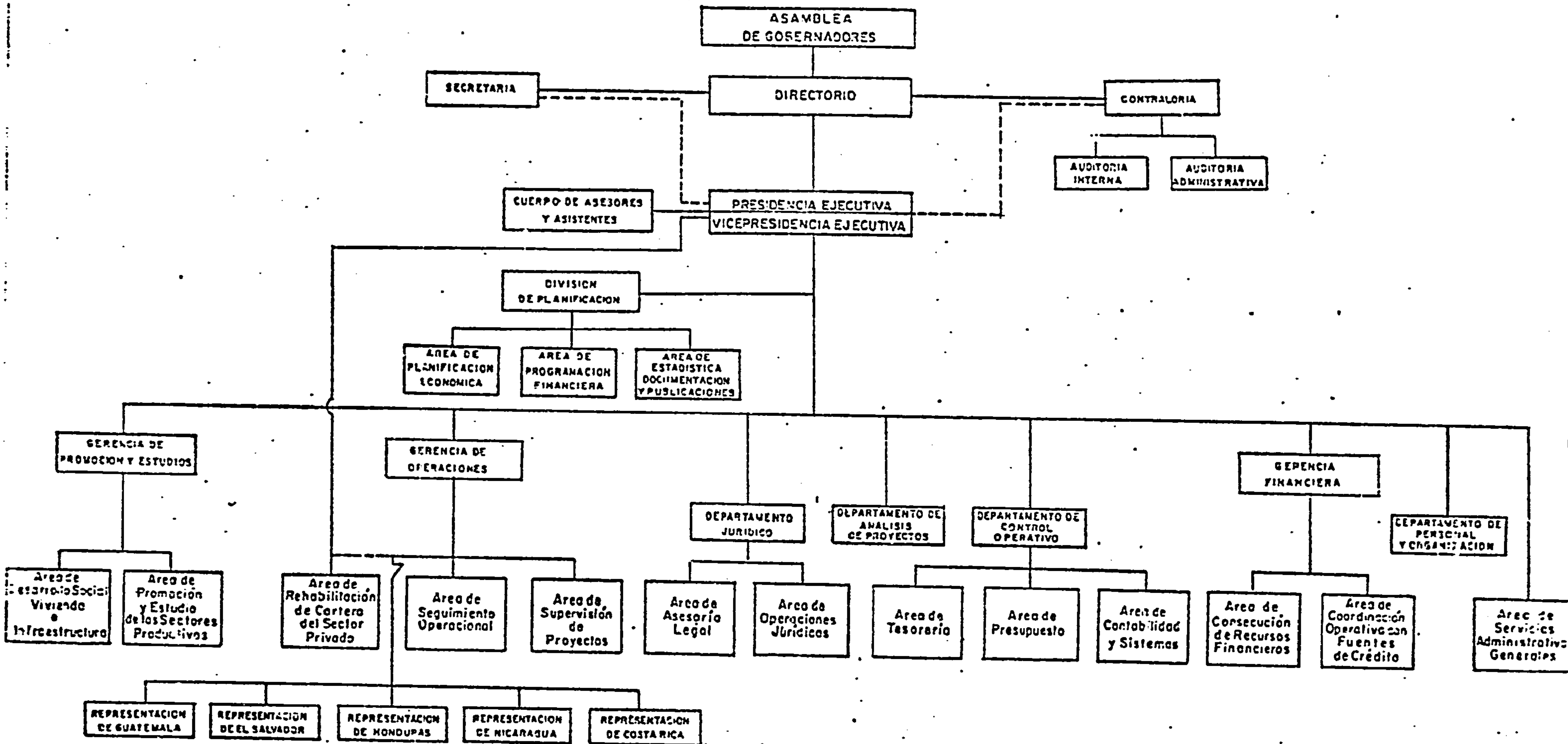
Training activities should also be provided in conjunction with the technical assistance and have the following estimated costs:

Seminar for senior CABEI management	$ 20,000
Short term training for CABEI staff	$ 30,000
Total Cost of technical assistance and training	$360,000

TABLE IX

BCIE

GRAFICA GENERAL DE ORGANIZACION



APROBADO MEDIANTE RESOLUCION DE DIRECTORIO
Nº DI-40/84 DE FECHA 17 DE JULIO DE 19[illegible]
Y MODIFICADO POR ACDI-82/84

C. Economic Analysis

This section of the Project Paper includes a discussion on the likely economic impact of the project and the economic analysis itself. The former part estimates the employment and net foreign exchange benefits that can be expected to flow from the project. The economic analysis discusses the economic rate of return that can be expected from the use of A.I.D.'s financial resources.

Economic Impact: Employment

Total employment generated by an economic activity can be broken down into direct and indirect employment. Direct employment results from full-time employment in the plant or field or in marketing or other staff positions of the company concerned. Indirect employment results from full time employment or full-time equivalent employment in providing raw material and other resources to the company concerned or in assisting the company concerned to plant, harvest, and/or process its product.

Using capital-labor ratios drawn from various scurces for different activities (see Table X) the likely total employment effects of the private sector portfolio have been calculated. Table XI shows the estimated employment effects by country and sector. Approximately 3300 direct jobs are created and an additional 9500 full-time equivalent jobs are generated in off-site direct employment or on an off-site part-time employment region-wide. Direct employment is greatest in Costa Rica and least in Guatemala, 1390 versus 456. On the other hand, total employment is greatest in Guatemala, reflecting the higher employment multipliers and thus the indirect employment effects in certain types of agribusiness. Honduras accounts for only 15 percent of total added employment, El Salvador and Costa Rica for approximately 25 percent, and Guatemala for approximately 35 percent of total employment.

The employment effects are well distributed by subsector. The agribusinesses and fisheries subsectors account for about 27 and 18 percent of total employment generated, respectively. In the commercialization, fruits and vegetables, and other subsectors, employment shares range from 12 to 14.5 percent. Each of the remaining subsectors account for between 1 and 4.5 percent of total employment generated.

TABLE X

AGRIBUSINESS CAPITAL TO LABOR RATIOS
(U.S. dollars per job)

DEVRES (1)	2755 regional average, all subsector average
LAAD (2)	2150 regional average, all subsector average
CABEI (3)	14600 regional average, all subsector average
USAID/G	4545 national average, broad ag. sector export projects
USAID/CR	8400 national average, agribusiness only, limited sample
USAID/H	4852 national average, export oriented, agribusiness only

	LAAD	ROCAP (4)	CABEI	DEVRES
Agroindustry	2,800	2,000		2,035
direct		18,000	21,400	
indirect		2,300		
Poultry	3,500	2,900		2,093
direct		17,490	17,000	
indirect		3,550		
Dairy		3,600		
direct		12,490	13,000	
indirect		5,010		
Commercialization		2,100		
direct		13,900	47,200	
indirect		2,505		
Permanent Crops		4,400		
direct			6,500	
indirect				
Fisheries	1,262	2,200		
direct	2,188	7,033	5,500	
indirect	2,881	3,239		
Ornamentals	2,629	3,700		
direct	6,180	29,583	7,300	
indirect	3,086	4,277		
Livestock		3,500		
direct		14,000	26,900	
indirect		4,600		

Notes: (1) Devres, Inc. estimated employment by dividing estimated labor cost by cost per job (salary plus direct benefits), then divided capital investment by the number of jobs estimated; (2) estimated from a sample of sixteen projects; (3) direct employment only; (4) estimate taken from PID for Regional Economic Recovery Project.

TABLE XI

Agribusiness Credit Component
Direct Employment Effects

	Guatemala		El Salvador		Honduras		Costa Rica		Total	
	direct	total	direct	total	direct	total	direct	total	direct	total
Agroindustry	406	3516	39	139					445	3656
Livestock and Dairy	16	87					69	371	85	458
Commercialization	27	260	141	1365					168	1624
Fruits and Veg. (E)	7	10	133	196	853	1260	314	464	1307	1931
Fisheries (E)			278	577			829	1729	1108	2298
Ornamentals (E)							44	371	44	371
Non-Traditional Crops (E)					42	62	134	198	176	260
Other (E)		100		760		495		472		1827
Feed and Fodder		300								300
Agroforestry		120								120
Total	456	4850	591	3037	895	1817	1390	3597	3333	12846

Source: E/DI

The primary employment effects of public sector projects are short term, occurring during the construction and startup phases of each project. Estimated short term employment from only the A.I.D. component of this project alone is on the order of 210-260 jobs per year over three years. Total short term labor requirements with the A.I.D. loan and the CABEI counterpart contribution is on the order of 700-780 jobs per year.

None of the projects reviewed in the CABEI portfolio or other similar projects initiated by A.I.D. and the World Bank included estimates of the long term labor effects of public sector projects. Direct long term employment will, however, be generated in maintenance and repairs on roads, electric lines, civil works and the like and in operations and management services. We estimate that from 90 to 110 permanent jobs will result from the public sector and infrastructure portfolio.

The combined employment effect of the public and private sector investments will be to increase long term regional employment by approximately 13,000 positions. Almost all of these new jobs result from investment in agribusiness. It is also important to keep in mind that this estimate is only for the first disbursement of project funds. Subsequent roll-overs of the agribusiness fund will increase the employment benefits of this project substantially.

Economic Impact: Net Foreign Exchange Earnings

For the purpose of this analysis it is assumed that the A.I.D. loan is provided in dollars and all repayments by CABEI to A.I.D., and by sub-borrowers to CABEI, for dollar source loans are also made in dollars. Under this project CABEI assumes an obligation to repay the U.S. Government between $63 and $75 million dollars in principal and interest over the amortization period of the loan. (Note: the loan component of this project was subsequently reduced and substituted with ESF grant funds). This assumes concessional terms including a thirty year amortization period, 10 years grace, and 2-3 percent annual interest. Sub-borrowers assume an obligation to repay CABEI between $90 and $100 million dollars in the first roll-over of the loan (assumed to be 20 years with respect to agribusiness loans and 10 years with respect to private sector loans). The private sector alone assumes a foreign exchange obligation of roughly $33 million dollars in the first roll-over, assuming commercial terms.

In order to calculate potential foreign exchange earnings, we have applied ratios of foreign exchange to investment to the export project investments (assumed to be 100 percent export oriented) and local project investments (20 percent of which are assumed to involve either import substitution or export of that portion of their production) shown in Table XII. The ratio used is based on earlier A.I.D. analyses.

Previous regional estimates, for example in the Non-Traditional Agricultural Export Promotion project (596-0123), yielded ratios of foreign exchange benefits to incremental investment on the order of 1 to 1.5. Other estimates are in rough accordance with these estimates: the Private Investment Corporation project in Costa Rica showed ratios of 1.58:1 and 1.15:1 for agroindustry and commercialization projects respectively, and a review of LAAD investments provides a ratio of approximately 1.3:1. Estimates outside this range almost always are greater, as with the Guatemala Agribusiness Development project which estimated an average ratio of 3.6:1.

The range of potential foreign exchange revenues is broad as shown in Table XII. At the optimistic end, applying a ratio of 1.35 to total investment in export projects, the project yields an average of $41.5 million of foreign exchange per year. At the low end, applying a ratio of 1:1, the project yields an average of $17.5 million in direct foreign exchange earnings per year.

In addition to direct foreign exchange earnings, the project should generate foreign exchange savings as a result of import substitution projects funded. Of the agribusiness projects reviewed in this analysis, 65 percent have export markets as either exclusive or major market targets. We estimate conservatively that, of the remaining projects, 20 to 30 percent of production qualifies as substitutes for imports. At this level, annual import savings are expected to range from US$4.5 to US$9.1 million per year, depending on the actual level of production and terms of trade.

From these two gross foreign exchange revenue streams foreign exchange costs must be subtracted. Foreign exchange costs are broken into two components: capital costs and recurring costs. Because of the current economic situation in the region, it is unlikely that borrowers will assume any foreign exchange risk on dollar loans. Consequently we estimate that initial dollar-denominated capital costs will not vary greatly from the $10.0 million loan from A.I.D. This loan generates a dollar-denominated debt service obligation on the part of (a) CABEI (at concessional terms over thirty years) and (b) borrowers from CABEI (at market-oriented terms for much shorter maturities). Foreign exchange debt costs are assumed to be those costs incurred by CABEI, not by private and state concerns within each country, in the high net foreign exchange earnings case. In the low case, the debt costs are those assumed by state and private concerns for repayment to CABEI. The difference between these two figures is the difference in terms between A.I.D.'s loan to CABEI and CABEI's loans to its borrowers.

Recurrent foreign exchange costs include the costs of imported raw materials, technical support, and other inputs. Based on the types of projects to be funded, the foreign exchange intensity of production is expected to range from 14% (high net benefit case) to 21% (low case).

As the botton line in Table XII indicates, the net foreign exchange earnings from this project could vary greatly. But even under the worst case scenario, the region will be earning $6.8 million more annually on a net basis as a result of the projects financed under the agribusiness credit component.

TABLE XII

Ten Year Projection of Net Foreign Exchange Benefits
(U.S. $ millions)

	Low Net Benefit Case	High Net Benefit Case
Benefits		
From Exports	17.5	41.5
From Import Savings	4.5	9.1
Costs		
Recurrent Costs	10.2	6.8
Debt Service	5.0	1.8
Total Costs	15.2	8.6
Net Foreign Exchange Benefits	6.8	42.0
Average Annual Net Benefit	6.8	42.0

Project Economic Analysis

A project in financial intermediation can be shown to be economically viable if it can be demonstrated that the use of the financial resources will generate an economic rate of return (EIRR) at least equal to the opportunity cost of capital. Such is the approach taken with this project economic analysis. Both the public sector and the private sector portfolios of potential loan projects have been analyzed to determine if the expected cost-benefit ratios are greater than 1.0 or if the EIRR for most of the projects exceeds the opportunity cost of capital. The opportunity cost of capital is an elusive number, but it is generally agreed that it is between 12-15% for the countries of the Central American region.

1. Public Sector Projects

In preparing and evaluating the public sector projects for initial financing, CABEI, their consultants, and experts from the potential financing institutions developed economic valuations for most of the projects in the proposed portfolio. A summary of their findings by project type is presented in the first two columns of Table XIII. No individual project has an EIRR of less than 13 percent or a benefit/cost ratio of less than 1.2 percent. The projects selected all compare favorably with other regional projects carried out by CABEI, A.I.D. and the World Bank as shown in the third column. As can be seen, some have very high EIRRs, 38.6 in the case of roads. Based on this, we are confident that the use of A.I.D. resources in these public sector projects will generate a rate of return at least as high as, but probably higher than, the opportunity cost of capital in the region.

TABLE XIII

Fundable Public Sector Projects

	CABEI Projects		
	Economic IRR	Benefit/Cost Ratio	Other CABEI, USAID and World Bank Projects
Education			
Roads	Range: 13.1 to 39.12 percent Average: 17 percent at a 14% discount rate. Note: one farm-to market project with 5.4 ROR, base, 19.4 if ag. sales considered	Range: 1.6 to 3.26 at a 10 and 15 percent discount rate respectively. Average: at 1.8 Low: 0.44 for farm-to-market project without consideration of increased sales.	a. 30.0/2.1, at 15 percent b. 26.6/2.05, at 13% c. EIRR 50% for maint. d. EIRR 16% for new rural road project
Water/Sanitation and Civil Works	38.6 percent	1.2 to 2 at 15 and 12%, respectively	a. 45.7/1.43 at 20 percent b. 42.6/2.8 at 15 percent
Telecommunications	15.7 percent		
Electric Sector			a. 13.6/1.09 at 12 percent b. EIRR 12.3 to 15 percent
Rural Development	45.5 percent	1.33 at 12 percent	a. EIRR of 21.5 percent C/B ratio of 1.73 and 2.81 at 15 and 10 percent, respectively.
Other	14.5 percent	1.33	a. 24.7/-- b. 27.1/--

2. The Private Sector

In analyzing rates of return on the agribusiness credit component, an alternative approach had to be taken, since project analyses (financial and economic) do not yet exist for the anticipated private sector portfolio. Anecdotal evidence and interviews with private sector representatives were relied upon to derive expected financial rates of return. From these we were able to make an estimate with respect to the economic rate of return to the private sector portfolio.

In discussions with private agricultural sector entrepreneurs in the region, we found that their expected financial return on investment (or the lowest return which they would accept in investing their own resources) ranged from 20-30 percent depending on the nature of the project. This finding is consistent with the results of previous A.I.D. evaluations -- for example in Costa Rica for the Private Investment Corporation, in which estimated financial rates of return range from 26-39 percent and in Honduras where three agroindustrial projects had IRR's in the 25-35 percent range.

We also spoke with banks and entrepreneurs in the region, with OPIC and the IFC, and with U.S. experts on Latin America agricultural and agribusiness projects to define a range of probable rates of return by agroindustrial sub-sector. Based on these discussions and on an analysis of actual and planned agribusiness projects throughout the region, we would expect average financial rates of return of 18-25% in the agroindustry sector, 20-25% in poultry, 25-30% in the dairy sub-sector, 15-40% in vegetables, 10-20% in fisheries, and 15-40% in ornamentals. Aggregate financial rates of return across all sub-sectors should be in the range of 20-35%. The actual rate of return, of course, will vary with the specific nature of the project. In the poultry sector, for example, the rate of return for a broiler project might be expected to be 50-100% greater than for a project which is oriented to egg production.

As can be expected, the economic rate of return for the private sector portfolio will exceed the financial rate of return. The primary reason for this lies in economic versus financial costs. Labor costs, for example, which are a major cost component of agriculture sector projects, must be adjusted downward to reflect their true economic value. Since unemployment exceeds 15 percent in each of the countries and under-employment in the agriculture sector averages 39 percent, the "shadow price" of labor (that is, the true economic cost) is likely to be only 25-45 percent of the financial cost. Adjustments must also be made in foreign exchange costs and revenues to account for the typical overvaluation of official exchange rates. Current parallel market rates range from 1.25 to 1.35 times official rates. Since a majority of the projects in the portfolio are export-oriented, this adjustment has the aggregate effect, across all projects, of increasing the rate of return.

From this we are confident that the economic rate of return will be 1.2 to 1.3 times the financial rate of return or, about 30-40%, substantially higher than the opportunity cost of capital in the region.

D. Social Analysis

The prolonged recession in Central America has cut deeply into the stock of productive and social capital of the region. A key indicator of the current economic crisis has been the fall in living standards throughout the region. Between 1978 and 1983, the GDP of the five Central American countries contracted by 4.2% in real terms, while the region's population grew by 18%. This translates into a 19% fall in the region's real per capita GDP over that period. The decline in income (net national product) has been even greater. When adjusted for the terms of trade effect, real incomes have plummeted perhaps 30% or more.

Mirroring the fall in living standards has been the rise in unemployment. An accurate estimate of the extent of unemployment suffers from the absence of consistent and methodologically uniform surveys among the Central American countries and from the fact that a large number of people, especially in Guatemala, Honduras and El Salvador, participate in only varying degrees in the wage economy. Nevertheless, it is sufficient to point out that, since 1977, more than 1.5 million people have joined the economically active population in the five countries. With no real growth in the region's GDP since 1978, this increment to the labor force has had to join the already expanded pool of open unemployment in the modern sector and/or the ranks of the underemployed in the urban and rural sectors.

As described in Section C, Economic Analysis, the combined estimated employment effect of the public sector investment and agribusiness credit components will be to increase long term regional employment by approximately 13,000 full-time positions. Almost all of these new jobs result from investment fueled by the agribusiness credit component. The primary employment effects of public sector investment programs are short term, occurring during the construction and start-up phases of each project. Total short term labor requirements based on both A.I.D. funds and the CABEI counterpart contribution are on the order of 700-780 jobs per year. However, it is estimated that only approximately 100 permanent jobs will result from this component, corresponding principally to maintenance and repair of roads, electric lines, civil works and the like and in operations and management services.

As indicated by the employment projections above, the agribusiness credit component will have the largest social impact of the project's various components. Rural Central

America has long been marked by the dual nature of commercial (export) and traditional agricultural economies. The export sector is characterized by extensive plantations incorporating the most fertile lands, a high degree of mechanization and efficient organization, access to credit and resulting productivity. The sector comprising traditional agriculture - producing mostly corn, beans, rice, sorghum and other crops for the domestic market - is characterized by tiny landholdings, poorer soils, archaic methods of production, extremely limited access to credit and very low levels of productivity. This traditional sector encompasses over 50 percent of the population of Central America.

While there are many factors contributing to the situation of stagnation in the traditional agricultural sector, the most fundamental is land tenure. The pattern of very large estates - latifundio - on the one hand and - minifundio - on the other, is typical of Central America. Beyond this, the absence of adequate marketing outlets has generally kept production on small farms low and has proven a disincentive to crop diversification.

The proposed agribusiness credit component, while unable to solve the problem of land distribution directly, aims at the gap in financial and technical aid to small and medium size producers and attempts to create new marketing channels for their produce. Agribusiness, by its very nature, seeks to establish a coherent system in which production, processing, transport, storage, financing and marketing are all integral elements.

The object of any agribusiness is to expand its operation over time in order to take advantage of economies of scale. One of the major problems in doing this has been the inability to obtain a reliable source of volume supply. The Latin American Agribusiness Development (LAAD) experience indicates that it normally takes some time for a processing plant to expand to the point where it is operating at optimal scale with a reliable source of raw material. Hence, the participants in any project will increase over time, and this will assure more widespread use of any new or improved technologies that are introduced.

The agribusiness investor may choose from among several alternatives in acquiring his raw material. While it would appear to be in his interest to find middle and large size farmers willing to devote land and recruit workers to plant, cultivate and harvest the crops, the larger land-holders are reluctant to shift operations away from their lucrative, relatively uncomplicated traditional operations. Another option is for the agribusiness investor to develop sources from smaller farms. In some areas this may be dictated by the fact that only small farmers can be induced to shift to these new crops. In other cases, the choice of small farmers seems to reflect a judgement on the part of the investor that only they are prepared to give the continuing care and attention required by non-traditional crops. Once an investor-supplier relationship has been established, both parties develop a strong mutual interest in its maintenance and continuity. Hence, these relationships are likely to endure.

Impact on Women

This project should lead to important new employment opportunities for women. Because crops for processing are labor intensive, women in the farm household are likely to have added opportunities for productive work. At peaks of labor need (e.g. harvesting), neighboring women are also likely to be offered work. Some kinds of agroindustries require manual skills which women often develop more than men.

The evaluation of the earlier ROCAP Regional Rural Agribusiness Development loan with CABEI, conducted by DEVRES, Inc. in June 1983, observed that women accounted for 16% of total employment generation (see Table XIV).

TABLE XIV

Projections of Final Employment Impact
Regional Rural Agribusiness Development Project (596-T-016)
Employment Creation

Loan Category	Male	Female	Total	% Female of Total
Agro-industry	599	288	887	32
Poultry	414	185	599	21
Dairy Farming	1,037	-	1,037	0
Commercialization	97	32	129	25
Fishing/Aquaculture	384	26	410	6
Other Livestock	2	-	2	0
Permanent Crops	531	18	549	3
Ornamental Plants	40	42	82	51
Irrigation	85	-	85	0
Total	3,189	591	3,780	16

E. Financial Analysis

CABEI's present financial situation is characterized by an increasing amount of arrears in the public sector portfolio and non-performing credits in that of the private sector which have resulted in a reduction of the Bank's income and a constraint on the normal rate of approvals and disbursements. Both the Lazard Freres and Price Waterhouse studies conducted in 1984 identified severe funding gaps taking into account existing commitments of the Bank and recognized CABEI's need to a) improve its liquidity position, b) reduce arrears, c) increase its capitalization, and d) seek strong support from external sources of concessional assistance.

During the intensive review, a second Price Waterhouse report also pointed out the problem of maintaining a net negative flow of disbursements to member countries. Any regional development bank, in order to foster continued member country interest and support, must ensure a net positive flow of funds to its member countries. CABEI's current external debt profile, however, creates a very high debt service claim on total inflows which negatively affects disbursements and

cash balance. It is unlikely under this situation that the public sector arrears problem can be solved. The member countries will have little incentive to solve CABEI's financial situation until the Bank can show them a change in disbursement expectations over the near term. Thus, the Bank must reverse this situation as rapidly as possible through an extensive effort to mobilize new capital.

As explained in Section II.C.4, member countries have taken several significant steps in recent months to demonstrate their support for CABEI's self-help measures, including agreement to pay in an additional $50 million in capital prior to December 31, 1985. Agreements were also reached in early 1985 with El Salvador, Honduras and Costa Rica regarding the payment of arrears. No negotiations were necessary with Guatemala because it has remained current on its account. As a result of these agreements, CABEI has been successful in reducing its public sector arrears (excluding Nicaragua) from $31.1 million on December 31, 1984 to $16.2 million (including $3.9 million delinquent less than 30 days) as of May 31, 1985. A summary of the provisions contained in these agreements is described in Annex H.

Annex H also includes a description of the alternative scenarios, analyses and supporting cash flow projections performed during the intensive review in order to determine the impact of the proposed project, increased access to extraregional resources and renegotiation of the club loan. All scenarios and sensitivity analyses assume that member countries will pay their arrears and not incur new ones (the disbursement of A.I.D. funds will include a condition precedent and covenant to this effect). This single action considerably improves the Bank's cash flow projections but it does not provide for new credit approvals to generate disbursements equal to or higher than recoveries and interest paid by borrowers. The "without A.I.D. project" case (which also assumes no new extra-regional resources other than those already committed and no club loan renegotiation), as shown in Table A.1 of Annex H, demonstrates a net negative accumulated disbursement of almost $350 million over the 1986-89 period. Varying this base case to add only the $50 million in A.I.D. resources, the net accumulated disbursements remain negative ($309 million). See Table V of Annex H. Thus, it is clear that the proposed project by itself is insufficient to assure CABEI's financial viability.

Several additional cash flow projections were then performed of additional factors which could enhance the Bank's outlook. The "best case" scenario assumed a) $250 million in paid-in capital (as contributions to the Fund or other concessional financing), including an additional $50 million from A.I.D., to be received over the 1986-89 period; b) a renegotiation of the club loan; and c) the proposed $50 million A.I.D. project described herein. The "best case" results (Annex H, Table VI) demonstrate a positive net accumulated disbursement to member countries for the 1986-89 period of $51.9 million.

When paid-in capital is lowered from $250 to $200 million (Annex H, Table B.2), net disbursements remain the same, the cash balance declines - but within acceptable limits, and the disbursement/total inflow and debt service/total inflow ratios go up. By lowering paid-in capital further ($150 million) and keeping loan approvals constant (Annex H, Table B.3), the cash balance and inflows drop significantly, resulting in a situation which would require cutting back considerably on disbursements to the member countries. The effect of not renegotiating the club loan is similar to lowering paid-in capital to $150 million (Annex H, Table B.4). Additional sensitivity analyses discussed in Annex H include extending the A.I.D. disbursement schedule from 3 to 6 years and lowering private sector arrears recovery. Separate cash flow projections were also performed for both consolidated (foreign exchange and local currencies) and foreign exchange alone scenarios.

This analysis leads to the conclusion that while the A.I.D. project by itself is insufficient to generate a net positive flow of funds to member countries, it is of great importance for the Bank's financial development and, in addition, it will have a positive demonstration effect on other donors. It would be difficult for CABEI to obtain cooperation from other countries if the United States does not show a real interest in its development. The analysis also indicates that for CABEI to resume a net positive flow of funds to the member countries, a safe target is to obtain at least $200 million in paid-in capital or concessional term financing from extra-regional sources over the 1986-89 period and to successfully renegotiate the club loan.

As detailed in Section II.C.6, CABEI has been successful in signing agreements for new assistance over the past year for $103.5 million and negotiations for an additional $115 million in concessional term borrowings (not including the proposed A.I.D. project) are well advanced. The IDB preinvestment and the EEC small and medium scale industry projects totaling $31.5 million were not included in the financial projections (Annex H) because agreements had not yet been signed with CABEI. The total of these two projects plus the $115 million currently being negotiated closely approximate the target amount projected for the end of project status (e.g. $150 million). Over the medium term, CABEI anticipates obtaining additional concessional assistance on the order of $400 million from multilateral donors and extra-regional governments.

VI. IMPLEMENTATION ARRANGEMENTS

A. Administrative Arrangements

1. Role of CABEI

Overall coordination for the project will lie with the Financial Management Division of the Bank. For the specific project components, implementation responsibilities will be as follows:

a. Agribusiness component - the Productive Sector Studies and Promotion section (PROMEP) within the Studies and Promotion Division;

b. Public sector lending component - the Project Supervision Section (SUPRO) within the Operations Division;

c. Rehabilitation of the private sector portfolio - SUPRO plus a special unit (RECAP) named specifically for this activity which answers directly to the Executive Vice-President;

d. Organizational strengthening - a special ad hoc committee under the direction of the Executive Vice-President; and

e. Environmental management - Project Analysis Department (ANAP).

In addition to quarterly progress reports covering all aspects of the project's activities, CABEI will be required to submit annual audited statements prepared by an independent accounting firm.

2. Role of ROCAP

ROCAP's General Development Office (GDO) will have primary responsibility for managing the project with support as needed from the Project Development Office. An implementation committee has also been established with representatives from the Project Development, Controller and Program Offices to assist the GDO in addressing any implementation issues that may arise. Given the complexity of this project, the Mission will hire a banking specialist to serve as project liaison officer. This specialist will be based in Tegucigalpa in order to insure adequate contact with the various operational divisions within CABEI responsible for project implementation.

The Regional Environmental Management Specialist (REMS) based in ROCAP's San Jose, Costa Rica office will be called upon as needed to review the potential environmental impact of projects proposed for financing under the public sector lending component.

B. Implementation Plan

The following is a schedule of key project events:

	Events	
1.	Project Paper submitted to AID/W	July, 1985
2.	Project Authorized	July, 1985
3.	Project Agreement negotiated and obligated	August, 1985
4.	CPs to first disbursement	September, 1985
5.	CPs for agribusiness and public sector lending components	October, 1985
6.	First disbursement for agribusiness and public sector lending components	October, 1985
7.	Project Liaison Officer contracted	November, 1985
8.	Technical assistance team for agribusiness component contracted	December, 1985
9.	Technical assistance team for private sector portfolio rehabilitation component contracted	December, 1985
10.	Bank organization and management expert contracted	December, 1985
11.	An increase in paid-in capital of at least $40 mn. contributed	December, 1985
12.	Diagnostic study for management information system contracted	March, 1986

13.	Renegotiation of Club Loan	June, 1986
14.	Technical assistance team for design and implementation of management information system contracted	July, 1986
15.	First evaluation initiated	August, 1986
16.	CPs for continued public sector lending	August, 1986
17.	First joint agribusiness portfolio review	October, 1986
18.	CPs for continued public sector lending	August, 1987
19.	Second joint agribusiness portfolio review	October, 1987
20.	Second evaluation initiated	June, 1988
21.	PACD	August, 1988

Method of Implementation and Financing

The direct reimbursement financing method will be used for most project expenditures. This method has been employed in previous projects with CABEI and is judged to provide good internal control with low vulnerability. In certain cases, A.I.D. may agree to provide CABEI with advances for up to 90 days to cover estimated draw-downs. Funds provided under an advance will be deposited in a separate non-interest bearing account and will be liquidated before a new advance is authorized. Direct payments and A.I.D. letters of commitment to banks may be used where appropriate. Given the regional nature of the project, reimbursements and advances will be made in U.S. dollars.

Based upon periodic assessments of the accounting and internal control system of CABEI by both independent auditors and the ROCAP financial analyst, a Certified Summary Disbursing Report, accompanied by SF-1034 to process reimbursements and advances, will be accepted by ROCAP's Controller's office to document project expenditures. Post payment reviews are performed by ROCAP's Financial Analyst based on randomly selected samples of vouchers which are large enough to provide reasonable assurance that the voucher approval is correct and well supported by appropriate documentation.

C. Evaluation Plan

Due to the three year life of project, only two evaluations are scheduled. The first will occur at the end of the first year of project implementation and the second and final evaluation is scheduled for June 1988, approximately three months prior to the PACD. Both evaluations will be conducted by independent contractors.

Project evaluations will be tasked not only with assessing progress toward meeting outputs, objectives, purpose and goal under each component, but also with determining the continued applicability of the assumptions made by this project regarding CABEI's future viability. Principally, this determination will involve a review of CABEI's progress in achieving a greater balance between its public and private sector lending portfolio and in attracting a greater flow of financial resources to the region, as measured by the following factors:

a) distribution of loan portfolio by sector;

b) net flow of resources between CABEI and member countries;

c) level of arrearages on debt with member countries;

d) attraction of new equity from extra-regional members, contributions to the Special Fund for Economic and Social Development, and/or concessional rate resources from donor agencies;

e) status of debt payments and rescheduling;

f) successful rehabilitation of private sector portfolio;

g) successful implementation of an integrated management information system and a series of organization and management improvements;

h) strengthened capability of CABEI and ICI staff to evaluate export-oriented agribusiness projects; and

i) improved efficiency in project review and disbursement procedures.

In addition to these formal evaluations, joint CABEI-ROCAP portfolio reviews will be conducted for the agribusiness component after commitments of $5.0 million and $10.0 million of A.I.D. funds respectively.

D. Procurement Plan

Except for the contracting of the project liaison officer, CABEI will serve as its own agent for the procurement of technical assistance and training services called for in the project design. The services to be contracted by A.I.D. and the plan for obtaining them are as follows:

Act. No.	Services Required	Duration	Start Date	Cost ($000)	Procurement Mode
1.	Project Liaison Officer	3 yrs.	11/85	360	PSC-Competitive
2.	Sr. Agribusiness Advisor + Short term consultants (U.S.)	3 yrs.	12/85	345	RFP-Competitive
3.	Agribusiness Marketing Specialist	18 mos.	12/85	180	PSC-Competitive
4.	Agribusiness Technology Specialist	18 mos.	12/85	180	PSC-Competitive
5.	Institutional Contract for Private Sector Portfolio Rehabilitation	3 yrs;	12/85	1,500	RFP-Competitive
6.	Bank org. & mgmt. expert	1 yr.	12/85	120	PSC-Competitive
7.	Diagnostic study-mgmt. info. system	3 mos.	3/86	100	RFP-Competitive
8.	Design & Implementation of mgmt. info. system	2 yrs.	7/86	1,000	RFP-Competitive
9.	First evaluation	2 mos.	8/86	50	RFP-Competitive
10.	Second evaluation	2 mos.	6/88	50	RFP-Competitive

Gray Amendment Opportunities

The principal Gray Amendment opportunities under the project will be for minority and small business consulting firms to participate as sub-contractors under the three major host country institutional contracts contemplated (action Nos. 2, 5 and 8). These contracts will include a variety of short term assignments in the areas of agribusiness export marketing, quality control, distribution systems and technology (action No. 2); asset rehabilitation, hotel management, counter trade, financial reorganization, property liquidation and marketing (action No. 5); and integrated management information system design and implementation (action No. 8). The RFPs for these actions will be drafted by CABEI so as to assure that small and minority firms are given the maximum practical consideration for subcontracting opportunities.

E. Waivers

Given shifts in the DA/ESF mix of funds available for this project and the desire to make grant funds available for possible participation in CABEI's Special Fund for Economic and Social Development, it is expected that 80 per cent of A.I.D. funds will be provided on a grant basis. The source/origin eligibility for the DA loan funds ($10 million) is Geographic Code 941 while ESF grant funds ($40 million) is Code 000. Given that $45 million in project funds will be onlent by CABEI to member countries or participating ICIs and that restructuring source and origin eligibility to Code 000 would adversely affect the efficient and timely implementation of the project, a waiver of source/origin requirements (as per HB 1, Supp. B, Chapter 5) is requested so as to permit procurement under the public sector lending and agribusiness components from countries included in Geographic Code 941 for ESF as well as DA funds.

F. Conditions, Covenants and Negotiating Status

The design of the proposed project has been developed in close collaboration with CABEI, which has reviewed the proposed conditions and covenants contained in the Draft Project Authorization in Annex E and finds them acceptable. It is therefore expected that negotiation of the project agreement will be accomplished rapidly and that signing could take place within seven to ten days after authorization.

ACTION ROCP INFO AMB DCM AID ECON CHRON/5

ANNEX A
Page 1 of 6

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CHRG: ROCP
DIST: ROCP

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AIDAC FOR ROCAP PASS TO MIKE DEAL

E.O. 12356: N/A
TAGS:
SUBJECT: REGIONAL ECONOMIC RECOVERY PID (596-0114)

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USAID/GUATEMALA

THE SUBJECT PID WAS REVIEWED AND APPROVED AT THE DAEC MEETING ON 15 JANUARY 1985. THE FOLLOWING ISSUES WERE DISCUSSED AT THE DAEC:

A. PROJECT STRATEGY

1. BECAUSE OF THE RAMIFICATIONS OF CABEI'S SHORT-TERM LIQUIDITY CRUNCH, THE AMOUNT OF MONEY DEVOTED TO PUBLIC SECTOR SUBLOANS WAS INCREASED FROM DOLS 25 MILLION TO DOLS 30 MILLION, WITH THE REMAINING DOLS 20 MILLION PLANNED FOR SECOND TIER LENDING VIA PRIVATE SECTOR BANKS TO THE PRIVATE SECTOR. THE FUNDS ALLOCATED FOR THE PRIVATE SECTOR ARE FOR THE PRIVATE SECTOR ONLY, AND ARE NOT TO BE ONLENT TO PARASTATALS OR MIXED CORPORATIONS. SINCE THE MAJOR PURPOSE OF OUR ASSISTANCE IS TO ADDRESS CABEI'S LIQUIDITY PROBLEMS, LENDING TO THE PRIVATE SECTOR SHOULD NOT BE AT THE EXPENSE OF PROMPT RESOLUTION OF THE LIQUIDITY SITUATION. IN SELECTING PUBLIC SECTOR SUBLOANS FOR FINANCING, PRIORITY SHOULD BE GIVEN TO THOSE PROJECTS WITH THE GREATEST POTENTIAL IMPACT ON PRIVATE SECTOR EXPORT ACTIVITIES.

2. THE MISSION SHOULD EXPLAIN IN DETAIL IN THE PP HOW CABEI WILL MANAGE THE PROPOSED PRIVATE SECTOR LENDING, INCLUDING A DISCUSSION OF MEMBER GOVERNMENTS' POSITIONS ON PRIVATE SECTOR LENDING THROUGH CABEI.

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3. NO TECHNICAL ASSISTANCE OR A.I.D. FUNDING IS TO BE USED TO ENABLE CABEI TO GET INTO NEW AREAS IN PRIVATE SECTOR LENDING, WITH THE EXCEPTION OF THE AGRIBUSINESS ACTIVITY PROPOSED IN THE PID. THIS DOES NOT, HOWEVER, PRECLUDE THE POSSIBILITY OF TECHNICAL ASSISTANCE (NB: NOT FUNDING) FOR CABEI'S PRIVATE SECTOR LENDING REHABILITATION UNIT. CABEI SHOULD USE ITS OWN FUNDS, NOT AID FUNDS, TO DEAL WITH THE WORKING CAPITAL REQUIREMENTS

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OF ENTERPRISES IN TROUBLE. AS WITH THE OTHER PARTS OF THIS PROJECT, EMPHASIS SHOULD BE PLACED ON FAST DISBURSING LOANS TO THE PRIVATE SECTOR; EVERY EFFORT SHOULD BE MADE TO ENSURE THE SUBLOANS GO OUT AS SOON AS POSSIBLE.

4. AN INJECTION OF FRESH AID CAPITAL INTO CABEI MAY, OVER A PERIOD OF TIME, SERVE TO DRAW ADDITIONAL PREVIOUSLY UNTAPPED CAPITAL INTO THE REGION AND BRING IN NEW MEMBERS. ROCAP SHOULD, HOWEVER, BE REALISTIC ABOUT THE IMPACT OF BOTH THIS AID ASSISTANCE AND POSSIBLE OTHER DONOR ASSISTANCE TO CABEI. SENSITIVITY ANALYSIS ON CASH FLOWS SHOULD INCLUDE WITH/WITHOUT OTHER DONOR SUPPORT PROJECTIONS. THE VIABILITY OF THIS PROJECT CANNOT HINGE UPON THE POTENTIAL RESOURCES OF OTHER DONORS, OVER WHICH AID HAS NO CONTROL.

5. THE MISSION SHOULD TAKE CARE TO ASSURE THERE IS SUFFICIENT TECHNICAL SUPPORT IN THE PROJECT FOR CABEI'S INTERNAL RESTRUCTURING AND REORGANIZATION. MOREOVER, THE MISISION SHOULD STRESS TO CABEI MANAGEMENT THE IMPORTANCE OF COMPLETING AND ADHERING TO PREVIOUSLY ANNOUNCED STRUCTURAL REFORMS.

6. THE PID STATES CABEI WILL PROVIDE TECHNICAL ASSISTANCE TO NATIONAL INSTITUTIONS IN INVESTMENT/PROJECT ANALYSIS. BECAUSE CABEI HAS HAD LIMITED EXPERIENCE IN PRIVATE SECTOR LENDING ROCAP MAY WANT TO CONSIDER INCLUDING SOME TECHNICAL ASSISTANCE TO STRENGTHEN CABEI'S ABILITY TO PRE-SELECT INTERMEDIATE CREDIT INSTITUTIONS.

B. POLICY REFORM

1. CABEI INTERNAL REFORMS: THE PP SHOULD PROVIDE A COMPREHENSIVE VIEW OF CABEI'S ORGANIZATION AND LENDING AND FINANCIAL POLICY. ROCAP SHOULD ALSO DEVELOP A PROJECT STRATEGY FOR ACHIEVING RESTRUCTURING OF CABEI'S PORTFOLIO AND REORGANIZATION OF CABEI ALONG THE LINES SET FORTH IN THE LAZARD FRERES AND PRICE WATERHOUSE REPORTS AND WHICH ARE ACCEPTABLE TO DONORS AND TO MEMBER COUNTRIES. THE PROJECT SHOULD ADDRESS THE ISSUES IMPORTANT TO MEMBERS INCLUDING THEIR CONCERNS AS TO HOW CABEI COULD BE MANAGED IN A LESS POLITICAL MANNER. ROCAP SHOULD CONSIDER INCLUDING THE FOLLOWING CONDITIONALITY, AS DEEMED APPROPRIATE, IN THE PP: (A) A CLEAR DECISION BY CABEI MANAGEMENT ON HOW CABEI WILL ADDRESS THE QUESTION OF EXTRA-REGIONAL MEMBERS, AND (B) A CLEAR STRATEGY WITH RESPECT TO REHABILITATING ITS EXISTING PRIVATE SECTOR PORTFOLIO.

C. U.S. MEMBERSHIP IN CABEI

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1. THE USG'S POSITION ON JOINING SUB-REGIONAL DEVELOPMENT BANKS IS BEING STUDIED BY THE STATE DEPARTMENT, WHICH MAY, IN TURN, ASK TREASURY TO RECONSIDER ITS POSITION. ROCAP WILL BE KEPT INFORMED OF ANY NEW DEVELOPMENTS.

D. SUPPORT OF REGIONAL GOVERNMENTS FOR CABEI

1. THE PROAG SHOULD INCLUDE CONDITIONS PRECEDENT REQUIRING MEMBER COUNTRIES TO TAKE CARE OF ARREARS, EITHER BY PAYING IN FULL OR BY RESCHEDULING, AND TO REMAIN CURRENT ON DEBT PAYMENTS AND ON FUTURE CAPITAL CALLS.

2. NICARAGUA IS NOT CURRENTLY ELIGIBLE TO PARTICIPATE IN NEW CABEI LENDING BECAUSE OF ITS ARREARS TO THE INSTITUTION (APPROXIMATELY DOLS 36 MILLION) AND IT APPEARS UNLIKELY THAT NICARAGUA'S ELIGIBILITY STATUS WILL CHANGE IN THE NEAR FUTURE. NEVERTHELESS, THE PROJECT SHOULD BE DESIGNED SO THAT NICARAGUA CANNOT DIRECTLY BENEFIT FROM AID FUNDS.

3. IN ADDITION TO CONSULTATION WITH BILATERAL MISSIONS AND THE ONGOING DIALOGUE WITH GOVERNMENT OFFICIALS, ROCAP SHOULD CONSULT WITH KEY PUBLIC (E.G., CENTRAL BANK REPRESENTATIVES) AND PRIVATE SECTOR LEADERS IN THE RESPECTIVE COUNRTIES TO ASCERTAIN THEIR REACTION TO THIS PROJECT IN PARTICULAR AND TO CABEI IN GENERAL.

E. FINANCIAL CONSIDERATIONS

1. THE SOURCE OF THE PROPOSED CABEI COUNTERPART OF DOLS 53.8 MILLION SHOULD BE CLEARLY DEFINED IN A CONDITION PRECEDENT TO DISBURSEMENT.

2. THE PP SHOULD LAY OUT A DISBURSEMENT PLAN SHOWING HOW INITIAL (AND OUT) YEAR FUNDING WILL BE ALLOCATED BETWEEN THE PUBLIC AND PRIVATE SECTORS.

3. THE PP SHOULD UPDATE THE STATUS OF TALKS BETWEEN CABEI AND THE RESPECTIVE GOVERNMENTS TO HAVE THE FOREIGN EXCHANGE RISK TRANSFERRED FROM THE ICIS TO THE CENTRAL BANKS. THE PP SHOULD DISCUSS THE IMPACT ON DEMAND FOR CREDIT IF THE EXCHANGE RISK IS NOT TRANSFERRED TO THE CENTRAL BANKS.

4. THERE SHOULD BE A COMPLETE ANALYSIS OF CABEI'S FINANCIAL SITUATION IN THE PP.

5. IN THE FINANCIAL ANALYSIS, THE MISSION SHOULD ASSUME THE TERMS OF THE DOLS 25 MILLION DA LOAN WILL BE THE SAME AS PREVIOUS AID LOANS TO CABEI, THAT IS, THE MOST CONCESSIONAL.

F. ECONOMIC CONSIDERATIONS

1. PROJECTED INCREASES IN EMPLOYMENT AND INCOME ATTRIBUTABLE TO INDUSTRIES STRENGTHENED THROUGH CABEI LENDING SHOULD BE CAREFULLY DOCUMENTED AND SUPPORTED

DURING INTENSIVE REVIEW FOR THE PROJECT PAPER.

2. GIVEN CABEI'S EXPERIENCE TO DATE IN DIRECT LENDING TO PARASTATALS AND THE PRIVATE SECTOR, AID SHOULD USE ITS LEVERAGE TO KEEP CABEI FROM DIRECT LENDING OPERATIONS OF THIS NATURE. THE PP SHOULD DISCUSS HOW SUBLENDING TO SUBSIDIZED INDUSTRIES/ENTITIES WILL BE AVOIDED.

3. THE PP SHOULD INCLUDE DISCUSSION OF HOW THE ICIS WILL DO THE ECONOMIC ANALYSIS TO ASSURE ADEQUATE RATES OF RETURN EXIST ON SUBLOANS FINANCED.

G. SUBLOAN REVIEW:

1. INFRASTRUCTURE LOANS -- IN PUTTING TOGETHER THE PP, THE MISSION SHOULD MAKE IT CLEAR THAT A.I.D. WILL WANT TO BE FULLY INFORMED ABOUT EACH SUB-LOAN PROJECT AND HAVE

THE RIGHT TO CLEAR ON EACH PROJECT PRIOR TO CABEI APPROVAL, IF IT WISHES TO DO SO.

2. PRIVATE SECTOR LOANS -- SINCE WE VIEW CABEI AS ESSENTIALLY A CONDUIT TO INTERMEDIATE CREDIT INSTITUTIONS IN THE REGION, THE MISSION SHOULD DEVELOP A SYSTEM WHICH WOULD ALLOW THE MISSION TO REVIEW AND APPROVE SUB-LOANS BEING MADE TO THE ICIS AND THENCE TO THE FINAL BORROWING ENTERPRISE. THE SYSTEM WOULD ENTAIL TAKING A LOOK AT THE TERMS AND CONDITIONS OF LOANS BEING PASSED THROUGH ICIS AND ON TO FINAL BORRROWERS TO ENSURE CONSISTENCY WITH LOCAL MARKET RATES, AND AT THE FINAL BORROWERS THEMSELVES TO DETERMINE THEIR OWNERSHIP STATUS. WE ARE PARTICULARLY CONCERNED THAT ONLY INDEPENDENT, PRIVATE OPERATIONS BE THE BENEFICIARIES OF THE LOANS AND THAT NO PARASTATALS BE INCLUDED AS RECIPIENTS.

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H. ADDITIONAL GUIDANCE:

1. THERE IS NO MENTION IN THE PID OF THE POTENTIAL IMPACT OF THIS PROJECT ON WOMEN. IN THE PP DEVELOPMENT, THE MISSION SHOULD: (A) LOOK AT THE DISTRIBUTION OF SUBLOANS BY SEX UNDER THE PREVIOUS AID LOAN (596-0069); AND (B) EXAMINE THE PROJECT DESIGN TO ASSURE THERE IS NO INHERENT DISCRIMINATION AGAINST WOMEN IN LENDING PRACTICES.

2. WITH RESPECT TO THE POTENTIAL ENVIRONMENTAL IMPACT OF SUBPROJECTS FINANCED UNDER THIS PROJECT, ALL PUBLIC SECTOR SUBLOANS BEING CONSIDERED FOR AID FUNDING WILL BE REVIEWED DURING THE PROJECT DESIGN STAGE TO DETERMINE THEIR ENVIRONMENTAL IMPACT PRIOR TO INCLUSION ON ANY LIST OF ELIGIBLE SUBLOANS. THIS WILL BE DONE BY AN ENVIRONMENTAL EXPERT ON THE DESIGN TEAM. THOSE SUBPROJECTS INVOLVING THE PROCUREMENT OR USE OF PESTICIDES OR HAVING OTHER SIGNIFICANT POTENTIAL ADVERSE ENVIRONMENTAL IMPACTS SUCH AS PENETRATION ROADS OR OTHER MAJOR CONSTRUCTION PROJECTS WOULD REQUIRE AN AID/W APPROVED ENVIRONMENTAL ASSESSMENT PRIOR TO INCLUSION ON ANY LIST OF ELIGBLE SUBLOANS. AN ENTOMOLOGIST PROCURED THROUGH THE S AND T BUREAU'S COOPERATIVE AGREEMENT WITH THE CONSORTIUM FOR INTERNATIONAL CROP PROTECTION IS RECOMMENDED TO PARTICIPATE ON THE PP DESIGN TEAM TO DEVELOP PESTICIDE ENVIRONMENTAL ASSESSMENTS ON RELEVANT SUBLOANS. THE MISSION WILL ALSO FIND A WAY TO DEAL WITH THE POTENTIAL ENVIRONMENTAL IMPACT OF THE PRIVATE SECTOR SUBLOANS. WHILE IT MAY NOT BE PRACTICAL TO REQUIRE ENVIRONMENTAL ASSESSMENTS ON ALL AGRIBUSINESS SUBLOANS

DUE TO VOLUME, THE POSSIBILITY OF REQUIRING GENERIC ASSESSMENTS AND STANDARD ENVIRONMENTAL DESIGN CONSIDERATIONS ON CERTAIN TYPES OF COMMON SUBLOANS WILL BE CONSIDERED. THE IEE STATES THAT CABEI WILL USE PROJECT FUNDS TO DEVELOP ITS ABILITY AND AN INTERNAL ADMINISTRATIVE PROCESS TO GIVE ENVIRONMENTAL REVIEW TO SUBLOANS. THE PP DESIGN TEAM WILL DEVELOP APPROPRIATE WORDING FOR THE PROJECT AGREEMENT TO INSURE THIS OCCURS.

I. A.I.D. REPRESENTED THE USG AT THE RECENT VIENNA MEETING ON CABEI'S PROPOSAL TO ESTABLISH A SPECIAL ECONOMIC AND SOCIAL DEVELOPMENT FUND FOR CENTRAL AMERICA. WHILE WE MADE NO COMMITMENTS AT THIS MEETING, WE NOTED OUR INTEREST IN LEARNING MORE ABOUT THE PROPOSAL AND OUR INTENTION TO EXPLORE IT FURTHER, INCLUDING WAYS IN WHICH THE U.S. MAY BE ABLE TO CONTRIBUTE OR PARTICIPATE IN THE FUND. IN THIS CONTEXT, WE NOTED THE POSSIBILITY OF CHANNELING THE PROPOSED DOLS 50 MILLION THROUGH THE FUND.

WE NEED TO LEARN CONSIDERABLY MORE ABOUT CABEI'S PROPOSED FUND. THE PP SHOULD INCLUDE AS MUCH UP-TO-DATE INFORMATION AS POSSIBLE ON THE STATUS OF THE PROPOSAL AS WELL AS THE MISSION'S THOUGHTS ON WHETHER, AND IF SO, IN WHAT MANNER A.I.D.. MIGHT APPROPRIATELY CONTRIBUTE TO OR OTHERWISE PARTICIPATE IN SUCH A FUND.

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AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 85 to FY 87
Total U.S. Funding $50 million
Date Prepared: 6/20/85

Project Title & Number: Regional Economic Recovery 596-0114

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes:	Measures of Goal Achievement:		**Assumptions for achieving goal targets:**
To mobilize increased levels of external resources to the Central American region to stimulate growth of extra-regional exports in order to help achieve A.I.D.'s short term stabilization and medium and longer term growth and equity goals.	1. Positive GDP and per capita GDP growth rates and increases in employment levels throughout the region. 2. Increased investment levels in the public and private sectors in each country by 25% and 50%, respectively, and in the region as a whole by 20% and 40%, respectively. 3. Exports of goods outside of the region increase by 5%.	Comparison with baseline micro-data for each of the participating countries and the region as a whole.	Reduction in political and social tensions in the area with concomitant increase in investor confidence in and additional capital flows to the area.

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AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared: ________

Project Title & Number: ________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose:	**Conditions that will indicate purpose has been achieved: End of project status.**		**Assumptions for achieving purpose:**
To improve CABEI's financial and administrative viability and increase the Bank's present investment impact on the region while strengthening its private sector program development.	1. Approximately 20 ICIs will have received technical assistance and training from CABEI in order to improve their project identification, review, approval and monitoring capabilities in agribusiness, especially with respect to extra-regional export opportunities.	1. Quarterly reports and project evaluations.	1. Investor confidence levels rise in general, and other donors and financing sources respond to CABEI initiatives and/or impact of contributions made under this Project by providing additional capital resources.
	2. Increased productivity, foreign exchange earnings, employment, incomes and standard of living as a result of credit made available to new or expanding agribusinesses.	2. Project data kept by ICIs and CABEI. Project evaluations.	2. Sufficient continued demand for credit.
	3. CABEI will have resumed a positive net flow of funds to its member countries (except Nicaragua)	3. CABEI records.	
	4. AID assistance will have supported CABEI's effort to attract contributions to its Special Fund for Economic Development and/or other donor assistance on concessional terms of at least $150 mn. over the LOP.	4. CABEI records.	
	5. Public sector accounts with member countries (except Nicaragua) remain current over the LOP and paid-in capital increases by $50 mn.	5. CABEI records.	

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AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared: ________

Project Title & Number: ________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose:	Conditions that will indicate purpose has been achieved: End of project status. 6. CABEI's private sector portfolio will demonstrate significant improvement in terms of loans rehabilitated and/or assets liquidated. 7. CABEI will have implemented an integrated management information system and a series of organization and management improvements. 8. CABEI will have strengthened its capability to assess the potential environmental impact of the projects it finances and improved its project design and monitoring activities accordingly.	 6. CABEI records and project evaluations. 7. Quarterly reports and project evaluations. 8. Quarterly reports and project evaluations.	Assumptions for achieving purpose:

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared: ________

Project Title & Number: ________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
1. Strengthened program for private sector development.			
a. Agribusiness program delegates more autonomy to regional offices and ICIs for subloan approval and disbursement.	1.a. $17.5 mn in subloans are disbursed efficiently and flexibly over the LOP in accord with established guidelines and eligibility criteria.	1.a. Financial reports, records of CABEI and the ICIs.	1. Sufficient interest on the part of ICIs in using technical assistance offered under Project.
b. Agribusiness loan portfolio to the private sector is expanded, with emphasis placed on extraregional export activities.	b. Approximately 11,000 agribusiness loans made to ICIs, with approximately 60% dedicated to extraregional exports.	b. Financial reports, records of CABEI and the ICIs.	2. National governments in the region able to reduce arrears for outstanding public sector loans and provide new capital contributions.
c. ICI procedures for project identification, promotion preparation and monitoring improved.	c. Creation of approximately 3300 direct jobs and an additional 9500 full time equivalent jobs generated in off-nite direct employment or on an off-site part-time employment region-wide.	c. ICI records and project evaluations.	3. Private sector borrowers in arrears responsive to CABEI's private sector portfolio recovery strategy.
2. General liquidity of CABEI is eased; its financial viability is improved.			
a. Disbursement/Implementation rates in private and public sector portfolios improved.	2.a. Approximately 30 loans for public sector productive activities and related infrastructure completed.	2.a. CABEI records and quarterly reports	
b. Net flow of funds between CABEI and member countries will be positive by project completion.	b. New disbursements by CABEI to countries (except Nicaragua) exceed repayments by year three of project.	b. CABEI financial reports and records.	

AID 1020-28 (7-71)
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ______ to FY ______
Total U.S. Funding ______
Date Prepared: ______

Project Title & Number: ______

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
c. Loan recovery rate for private sector portfolio improves.	c. Majority of loans passed to Rehabilitation Unit have either been successfully rehabilitated or their assets liquidated.	c. Quarterly reports and project evaluations.	
d. CABEI's equity base expands and it successfully attracts new resources from extra-regional sources.	d. CABEI's paid-in capital from C.A. countries increases by at least $50 mn and contributions to Special Fund for Economic Recovery and/or other donor assistance on concessional terms total $150 mn by PACD.	d. Quarterly reports and CABEI financial records.	
3. Strengthened organizational structure			
a. Effective management information system designed and implemented. b. Organization and management improvements implemented.	a. & b. CABEI's operational efficiency improved as perceived by public sector borrowers and participating ICIs.	a. & b. Project evaluations.	
c. Strengthened capacity established to assess potential environmental impact of projects financed.	c. All public sector loans designed to avoid negative environmental impacts. ICIs trained in environmental guidelines and their application for subloan approval and monitoring.	c. Quarterly reports and project evaluations.	

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AID 1020-28 (7-71)
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared: ________

Project Title & Number: ________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS			MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	**Implementation Target (Type and Quantity)**				**Assumptions for providing Inputs:**
	($000)				
	A.I.D.	CABEI	ICIs		
1. Capital injection for public sector investment projects.	1. 30,000	43,878	-	The inputs will be verified as part of the Project Implementation/monitoring process.	1. National governments able to provide counterpart to CABEI for selected public sector projects.
2, Agribusiness Credit	2. 15,000	2,500	5,000		2. CABEI able to provide counterpart for agribusiness loans and training/technical assistance activities.
3. Technical assistance and training	3. 5,000	60	-		3. ICIs provide counterpart for agribusiness loans and training/technical assistance activities.

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5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

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

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;

This project was presented in the FY 1985 Congressional Presentation.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

Yes

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,00, will there be

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(a) engineering, financial or 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?	N/A
4. <u>FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501.</u> If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)	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. FAA Sec. 209. Is project susceptible to 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.

Project is a regional effort with the Central American Bank for Economic Integration.

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; and (c) encourage development and use of cooperatives, and 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.

Project will support expansion of extra-regional exports by private agribusiness concerns in Central America. Several major coop federations will be included as intermediary credit institutions. Technical assistance will be provided at the subborrower level to insure the financial and technical feasibility of subprojects receiving funding under this project.

8. FAA Sec. 601(b). Information and conclusions 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).

It is expected that a major portion of the technical assistance and training activities to be undertaken will be provided by U.S. firms and individuals. Also, contracts to implement public sector investment projects represent opportunities for U.S. suppliers and firms.

9.	FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. 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 in lieu of dollars.	N/A
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?	N/A
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 1982 Appropriation Act Sec. 521. 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
13.	FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does	Yes

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the project or program take into consideration the problem of the destruction of tropical forests?	Yes
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?	N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). 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 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	a. By providing agribusiness credit, this project will directly contribute to employment generation in both rural and urban areas. It will increase incomes in rural areas by offering improved marketing outlets for production of non-traditional crops. b. Technical assistance will be provided to coops and coop federations to strengthen their roles as credit intermediaries under the agribusiness component.

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?

c. This project is highly supportive of a number of self-help measures recently initiated by CABEI to strengthen its financial and administrative viability.

d. The project will provide increased employment opportunities for women, especially in rural areas.

e. The project is a regional effort involving 4 Central American countries.

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes

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

Yes

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.	No
f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
g. 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	This project is directly supportive of initiatives to strengthen CABEI which have been agreed to by the 5 member governments.

institutional development; and supports civil education and training in skills required for effective participation in governmental processes esential to self-government.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.	Project Financial Analysis.
b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, 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?	It is anticipated that Central American productive enterprises will be competing with other foreign exporters to the U.S. and not with U.S. enterprises.
c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?	N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political	Yes

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	stability? To the extent possible, does it reflect the policy directions of FAA Section 102?	Yes
b.	FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?	No
c.	FAA Sec. 534. Will ESP funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?	No
d.	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?	N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the 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.	FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes
2.	FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes
3.	FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	Yes
4.	FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be	Yes

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financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5.	FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or these areas?	Yes
6.	FAA Sec. 603. Is the shipping excluded from 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?	No
7.	FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other	Yes

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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 U.S. carriers be used to the extent such service is available?	Yes
9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes
B. Construction	
1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used?	Yes
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

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3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)? — 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 administed by an internatioal organization, does Comptroller General have audit rights? — Yes

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family — a.1. Yes

planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?	2. Yes 3. Yes 4. Yes
b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?	Yes
c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes
d. FAA Sec. 662. For CIA activities?	Yes
e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes
f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or	Yes

adjusted service compensation for military personnel?

g. FY 1982 Appropriation Act, Sec. 505. To pay U.N. assessments, arrearages or dues? — Yes

h. FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? — Yes

i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — Yes

j. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding 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? — Yes

k. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? — Yes

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BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

TELS: 222230/39 Y 225S4/88. CABLES: BANCADIE. TELEX: BANCADIE 1103. APARTADO POSTAL 772
TEGUCIGALPA, D. C., HONDURAS, C. A.

VICEPRESIDENCIA
EJECUTIVA

26 de junio de 1985

MAIL ROOM
USAID/GUATEMALA
JUN 29 9 03 AM '85

ACTION: PDO
INFO: A/DIR
GENERAL DEV

Señor John Eyre
Director ROCAP-AID
Guatemala

Estimado señor Eyre:

Habiéndose concluido favorablemente el análisis efectuado por funcionarios de ROCAP y del BCIE sobre la factibilidad de efectuar un Programa Financiero que coadyuve a la recuperación económica de Centroamérica y al fortalecimiento de la capacidad crediticia de nuestra Institución, por este medio presento a usted formal solicitud de apoyo financiero para la relización de dicho Programa, en los términos siguientes:

El monto de los recursos solicitados es de US$ 50.0 millones, los cuales serán empleados en atender los destinos que se indican a continuación:

a)	Desarrollo de agroempresas rurales	US$	15.0 millones
b)	Asistencia técnica para fortalecer la productividad y mercadeo de las empresas privadas prestatarias del Banco y la capacidad administrativa y financiera del BCIE	"	5.0 millones
c)	Desembolsos para proyectos productivos y/o de infraestructura	"	30.0 millones
	TOTAL	US$	50.0 millones

El BCIE adicionará a estos recursos una contrapartida significativa con los fondos provenientes de nuevos aportes al capital de la Institución, de las recuperaciones de su cartera y los recursos liberados provenientes de la negociación de su deuda de corto plazo con la banca privada internacional.

ACTION COPY
THIS COPY MUST BE RETURNED TO CENTRAL FILE INDICATING THE ACTION TAKEN AND DATE.
ACTION TAKEN ______
DATE | INITIALS

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BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

Señor John Eyre
Director ROCAP/AID
Guatemala

Se espera que las condiciones financieras que se apliquen a este programa sean las más favorables para el BCIE, de manera que nuestra Institución pueda continuar prestando un efectivo apoyo a los países centroamericanos, en sus esfuerzos por alcanzar la reactivación de sus economías y sentar las bases para lograr en el mediano plazo las condiciones propicias para un crecimiento sostenido y equilibrado de las mismas.

Al agradecer a usted el amplio y decidido apoyo que ROCAP-AID nos están brindando, aprovecho la oportunidad para saludarlo muy cordialmente,

Roberto Chico Duarte
Vicepresidente Ejecutivo

DRAFT PROJECT AUTHORIZATION

Name of Entity:	Central American Bank for Economic Integration (CABEI)
Name of Project:	Regional Economic Recovery
Number of Project:	596-0114
Number of Loan:	596-T-021

1. Pursuant to Sections 531 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Regional Economic Recovery Project for the Central American Bank for Economic Integration, involving planned obligations of not to exceed Forty Million United States Dollars (($40,000,000) in grant funds ("Grant") and Ten MIllion United States Dollars ($10,000,000) in loan funds ("Loan") over a three year period from the date of authorization, 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. The planned life of the project is three years from the date of initial obligation.

2. The project ("project") will improve CABEI's financial and administrative viability and increase the Bank's present investment impact on the region while strengthening its private sector program development. The project will help CABEI carry out high priority public sector investment projects while at the same time starting a new initiative to assist agribusiness projects in the private sector as a second tier lender. Technical assistance is included to help CABEI continue and consolidate its overall administrative reforms and strengthen its capabilities to rehabilitate its private sector loan portfolio as well as to carry out the agribusiness initiative working with ICIs in the region.

3. The Project Agreement, 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

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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. Interest Rate and Terms of Repayment (Loan)

The Central American Bank for Economic Integration (CABEI) shall repay the loan to A.I.D. in U.S. Dollars within thirty (30) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods, Nationality of Service (Loan and Grant)

Commodities financed by A.I.D. under the Loan shall have their source and origin in countries which are members of the Central American Common Market or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agreee in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries which are members of the Central American Common Market or countries included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall be financed only on flag vessels of countries which are members of the Central American Common Market or countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

c. Conditions and Covenants

1. Conditions Precedent to Disbursement

(a) First Disbursement

Except as A.I.D. may otherwise agree in writing, the following are conditions precedent to the initial disbursement of A.I.D. funds:

(i) evidence that for at least four member countries public sector accounts are current or are in compliance with existing payment arrangements with CABEI;

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(ii) evidence that non-portfolio arrears (e.g. deposits derived from arrangements with Central Banks for private sector foreign exchange payments, frozen deposits in Central Banks to liquidate arrears and compensatory loans for housing programs) in at least four member countries are current or are in compliance with existing payment arrangements; and

(iii) detailed implementation plans and budgets for all technical assistance and training activities to be carried out during the first year of project implementation related to a) the strengthening of CABEI's organizational structure component and b) the rehabilitation of the private sector portfolio.

(b) First Disbursement for Agribusiness Component (Other than for Technical Assistance)

(i) presentation by CABEI of evidence of arrangements with the Central Banks of at least two participating countries which indicates how foreign exchange risk guarantees (where needed) will be covered as well as other conditions, and assurances that sub-borrowers will have access to foreign exchange on a timely basis; (Note: prior to disbursing project funds to countries which do not comply with this initial condition, evidence of arrangements with the Central Bank of that (country(s) satisfying this point will be required).

(ii) a statement from CABEI setting forth the basic policies, rules, regulations, procedures, terms, interest rates and eligibility criteria to be used in making loans to participating ICIs and, in turn, subloans made by these institutions to the ultimate borrowers;

(iii) a statement from CABEI setting forth the procedures it and participating ICIs will follow in reviewing, analyzing and administering subloans;

(iv) evidence that CABEI has hired or assigned existing personnel to the positions of coordinator of the program at the Bank's headquarters and three program officials for the other countries;

(v) a plan for the selection of ICIs for participation in the program;

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(vi) evidence that each participating ICI has agreed to the policies, rules, etc. set forth in compliance with subpoint (ii) above;

(vii) certified copies of the corporate charter and by-laws of each participating ICI; and

(viii) a plan, schedule and budget for technical assistance and training activities for agribusiness staff in CABEI and participating ICIs during the first year of project implementation.

(c) Subsequent Disbursements for Agribusiness Component

Prior to disbursing to countries or ICIs not included in the initial disbursement, CABEI will present evidence of compliance with point (b) above;

(d) First disbursement for Public Sector Lending

A detailed work plan and budget for the first year of project implementation;

(e) Disbursement for Public Sector Lending after December 31, 1985

Evidence that an increase in paid-in capital (agreed to by member countries in February 1985) of at least $40 million has been contributed.

(f) Disbursement for Public Sector Lending in Excess of $15.0 mn.

Evidence of successful negotiation of a new "club" loan containing conditions consistent with project objectives.

(g) Disbursement for Public Sector Lending after August 31, 1986 and August 31, 1987 respectively

Evidence that contributions paid to CABEI's Special Fund for Economic and Social Development and/or the signature of agreements for resources on concessional terms from other donors in the amounts that reach at least $50 mn. by August 31, 1986 and at least $100 mn. by August 31, 1987.

2. Covenants

(a) CABEI will covenant to honor statutory limitations included in the U.S. Foreign Assistance Act and amendments thereto regarding the use of project funds.

(b) CABEI will covenant that prior to undertaking activities each year after the first year of the project (in accordance with CABEI fiscal years), it shall furnish in form and substance satisfactory to A.I.D. a consolidated work plan and budget for all project activities for that year.

(c) CABEI will covenant to assure that ICIs apply the prevailing market interest rate to the subborrower for similar projects in the respective countries.

(d) Except as A.I.D. otherwise agrees in writing, neither CABEI nor any ICI participating in the agribusiness component shall:

(i) utilize A.I.D. funds to finance subloans to non-private entities or to mixed enterprises which possess a majority interest held by non-private entities;

(ii) utilize A.I.D. loan funds or any repayments of principal from sub-loans made from A.I.D. loan funds to pay administrative or operating expenses of CABEI or any ICI;

(iii) utilize A.I.D. funds to finance working capital except for the purchase of raw materials and other inputs or for financing the expansion of an existing agribusiness;

(iv) permit the use of A.I.D. funds to finance any subproject or subloan or to make any subloan in excess of $500,000 without the prior written approval of A.I.D.;

(v) permit the use of A.I.D. funds to finance the production, processing or marketing of sugar, palm oil or citrus for export;

(vi) permit the use of A.I.D. funds for the purchase of pesticides until guidelines for their use acceptable to A.I.D. are in place;

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(e) After the commitment of $5.0 mn. and $10.0 mn. of A.I.D. funds, respectively, A.I.D. and CABEI shall hold a joint review of the progress of the agribusiness component.

(f) Repayments of principal from A.I.D. funded agribusiness subloans or interest income using A.I.D. resources may be used only for those purposes and pursuant to the same general procedures for which the A.I.D. loan funds were originally made available.

(g) CABEI will covenant to suspend disbursements under the public sector lending component to any country which is more than 60 days delinquent on its payments to CABEI.

(h) CABEI will covenant to notify A.I.D. if the amount of arrearages of countries suspended from receiving A.I.D. funding under the public sector lending component as per subpoint (g) exceeds $2.5 mn. and becomes overdue by more than 90 days. In this event, A.I.D. retains the right to suspend all disbursements under the public sector lending component;

(i) CABEI will covenant to inform A.I.D. over the life of project if there is any change in CABEI's policy regarding direct lending to the private sector;

(j) CABEI will covenant to contract an independent accounting firm to review the adequacy of its reserve levels on an annual basis; and

(k) CABEI will covenant to exercise its best efforts to amend its charter to accept extraregional members prior to the completion of the project.

____
Administrator
Agency for International
Development

Date____________________________

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REVISED INITIAL
ENVIRONMENTAL EXAMINATION

Project Location:	Central America and Panama
Project Title & Number:	Regional Economic Recovery (596-0114)
Funding:	$50 million
Life of Project:	Three years (FY85 - FY87)
IEE Prepared by:	Frank Zadroga, REMS, ROCAP
Recommended Threshold Decision:	Negative Determination based upon implementation of Recommendations, Section IV.

John R. Eyre

By: John R. Eyre
Title: Acting Director
Date: 7/8/85

I. Project Description

The goal of the project is to mobilize increased levels of external resources to the Central American region and to stimulate growth of extra-regional exports in order to achieve short-term stabilization and longer-term growth with equity.

The purpose of the project is to improve CABEI's financial and administrative viability and increase the Bank's investment impact on the region while strengthening its private sector program development.

The objectives of the project are to assist Central American economies by encouraging a resumption of capital flows to the region, continuing implementation of major public sector investment projects sponsored by the region's governments and expanding the capacity of CABEI and a wide variety of credit intermediaries throughout the region to more effectively address the investment and financial constraints to agribusiness and export growth.

Project accomplishments expected include the following:

- CABEI will have resumed a positive net flow of funds to is member countries;
- Approximately 20 ICIs will have received technical assistance and training in agribusiness and related activities;
- CABEI will have been strengthened with technical assistance and training and its financial viability will have been enhanced in several ways;
- CABEI will have strengthened its capability to assess the potential environmental impact of the projects it finances and improved its project design and monitoring activities accordingly.

The project is composed of three basic components, which are:

1. Improving CABEI's short-term financial viability;
2. Strengthening CABEI's organizational structure; and
3. Strengthening CABEI's private sector program development, including an expansion of its agribusiness lending activities with special emphasis on extra-regional exports.

The specific activities to be carried out for each of these components which relate to the environment are as follows:

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1. Improving CABEI's Short-Term Financial Viability

In order to meet immediate public sector investment priorities, CABEI will fund loans for ongoing projects located in Costa Rica, Honduras, El Salvador and Guatemala, involving roads, industry, agriculture, energy, telecommunications, education, water resources, and preinvestment. An estimated $30 million will be provided for those projects selected to be feasible and of highest priority. Feasibility analysis will occur during the project paper design phase and ROCAP will have the right to review and select new loans to qualify for funding under this project.

The project also contemplates providing technical assistance to help CABEI rehabilitate its problem portfolio of direct lending to the private sector.

2. Strengthening CABEI's Organization Structure

Funds will be provided under this component to institutionally strengthen CABEI. As part of this activity, CABEI will develop an internal environmental assessment and planning capability as outlined in Section III and described in Annex III.

3. Strengthening CABEI's Private Sector Program Development

CABEI will receive technical assistance and training to strengthen its staff capabilities, especially regarding planning and strategy development, preinvestment and project analysis, and export promotion. This component will also provide an estimated $15 million in AID resources to some 20 ICIs to promote primarily export-oriented agribusiness. Procedures and criteria applied will be based upon those developed under the first CABEI agribusiness loan initiated in 1977 (AID Project 596-T-016) and further refined by CABEI's environmental advisor. Technical assistance and training will be provided to CABEI and eligible ICIs to implement this component as part of the institutional strengthening activity of this project (see Secion III). Rural agribusiness contemplated for this program will involve projects in processing, marketing and production of agricultural projects.

II. IDENTIFICATION AND EVALUATION OF ENVIRONMENTAL IMPACTS

Given the magnitude and complexity of this project, several envirnmental examinations were made to cover its different components. Where potentially significant environmental effects were identified, more in-depth assessment was carried out. Findings of environmental significance are discussed below by project component.

Funding of Ongoing Public Sector Loans (Component 1)

The $30 million slated for public sector development projects deals with ongoing projects that have been evaluated by CABEI, determined to be elegible for a loan and in most cases partially financed.

A. An Initial Environmental Assessment was performed on the following candidate public sector projects:

Project	Country	Undisbursed Balance
1. San Bartolo Free Zone (Factory shells)	El Salvador	$ 420,000
2. Coffee Rust Control	El Salvador	5,000,000
3. Northern San Salvador Water Supply	El Salvador	6,154,000
4. Cashew Production (Planting of seedlings by small farm producers)	Honduras	1,078,000
5. African Palm Industry (Procurement of machinery & Equipment for palm oil extraction)	Honduras	719,000
6. El Cajón Hydro-electric power house	Honduras	8,026,060
7. Sigatoka Negra Control	Honduras	71,000
8. Central American Livestock School (ECAG)	Costa Rica	3,408,109

Project	Country	Balance
9. Road Construction Southern Coastal Road	Costa Rica	
. Tarcoles-Loma		516,000
. El Roble-Caldera		983,000
. Baru-Palmar Norte		4,272,000
10. Coffee Rust Control	Costa Rica	1,400,000
11. Education Expansion (INA National Vocational Training Institute)	Costa Rica	2,135,000
12. Mayoreo Market	Costa Rica	276,000
13. Transmission Lines	Guatemala	1,154,000
14. Community Development	Guatemala	4,000,000

B. Further Assessment Needed

The initial findings of the examination of these 14 projects are summarized in Table I (on file in LAC/DR and ROCAP). Of these 14 projects, further investigations were carried out for the following:

1. Coffee Rust Control - El Salvador
2. Northern San Salvador Water Supply Systems - El Salvador
3. Sigatoka Negra Control - Honduras
4. Southern Coast Road (Baru-Palmar Norte Section) - Costa Rica
5. Coffee Rust Control - Costa Rica
6. Community Development - Guatemala

C. No Further Environmental Assessment Required

For the following projects no significant environmental impacts were identified for the activities contemplated for ROCAP funding and therefore further environmental assessment is not necessary:

1. San Bartolo Free Zone - El Salvador
2. Small Farmer Cashew Production - Honduras
3. African Oil Palm Rendering Plant - Honduras
4. El Cajón Hydroelectric Power Plant - Honduras
5. Transmission Lines - North and South - Guatemala
6. Wholesale Market (Mercado de Mayoreo) - Costa Rica

Two projects involve construction of edifices and the REMS arranged brief fieldchecks to assure that reconstruction impacts will be minimum. Construction is proceeding under Costa Rican building codes and is being supervised by component architects and engineers. No significant unexpected effects were identified and no further environmental assessment is foreseen. These projects are:

1. Central American Livestock School - Costa Rica
2. Educational Expansion - INA - Costa Rica

D. Findings of More In-Depth Assessments

Follow-up activities were carried out by the REMS for three of the projects with potential environmental significance. A field trip to CABEI headquarters was made to complete more detailed information and to verify the status of the Water Supply Project in El Salvador and the Community Development Project in Guatemala. A reconnaisance of the Southern Coast Road, Section Baru-Palmar Norte was carried out to identify problems and determine the nature of mitigative measures required.

Angel Chiri, ROCAP's Regional Pest Management Specialist with assistance from Carroll Collier, S&T/AG, took charge of the pesticide procurement and use. Collier also provided guidelines suitable for pesticide procurement, use and control that will be provided to CABEI for the Agribusiness component (of the 0114 project) as well as for other future Bank project work.

Northern San Salvador Water Supply System - El Salvador

Further investigation indicated that the water supply system has already been constructed and is being operated manually. Potential downstream impacts resulting from diversion and/or water contamination are therefore, no longer of concern since ROCAP/AID funds would be employed only to "automate" the system. However, conversations with project field staff and head engineer, indicated that no significant problems relating to water use or contamination had been detected since the system was put into operation manually.

Southern Coastal Road - Costa Rica

Insert A (On File in LAC/DR)

Coffee Rust Control - El Salvador and Costa Rica

Insert B (On File in LAC/DR and ROCAP)

Sigatoka Negra Control - Honduras

It has been the decision of CABEI to drop this from the list of candidate public sector projects.

Community Development - Guatemala

See Table I. This project was designed and determined to be elegible approximately 4 years ago. Since that time, the GOG has proceeded to carry out many of the works originally contemplated in the project and a complete revision of the project design will be necessary.

Strengthening CABEI's Organizational Structure (Component 2)

The training and technical assistance to occur under this component are not expected to have any significant environmental effects. On the other hand, as part of the institutional strengthening activity, staff will be trained in environmental assessment/monitoring and environmental guidelines will be developed for the Bank, representing an important step forward in institutional development (see Section III).

Strengthening CABEI's Private Sector Program (Component 3)

The agribusiness loans will finance several types of activities of potential environmental significance. Typical projects involve: food processing; vegetable oil processing; shrimp production; fishing; meat packing; fruit, vegetable, grain and livestock production; and storage, transportation and marketing facilities. No major impacts are envisioned at this stage (judging from the nature and performance of the past 596-T-017 Agribusiness Project) that will not be able to be mitigated by proper project design and environmental control measures. CABEI will develop guidelines and provide technical assistance where appropriate to assure that environmental assessments be done by the recipient ICIs. It also will require that the ICIs carry out, as determined to be necessary by environmental assessments, mitigative actions during project implementation to minimize impacts.

III. THE ESTABLISHMENT OF AN ENVIRONMENTAL ASSESSMENT AND PLANNING CAPABILITY WITHIN CABEI

Both aware of and sympathetic to environmental concerns, CABEI has taken steps in the past to identify and mitigate impacts in some of its industrial, energy and agricultural projects. Further progress needs to be made, however. In consultation with CABEI officials, it was determined that the best mechanism for complying with both AID's environmental regulations and the Bank's sincere interest in this field of institutional development would be for the ROCAP Regional Economic Recovery Project to assist in the establishment of an internal environmental assessment and control capability. A consultant was hired to outline the steps to accomplish this. His findings are presented in Annex III of this IEE (on file in LAC/DR and ROCAP) and summarized below in Section IV, Conclusions and Recommendations.

IV. CONCLUSIONS AND RECOMMENDATIONS

This environmental examination concludes that some of the activities to be considered for assistance under this project have the potential for environmental impact. CABEI has expressed an interest and willingness to further develop its environmental analysis and control capabilities to better design, evaluate and monitor all of its projects, including the Regional Economic Recovery Project. In order to mitigate significant environmental effects, the following actions will be carried out:

1. As part of the strengthening CABEI's organizational structure component, an environmental advisor will be assigned to the Bank. Also training and additional short-term technical assistance will be provided. Environmental guidelines will be developed to assist in project design, evaluation and monitoring. Over the life of the project, $360,000 in grant funds will be used to develop within CABEI permanent environmental assessment and planning capabilities (see Option 1, Annex III).

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2. The guidelines to be developed by the environmental advisor and adopted by CABEI will also be used by the ICIs in developing and implementing the $15 million agribusiness component of this project. Included will be guidelines to procurement selection and use of pesticides to be developed and adopted by CABEI utilizing the model guidelines provided in Annex IV (on File in LAC/DR and ROCAP) and, where appropriate, the AID environmental regulations on pesticides.

3. Regarding the Public Sector investment projects evaluated by this IEE (Annex 2, page 5), some projects have been eliminated from the original list (i.e., the Sigatoka Negra Project in Honduras and the Wholesale market in Costa Rica) and other new projects will be included in the Regional Economic Recovery Project after its approval. Such new projects not studied/ contemplated under this IEE will be analyzed by the ROCAP Regional Environmental Advisor prior to their approval and incorporation into the project implementation plan. The REMS will assess each and where necessary recommend mitigative measures which will be carried out by CABEI.

4. Costa Rica Southern Coast Road, Section Baru-Palmar Norte. The recommendations presented in this IEE, Insert A, will be implemented. Mitigative measures will allow soil and water conservation measures to protect the road and wildland management/protection effort for the road's area of influence. In cooperation with appropriate GOCR institutions, an environmental management plan will be developed and if determined to be feasible a wildland protection area will be created.

5. Guatemala - Community Development Project

   The same as for recommendation No.3 above, if and when this project is redesigned, and IEE will be developed to assess the project and recommend mitigative measures.

Based upon these recommendations and actions, I recommend that a negative determination be made.

Financial Analysis

During the intensive review, numerous AID, other donor and CABEI studies undertaken in the past year were reviewed to determine the causes, extent of and solutions to CABEI's financial crisis. Principal among these studies were the following: a) Lazard Freres: "Diagnostic Report on the Bank's Financial Position (6/84); b) Price Waterhouse: "Institutional Assessment of CABEI" (12/84); and c) CABEI: "Financial Overview of CABEI", "An Analysis of the Incorporation of Extra-regional Members to CABEI", "Basis for a Medium Term Plan, 1984/89", and other analyses, memoranda and cash flow projections.

1. CABEI's Present Financial Situation

Earlier studies made by the CABEI staff showed a lack of adequate financial resources indicated by a low level of liquidity and increasing short term difficulties. The increasing amount of arrears in the public sector portfolio and non-performing credits in that of the private sector was creating a reduction in the Bank's income that led to a constraint on the normal rate of approvals and disbursements.

In addition, the Lazard Freres and Price Waterhouse reports identified severe funding gaps for CABEI taking into account existing commitments of the Bank. While this gap could be covered by reducing disbursements and possibly through limited increases in capital contributions, the situation would remain precarious.

Both the Lazard Freres and Price Waterhouse studies identified similar problems and needs in regards to CABEI's financial situation:

- Need to improve its liquidity position
- Need to reduce arrears
- Need for increased capitalization
- Need for strong support through AID and other sources of concessional assistance (IDB, IBRD, etc.)

More recently, the Price Waterhouse report prepared during the intensive review pointed out the problem of maintaining a net negative flow of disbursements to member countries. Any regional development bank, in order to foster continued member country interest and support, must ensure a net positive flow of resources to the member countries.CABEI's external debt profile creates a very high debt service claim on total inflows which negatively affects disbursements and cash balance.

This effect is shown in Table I which shows a five year financial projection prepared by CABEI's planning staff last year based on the assumption that the Bank's portfolio and inflows continue to deteriorate over the period. These figures show that under these assumptions:

- External resource inflows will be lower than the debt service amount for each year of the period.

- Debt service is greater than disbursement throughout the period.

- Inflow utilization for debt service varies from 44% to 63% while inflow utilization for loan disbursement varies from 20% to 45%, the latter being less than the former for every year.

Table I

CABEI - FINANCIAL INDICATORS
(1984-89)
(In $US Millions)

	84/85	85/86	86/87	87/88	88/89	TOTAL
1. Loan and Interest Recovery	83	107.9	145.4	151.0	171.1	685.4
2. Utilization of External Resources	81.5	59.6	25.2	14.3	--	180.6
3. Total Inflows	291.2	219.2	211.2	191.5	251.5	1,164.8
4. Amortization and Financial Expenses	144.2	138.0	115.3	109.1	111.1	617.7
5. Disbursements	60.0	75.0	95.0	85.3	72.2	387.5
6. Ratio of Debt Service/Total Inflows	.495	.629	.546	.569	.442	.530
7. Ratio of Disbursements/Total Inflows	.206	.342	.450	.445	.287	.333

Source: CABEI, October, 1984.

This means that net disbursements to member countries are negative and will continue to be so.

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It is unlikely under this situation that the public sector arrears problem can be solved. The member countries will have little incentive to solve CABEI's financial situation until the Bank can show them a change in disbursement expectations over the near term. The Bank must reverse this situation as rapidly as possible through an extensive effort to mobilize new capital while utilizing external indebtedness to the least extent possible.

Portfolio Recuperation

Portfolio arrears, as of December 31, 1985, added up to $135.3 million in principal and interest, with a private sector participation of $50.8 million and $84.5 million for the public sector. Table II shows arrears by private and public sector for each country at that date.

TABLE II

PUBLIC AND PRIVATE SECTOR ARREARS BALANCES
BY MEMBER COUNTRIES AS OF DEC. 31, 1984
(In $ Millions)

Country	Private Sector 1/	Public Sector	Total
Guatemala	2.7	2.8	5.5
El Salvador	14.7	4.8	19.5
Honduras	18.8	8.1	26.9
Nicaragua	4.5	50.3	54.8
Costa Rica	10.1	15.4	25.5
Regional Agencies		3.1	3.1
Central America	50.8	84.5	135.3

1/ Private sector arrears defined as loan principal and interest in arrears only.

The following amounts of non-portfolio arrears should be added to the public sector arrears figure.

- Deposits derived from arrangements with Central Banks to receive private sector foreign exchange payment of $0.5 million;
- $5.9 million in frozen deposits in Central American Central Banks to liquidate arrears of some countries;
- $21.4 million in compensatory loans for housing programs.

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The above items add up to \$27.8 million, which increases total public sector arrears to \$112.3 million.

Facing this situation, in early 1985 CABEI carried on negotiations with the member countries reaching agreements with Honduras, El Salvador and Costa Rica. Because Guatemala was current on its accounts, no discussions were necessary. Negotiations are currently underway with Nicaragua. Major provisions agreed upon with the member countries are as follows:

1) El Salvador - a) the government and all independent public enterprises agreed to cancel the entire existing debt; b) once payment is received, CABEI will open a U.S. dollar account in a U.S. bank which will be used exclusively for disbursements under CABEI projects in El Salvador during 1985; and c) the Central Bank agreed to utilize funds on deposit in CABEI to cancel its existing non-portfolio arrears.

2) Honduras - a) the government and all independent public enterprises agreed to cancel their arrears; b) once received, CABEI will open an account in the Central Bank of Honduras, which will earn 9-3/16% annual interest, to be used to meet CABEI disbursements to the Honduran private sector; and c) the Central Bank agreed to stay current on its account while, at the same time, CABEI agreed to meet its disbursement schedule in Honduras in a timely manner.

3) Costa Rica - In addition to the \$15.4 million in arrears cited in Table II, Costa Rica also owed \$15.4 million in compensatory loans as of December 31, 1984. The total loan amount scheduled to come due in CY 1985 is \$39.6 million. In view of this situation, CABEI agreed to accept pagarés (promissary notes and/or certificates of deposit) with the central Banks of Guatemala, El Salvador and Honduras in lieu of direct payment. Terms of the agreement are: a) the central bank and independent public enterprises would cancel portfolio arrears in March, 1985; b) arrears would be paid partially in cash upon signing agreement (\$3.4 million on March 20, 1985) with the balance in pagarés maturing in 1985 with the exception of one with the Central Bank of Honduras which matures in 1986; c) 1985 debt service could also be met with pagarés maturing in

TABLE III

SUMMARY OF ARREARS AS OF MAY 31, 1985 IN CAPITAL, INTERESTS AND COMMISSIONS
BY COUNTRIES, INSTITUTIONAL SECTORS AND MATURITY SINCE MAY 31, 1981

(IN $US THOUSANDS)

	CAPITAL						INTERESTS AND COMMISSIONS						CONSOLIDATED					
	GUAT.	SALV.	HOND.	NIC.	C.R.	TOTAL	GUAT.	SALV.	HOND.	NIC.	C.R.	TOTAL	GUAT.	SALV.	HOND.	NIC.	C.R.	TOTAL
Public	869	1,500	2,639	26,484	5,329	36,811	476	1,275	2,547	26,955	1,516	69,580	1,345	2,775	5,186	53,439	6,835	69,58
Less than 30 days	564	578	558	330	1,033	3,063	229	214	278	1,151	499	2,371	793	792	836	1,481	1,532	5,434
betw. 31 & 90 days	305	865	1,586	2,003	390	5,149	196	1,061	1,245	1,758	417	4,677	501	1,926	2,831	3,761	807	9,826
betw. 91 & 189 days	-	-	302	3,011	2,345	5,658	4	-	862	2,924	247	4,037	4	-	1,164	5,935	2,592	9,695
More than 180 days	-	57	-	21,140	1,551	22,748	47	-	-	21,122	353	21,522	47	57	-	42,262	1,904	44,27
Rescheduled	-	-	193	-	-	193	-	-	162	-	-	162	-	-	355	-	-	35
Private	2,303	9,049	10,367	4,228	6,240	32,187	1,451	5,782	9,000	1,415	5,247	22,895	3,754	14,831	19,367	5,643	11,487	55,08
Less than 30 days	52	31	141	56	48	328	75	28	79	10	55	247	127	59	220	66	103	57
betw. 31 & 90 days	394	290	217	183	190	1,274	249	224	192	55	213	933	643	514	409	238	403	2,20
betw. 91 & 180 days	180	50	524	707	766	2,227	278	-	1,277	527	213	2,295	458	150	1,801	1,234	979	4,522
more than 180 days	1,677	6,182	9,485	2,600	5,236	25,180	849	3,594	7,452	441	4,766	17,102	2,526	9,776	16,937	3,041	10,002	42,282
Rescheduled	-	2,496	-	682	-	3,178	-	1,936	-	382	-	2,318	-	4,432	-	1,064	-	5,496
Total	3,172	10,549	13,006	30,712	11,559	68,998	1,927	7,057	11,547	8,370	6,763	55,664	5,099	17,006	24,553	59,082	18,322	124,662
Less than 30 days	616	609	699	386	1,081	3,391	304	242	357	1,161	544	2,618	920	851	1,056	1,547	1,635	6,009
betw. 31 & 90 days	699	1,155	1,803	2,186	580	6,423	445	1,285	1,437	1,813	630	5,610	1,144	2,440	3,240	3,999	1,210	12,033
betw. 91 & 180 days	180	50	826	3,718	3,111	7,885	282	-	2,139	3,451	460	6,332	462	50	2,965	7,169	3,571	14,217
more than 180 days	1,677	6,239	9,485	23,740	6,787	47,928	896	3,594	7,452	21,563	5,119	38,624	2,573	9,833	16,937	45,303	11,906	86,552
Rescheduled	-	2,496	193	682	-	3,371	-	1,936	162	382	-	2,480	-	4,432	355	1,064	-	5,851

1985; and d) non-portfolio compensatory loan arrears and payments falling due in 1985 could also be met with pagarés with 1986 and 1987 maturation dates.

As shown in Table III, public sector arrears as of May 31, 1985 totals $69.6 million, down from $84.5 million as of December 31, 1985. Excluding Nicaragua, the remaining four countries reduced their arrears over this period from $31.1 million to $16.2 million, $39 mn. of which was delinquent less than 30 days.

CABEI has also taken steps to rehabilitate its private sector portfolio. It has established a special unit reporting directly to the President to spearhead this effort. A detailed description of the activities of this group is presented in Section A.3 of the Project Paper.

Obtaining New Resources

In order for CABEI to resolve its liquidity problem and once more become a major player in the development of the region, it will need to increase its capitalization to assure positive net disbursements to the member countries for an extended period. It has recently been successful in obtaining from its member countries an agreement to pay $50 million of additional capital by December 31, 1985. This capital, which is in local currencies, helps, but needs to be supplemented by capital in convertible currencies. To this effect, the capitalization of the Fund for Social and Economic Development and eventually the incorporation of extra-regional members (endorsed by the Bank's member countries) appears to be the most appropriate solution.

2. CABEI's Future Financial Situation

Before describing the alternative scenarios and analyzing their supporting cash flow projections, certain general comments are in order. The cash flow projections developed by CABEI for presentation to potential extraregional members at the IDB's annual meeting in Vienna in March 1985 constituted the basis for the analysis. These projections, prepared by CABEI, were developed utilizing the same assumptions prepared by the Bank for making presentations to attract new members. A single call for capital of $50 million from present members has been assumed. Even though accounting for the Fund for Economic and Social Development will be maintained separately from that of the Bank, for the purpose of these projections, their operations are consolidated.

There is a basic assumption for both scenarios and for all projections without which CABEI could only survive with great difficulty. This assumption is that member countries must pay their arrears and not incur new ones. This single action considerably improves the Bank's cash flow projections, but it does not provide for new credit approvals to generate disbursements equal to or higher than recoveries and interest paid by borrowers.

Another basic assumption included in the projections is that the free convertibility of Central American currencies will be respected by all parties as has been established in CABEI's Constituent Agreement.

a. The Scenarios

Two basic scenarios have been developed for the financial analysis. Scenario I assumes no further A.I.D. support to CABEI. Scenario II assumes that the project is implemented as designed in the Project Paper. As detailed below, both scenarios have certain basic assumptions which serve as underpinnings to the financial projections and accompanying sensitivity analyses. Table ___ details the assumptions which are further described under each scenario.

Table IV

BASIC ASSUMPTIONS OF FINANCIAL PROJECTIONS

	Scenario I	Scenario II
Resources		
Paid-in Capital ($MM)		
- Regional members	50	50
- Extra-Regional members	0	250 1/
USAID participation	0	50
Club Loan	No refinancing	Refinanced
Portfolio Recuperation		
Public Sector (excluding Nicaragua)	100% Over 2 years	100% Over 2 years
Public Sector (Nicaragua)	8 years with 2 years grace	8 years with 2 years grace
Private Sector 2/	75%	75%
Disbursements		
Loan Disbursements ($ MM)	Only already obligated	950
Disbursement Period (years) of AID Loan to CABEI	N.A.	3

1/ Including a U.S. participation of $50 million.

2/ Private sector arrears defined as loan principal and interest in arrears only.

(i) Scenario I

Scenario I models a limited role for CABEI, with no additional AID loans. This is basically a scenario in which no new disbursements are made. The assumptions for Scenario I are as follows:

- Resources

  - Paid-in Capital. Only the additional $50 million paid-in capital from present members is considered. The "Central American Fund for Economic and Social Development", hereinafter called the "Fund", does not yet exist.

  - USAID Participation. No AID disbursements are anticipated for the period.

  - Club Loan. A renegotiation is not anticipated.

  - Other Sources of External Credit. Only credit already negotiated will be utilized.

- Portfolio Recuperation

  - Public Sector (excluding Nicaragua). 100% payment of public sector arrears is assumed over two fiscal years.

  - Public Sector (Nicaragua). 100% payment over eight years with a two-year grace period.

  - Private Sector. 75% recovery of arrears is anticipated.

- Disbursements

  - Loan Disbursement. Only those disbursements already obligated by the Bank, with no new credit approvals.

  - External Debt Service. No delay is anticipated in capital and interest payments to external lenders.

The Appendix, Tables A.1, 2 and 3 present the cash flow projections and variations on this scenario.

The assumptions for this scenario are very pessimistic as to the inflows to be received by the Bank in the next several years. The only relatively optimistic assumption is that of debt repayment by the member countries. As it has been stated before, the latter is a "sine qua non" condition for CABEI's survival, without which there is no basis for making projections. By the single fact of member countries paying off their debts, CABEI will be in a position to meet obligations already taken on and to service its external debt.

With the assumptions used, the projection gives exaggeratedly adverse results. Net accumulated disbursements become negative by almost $350 million while the cash balance goes up sharply in the last two years, as no new approvals have been included. Inflows are low but disbursements are even lower and decreasing, approaching zero in the last projected year. Meanwhile, debt service stays high, around 44% of total inflows. (See Appendix, Table A.1).

The behavior of the variables could be softened by introducing some approvals of new loans which would produce higher disbursements in 1988 and 1989. This would make the cash balance go down during those years but it could create difficulties for subsequent years. In any case, accumulated net disbursements would remain negative.

Further, assuming a $50 million A.I.D. contribution that would be used to add to disbursements, the situation improves but is far from reaching a balance between disbursements and repayments (see Table V). Net accumulated disbursements remain negative ($309 mn.) and the cash balance increases slightly.

(ii) Scenario II

In developing this scenario, the assumptions were modified to reflect the future development of the Bank with the support of extraregional members through the "Fund" and particularly through AID assistance.

The assumptions for Scenario II are:

- Resources

  - Paid-In Capital. A $250 million paid-in capital from extraregional members is assumed. This amount includes a $50 million from the U.S., through AID or Treasury.

  - A.I.D. Participation. $50 million over three years.

  - Club Loan. A renegotiation is assumed to increase credit to $158 million with a 7-1/2 year pay-back period and 2-year grace period.

  - Other Sources of External Credit. These would be negotiated credits which have not yet been disbursed; the renegotiation of the Club Loan would have the same effect as that of a new credit.

Portfolio Recuperation

  - Public Sector (excluding Nicaragua). 100% payment of public sector arrears is assumed over two fiscal years.

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Consolidated cashflow

TABLE V
($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	156521	168838	172961	173909	788829
Utilization of external resources	95600	85215	43594	26912	10477	261798
AID loan resources		20000	22500	6500	1000	50000
Required capital	50000					50000
other	112900	75166	61064	61973	71142	382245
TOTAL INFLOWS	375100	336902	295996	268346	256528	1532872
OUTFLOWS						
Debt service	141100	140546	119296	114829	120632	636403
Disbursements	75000	121472	125828	69619	949	392868
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	311418	293524	213048	146481	1269171
NET INFLOW	70400	25484	2472	55298	110047	263701
INITIAL BALANCE	102511	172911	198395	200867	256165	102511
FINAL BALANCE	172911	198395	200867	256165	366212	366212

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	$\sum_{1}^{4}$
Disbursements	75000	140472	145828	74619	1949	
Loan and interest recovary	116600	156521	168838	172961	173909	
Disbursements - Recoveries	-41600	-16049	-23010	-98342	-171960	-309361
Disbursements plus Debt service	216100	281018	265124	189448	122581	
Cash n-1/ Dn+DSn		0.62	0.75	1.06	2.09	
Disbursments/Inflows	0.20	0.42	0.49	0.28	0.01	
Debt Service/Inflows	0.38	0.42	0.40	0.43	0.47	

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- Public Sector (Nicaragua). 100% payment over eight years with a two-year grace period.

- Private Sector. 75% recovery of arrears is anticipated.

- Disbursements

  - External Debt Service. As required in accordance with external credit utilization.

  - Loan Disbursements. The result of $950 million additional approvals.

As can be appreciated in Table VI, the results of Scenario II are very satisfactory for attaining the goals being pursued by CABEI (i.e. obtaining net cumulative disbursements equal to or greater than zero over the next five years; improving recuperations and liquidity). The net disbursements to member countries under this scenario are positive, noting that if the first year is eliminated (when the program is not yet functioning), the net accumulated disbursement for the following four years totals $51.9 million.

The ratio of cash balance for a given year to disbursements plus debt service for the following year tends to approximate one. Starting from a very low ratio of .61, it becomes 1.14 at the end of the period. The disbursement/total Bank inflow ratio also increases significantly in the period going from 20% in 1984/85 to 56% in 1987/88 and 54% in 1988/89. The debt service/total Bank inflow ratio shows only a slight decrease over the five years.

In summary, the projection considered here is in general conformity with the development objectives that CABEI has established, assuming member countries pay up their arrears and support from A.I.D. and extraregional members is obtained.

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Consolidated cashflow

TABLE VI
($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	156521	171129	189640	222195	856085
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		20000	22500	6500	1000	50000
Required capital	50000	62500	62500	62500	62500	300000
other	112900	81265	75111	76345	77169	422790
TOTAL INFLOWS	375100	425501	413434	400497	424841	2039373
OUTFLOWS						
Debt service	141100	142047	125190	128357	146072	682766
Disbursements	75000	121472	174900	219920	230108	821400
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	312919	348490	376877	401080	1744066
NET INFLOW	70400	112582	64944	23620	23761	295307
INITIAL BALANCE	102511	172911	285493	350437	374057	102511
FINAL BALANCE	172911	285493	350437	374057	397818	397818

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	75000	140472	194900	224920	231108	$\sum_{1}^{4} =$
Loan and interest recovery	116600	156521	171129	189640	222195	
Disbursements - Recoveries	-41600	-16049	23771	35280	8913	51915
Disbursements plus Debt service	216100	282519	320090	353277	377180	
Cash n-1/ Dn+DSn		0.61	0.89	0.99	0.99	
Disbursments/Inflows	0.20	0.33	0.47	0.56	0.54	
Debt Service/Inflows	0.38	0.33	0.30	0.32	0.34	

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b. Sensitivity Analysis

The results of the sensitivity analyses for Scenario II are presented in the Appendix, Tables B.2 to B.9. An analisis of these results show that:

- Extraregional Paid-In Capital -- $200 million. Lowering the paid-in capital from $250 to $200 million, net disbursements remain the same, cash grows worse, and the disbursement/total inflow and debt service/total inflow ratios go up. These effects are explained by the fact that, maintaining the approval rate, disbursements as well as recovery will also maintain the same values, while total inflows will drop and show in the cash balance. The latter also makes the disbursement inflow and debt service/inflow ratios go up. The model could function in reverse by lowering disbursements and recoveries and maintaining the cash balance. However, the resulting end-of-period cash balance can still be considered acceptable and it would not be advisable to abandon the positive net disbursements goal. (See the Appendix, Table B.2).

- Extraregional Paid-In Capital -- $150 million. Lowering paid-in capital further ($150 million) and keeping approvals as in the previous case, cash balance and inflows drop significantly. It would not be advisable in this case to keep approvals at the same level as in the previous case. (See the Appendix, Table B.3).

- Club Loan--No Renegotiation. If the Club Loan was not renegotiated, the same effect as a reduction of external credit utilization would occur. Another hypothesis of external credit variation was not developed for this reason. Keeping disbursements at the same level, cash balance and inflows drop the same amount as when paid-in capital is lowered to $150 million. Debt service goes up, but in the period under consideration, the drop in inflows is more marked given the grace period and the extension in the repayment period that the renegotiation entails. (See the Appendix, Table B.4).

- A.I.D. Loan--$25 million. If the A.I.D. loan were only $25 million, the previous picture is repeated, but the previously observed effects are ameliorated. Net disbursements drop to $35.6 million. (See the Appendix, Table B.5).

- No A.I.D. Loan. If A.I.D. makes no assistance available, the projection of net disbursements falls by more than $30 mn. This variation also includes, however, $250 mn. in capital from extraregional members (including $50 mn. from A.I.D.) which would not likely occur if A.I.D. does not make assistance available under the proposed project. (See the Appendix, Table B.6).

- A.I.D. Loan Disbursed over Six Years. Assuming now that the A.I.D. loan disbursement was made over a six-year period instead of three, the result would be a decrease of $6.9 million in net disbursements and a decline of over $10 million in cash balance at the end of the 1986-89 period. (See the Appendix, Table B.7).

- Private Sector Arrears Recovery--50%. Assuming that private sector arrears recovery will be 50% rather than 75%, keeping the same level of approvals, the first effect noted is the increase in net disbursements. This is due to a decrease in recovery and interest which, in turn, decreases inflows and the cash balance. (See the Appendix, Table B.8).

- Private Sector Arrears Recovery--40%. Lowering private sector arrears recovery to 40%, the same effects of the previous case are noted more widely. In these two cases, the net disbursement

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increase should not be interpreted as an advantage as it is based on a decrease in recoveries, a fact which does not benefit the Bank. (See the Appendix, Table B.9).

C. Cash Flow Analysis (In Foreign Exchange)

Under the same assumptions as used in Section b (above), cash flow projections have been prepared separately for both consolidated (foreign exchange and local currencies) and foreign exchange alone. This separate analysis is necessary since the Bank operates in both currencies and cash flows may vary significantly among the two. In the Appendix, Tables C.1 to C.3 and D.1 to D.7, the analyses of cash flow projections for foreign exchange are presented for both scenarios. Since past loans made by the Bank have included approximately half foreign exchange and half local currencies, loan recoveries will maintain the same proportion.

It should be mentioned that the new disbursements of capital anticipated in the projections will originate from:

- Recoveries on past Bank lending;
- Resources of the new Fund in foreign exchange;
- AID foreign exchange resources; and
- Foreign exchange resources derived from renegotiation of the Club Loan and other financing.

Based on $950 million in new approvals and the projected foreign exchange resources, a mix of 75% foreign exchange and 25% local currency results. Since disbursements and recoveries are assumed to take place in similar currency proportions, the above proportions have been used to project foreign exchange cash flows.

The two scenarios built for the consolidated cash flows are repeated for the analysis of foreign exchange cash flows.

a. Scenario I

In this case, there is no variation in the proportions from the consolidated cash flow. The behavior of the variables in foreign exchange follows the same pattern as in the consolidated cash flow since no new foreign exchange sources are present. (See the Appendix, Table C.1).

The same holds true when $25 million and $50 million A.I.D. contributions are assumed. Negative net disbursements drop, but in the best of cases ($50 million AID contribution) they reach minus (-) $200 million. (See the Appendix, Tables C.2 and C.3).

b. Scenario II

The results from scenario II (base case) are revealing in that, considering the composition of approvals in foreign exchange and local currencies, they show the following:

- Disbursements made in foreign exchange are widely larger than recoveries.

- Other things being equal, disbursements in local currency are much lower than recoveries, resulting in positive cumulative net disbursements of $83 million in foreign exchange and negative accumulated disbursements of $31.2 million in local currencies.

This scenario clearly shows the critical importance of a substantial increase in the Bank's capital, the AID contribution and debt renegotiation for CABEI's future development. All of these factors bring new foreign exchange resources to the Bank.

The foreign exchange cash balance behaves similarly to the consolidated cash balance. Its ratio to disbursements plus debt service for the following year tends to approximate one (1.0), reaching 1.04 and 0.97 in 1988 and 1989 respectively. (See the Appendix, Table D.1).

The projection of Scenario II fully meets CABEI's development objectives. It clearly provides member countries with more foreign exchange than they have to pay out as their debt service to the Bank.

c. Sensitivity Analysis of the Projection (in Foreign Exchange)

The results of the sensitivity analysis for Scenario II in foreign exchange are presented in the Appendix, Tables D.2 to D.7). An analysis of these results show that:

- Paid-In Capital--$200 million. Lowering paid-in capital from $250 million to $200 million, net disbursements remain the same, cash balance worsens more than in the consolidated projection, and the disbursement/inflow and debt service/inflow ratios increase as inflows are lower. Here again, as in the consolidated cash flow, the drop in cash balance is not significant enough to jeopardize the Bank's liquidity. For this reason, it would not be advisable for the bank to depart ferom its original disbursement goal. (See the Appendix, Table D.2).

- Paid-In Capital--$150 million. Lowering paid-in capital again to $150 million results in a significantly diminished cash balance. If a wider security margin for foreign exchange is required, the Bank's projected approvals should be lowered. (See the Appendix, Table D.3).

- No Renegotiation of Club Loan. The effect of not renegotiating the Club Loan, (as in the consolidated cash flow projection) is similar to lowering the paid-in capital to $150 million, although the cash balance/disbursements plus debt service ratio slightly improves since the decrease in cash balance is lower than debt service. (See the Appendix, Table D.4).

- A.I.D. Loan--$25 million. With a $25 million A.I.D. contribution, the foreign exchange situation would improve, but net disbursements would decline as well as cash balances (See Appendix, Table D.5).

- No A.I.D. Loan. With no A.I.D. contribution, the foreign exchange projection drops significantly. The net disbursements to member countries go from $83.1 million to $50.6 million. This variation also includes, however, $250 million in capital from extra-regional members (including $50 mn. from A.I.D.) which would not likely occur if A.I.D. does not make assistance available under the proposed project. (See the Appendix, Table D.6).

- A.I.D. Loan Disbursed Over Six Years. In the case of A.I.D. loan disbursement over a six instead of three-year period, the results observed in the consolidated projection are repeated, with the differents in amounts mentioned before. (See the Appendix, Table D.7).

3. Conclusions

The two scenarios and their sensitivity analyses presented lead to two types of conclusions: basic and secondary.

1. Basic Conclusions

Resources:

- Above all, CABEI needs more capital. Without new capital, disbursements do not equal the amount of CABEI's obligations to the member countries.

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- While A.I.D.'s participation in Scenario I contributes to improve the situation, it does not significantly strengthen CABEI's viability as a development bank.

A.I.D. Contribution:

- In Scenario II, on the other hand, A.I.D.'s contribution produces a fundamental improvement. If it is assumed that 40% of this contribution is in the form of a soft loan (30 or 40 year repayment period including a 10-year grace period) and the other 60% is a grant, the increase in net inflows during the period is very important considering that the only effect on outflows is a 2% annual interest rate on the outstanding loan balance. The same holds true if there were a 50-50 split between loan and grant.

- Given the characteristics of the A.I.D. contribution, all A.I.D. disbursements take place within the period under study (1985-1989), which makes it possible to reach a level of positive net cumulative disbursements. Varying A.I.D.'s participation to zero or to $25 millions or to the disbursement period from three to six years, a significant drop in CABEI's net disbursements is observed.

- The A.I.D. contribution tends to improve the Bank's foreign exchange position as well as its foreign exchange disbursements. It also favors member country balance of payments and the Bank's cash balance, given the present inconvertibility of Central American currencies.

- Capital Increases:

  Without an increase in capital from extraregional resources, whether as contributions to the Fund or concessional term donor resources, the impact of the proposed A.I.D. project is not sufficient to produce a net positive flow of funds to the member countries (see table V). Varying increases of capital from $250 million to $150 million does not change disbursement levels from the $51.9 million positive net flow level under Scenario II, but cash balances and inflows are influenced. Particularly when paid-in capital is lowered to $150 million, the cash balance drops way below the minimum security levels both in consolidated and foreign exchange projections. At the $200 million paid-in capital level as opposed to $250 million, the Bank's development objectives would not seem to be altered significantly, except for solving some foreign exchange availability constraints.

2. Secondary Conclusions

- Private Sector Arrears Recovery. If private sector arrears recovery is 505 instead of 70% as projected in the base case, net disbursements go up due to a decrease in recovery. This method of increasing net disbursements is undesirable since if the Bank does not recover anything, net disbursements would grow to the present arrears level. Here, as in other cases, a change is observed in inflows and cash. However, its magnitude is not such to alter fundamentally the global behavior of cash flows.

- Club Loan Renegotiation. The Club Loan renegotiation would significantly improve CABEI's financial situation. It would produce an increase in inflows due to scheduling of obligations and, as noted previously, the effect of not including this renegotiation is similar to that of lowering paid-in capital to $150 million; and

  Debt Service Ratio. In none of the cases studied was a decrease of the debt service/inflows ratio to under 30% observed. This ratio, being much lower than that obtained without additional capital participation (around 40-47%), is still considered high. CABEI should, therefore, be careful in regards to indebtedness incurred in the future.

4. Impact of Proposed A.I.D. Project on CABEI

As noted earlier, the proposed A.I.D. contribution is of great importance for the Bank's financial development. In addition, an A.I.D. contribution would have a positive demonstration effect on other donors. It would be very difficult for CABEI to obtain cooperation from other countries if the United States does not show a real interest in its development. Counting on support of this nature, the Bank will be in a position to establish its Fund with better probabilities of success. That is to say that the importance of the A.I.D. project is twofold: the positive financial impact on the one hand and the political support it implies on the other.

KEY TO TABLES

Financial Analysis

A.1 Consolidated Cash Flow as of June 30, 1985

A.2 Consolidated Cash Flow, including $25.0 million from A.I.D.

B.2 Consolidated Cash Flow, including $50.0 million from A.I.D. approvals of $950.0 million, $200.0 million additional paid-in capital and club loan refinancing.

B.3 Consolidated Cash Flow, including $950.0 million in new approvals and $150.0 million paid-in capital.

B.4 Consolidated Cash Flow, including $950.0 million in new approvals and $250.0 million paid-in capital; no club loan refinancing.

B.5 Consolidated Cash Flow, including $950.0 million in new approvals, $250.0 million paid-in capital and $25.0 million from A.I.D.

B.6 Consolidated Cash Flow, including $950.0 million in new approvals, $250.0 million paid-in capital; no A.I.D. contribution.

B.7 Consoliated Cash Flow, including $950.0 million in new approvals, $250.0 million paid-in capital and $50.0 million from A.I.D. disbursed over six years.

B.8 Consolidated Cash Flow, including $550.0 million in new approvals, $250.0 million paid-in capital and 50% private sector arrears recovery.

B.9 Consolidated Cash Flow, including $950.0 million in additional approvals, $250.0 million paid-in capital and 40% private sector arrears recovery.

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C.1 Foreign Exchange Cash Flow as of June 30, 1985

C.2 Foreign Exchange Cash Flow, including $25.0 million from A.I.D

C.3 Foreign Exchange Cash Flow, including $50.0 million from A.I.D.

D.1 Foreign Exchange Cash Flow, including $50.0 million from A.I.D., $712.5 million in additional approvals, $250.0 million paid-in capital and club loan refinancing.

D.2 Foreign Exchange Cash Flow, including $50.0 million from A.I.D., $712.5 million in additional approvals, $200.0 million paid-in capital and club loan refinancing.

D.3 Foreign Exchange Cash Flow, including $50.0 million from A.I.D., $712.5 million in additional approvals, $150.0 million paid-in capital and club loan refinancing.

D.4 Foreign Exchange CAsh Flow, including $50.0 million from A.I.D., $712.5 million in additional approvals and $250.0 million paid-in capital; excluding club loan refinancing.

D.5 Foreign Exchange Cash Flow, including $25.0 million from A.I.D., $712.5 million in additional approvals, $250.0 million paid-in capital and club loan refinancing.

D.6 Foreign Exchange Cash Flow,including $712.5 million in additional approvals, $250.0 million paid-in capital and club loan refinancing; excluding A.I.D. contribution.

D.7 Foreign Exchange Cash Flow, including $50.0 million from A.I.D., $712.5 million in additional approvals, $250.0 million paid-in capital and club loan renegotiation. (A.I.D. disbursements over 6-year period).

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TABLE A-1
Consolidated cash flow as of June 30, 1985 ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	155571	165938	168811	169459	776379
Utilization of external resources	95600	85215	43594	26912	10477	261798
AID loan resources						0
Required capital	50000					50000
other	112900	75108	60811	60844	69438	379101
TOTAL INFLOWS	375100	315894	270343	256567	249374	1467278
OUTFLOWS						
Debt service	141100	140510	119183	114664	120454	635911
Disbursements	75000	121472	125828	69619	949	392868
AID loan Resources						
Disbursemerts						0
Technical Assistance						0
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	291382	270911	206383	145303	1218679
NET INFLOW	70400	24512	-568	50184	104071	248599
INITIAL BALANCE	102511	172911	197423	196855	247039	102511
FINAL BALANCE	172911	197423	196855	247039	351110	351110

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	75000	121472	125828	69619	949	$\sum_{1}^{4} =$
Loan and interest recovery	116600	155571	165938	168811	169459	
Disbursements - Recoveries	-41600	-34099	-40110	-99192	-168510	-341911
Disbursements plus Debt service	216100	261982	245011	184283	121403	
Cash n-1/ Dn+DSn		0.66	0.81	1.07	2.03	
Disbursments/Inflows	0.20	0.38	0.47	0.27	.00	
Debt Service/Inflows	0.38	0.44	0.44	0.45	0.48	

TABLE A-2

Consolidated cashflow , including $25.0 million from A.I.D. ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	156046	167388	170886	171684	782604
Utilization of external resources	95600	85215	43594	26912	10477	261798
AID loan resources		10000	11250	3250	500	25000
Required capital	50000					50000
other	112900	75137	60937	61406	70290	380670
TOTAL INFLOWS	375100	326398	283169	262454	252951	1500072
OUTFLOWS						
Debt service	141100	140528	119240	114746	120543	636157
Disbursements	75000	121472	125828	69619	949	392868
AID loan Resources						
Disbursements		9500	10000	2500	500	22500
Technical Assistance		500	1250	750		2500
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	301400	282218	209715	145892	1243925
NET INFLOW	70400	24998	951	52739	107059	256147
INITIAL BALANCE	102511	172911	197909	198860	251599	102511
FINAL BALANCE	172911	197909	198860	251599	358658	358658

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	$\sum_{1}^{4} =$
Disbursements	75000	130972	135828	72119	1449	
Loan and interest recovery	116600	156046	167388	170886	171684	
Disbursements - Recoveries	-41600	-25074	-31560	-98767	-170235	-325636
Disbursements plus Debt service	216100	271500	255068	186865	121992	
Cash n-1/ Dn+DSn		0.64	0.78	1.06	2.06	
Disbursments/Inflows	0.20	0.40	0.48	0.27	0.01	
Debt Service/Inflows	0.38	0.43	0.42	0.44	0.48	

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TABLE B-2
Consolidated cashflow, including $50 million from A.I.D. approvals of $950.0 million, $200.0 million additional paid-in capital and club loan refinancing ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	156521	171129	189640	222195	856085
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		20000	22500	6500	1000	50000
Required capital	50000	50000	50000	50000	50000	250000
other	112900	80465	72817	72589	72412	411183
TOTAL INFLOWS	375100	412201	398640	384241	407584	1977766
OUTFLOWS						
Debt service	141100	142047	125190	128357	146072	682766
Disbursements	75000	121472	174900	219920	230108	821400
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	312919	348490	376877	401080	1744066
NET INFLOW	70400	99282	50150	7364	6504	233700
INITIAL BALANCE	102511	172911	272193	322343	329707	102511
FINAL BALANCE	172911	272193	322343	329707	336211	336211

Analisis of Cash Flow Projection ($000)

		(1)	(2)	(3)	(4)	$\sum_{1}^{4} =$
Disbursements	75000	140472	194900	224920	231108	
Loan and interest recovery	116600	156521	171129	189640	222195	
Disbursements - Recoveries	-41600	-16049	23771	35280	8913	51915
Disbursements plus Debt service	216100	282519	320090	353277	377180	
Cash n-1/ Dn+DSn		0.61	0.85	0.91	0.87	
Disbursments/Inflows	0.20	0.34	0.49	0.59	0.57	
Debt Service/Inflows	0.38	0.34	0.31	0.33	0.36	

TABLE B-3
Consolidated cashflow, including $950.0 million in new approvals and $150.0 million paid-in capital - ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	156521	171129	189640	222195	856085
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		20000	22500	6500	1000	50000
Required capital	50000	37500	37500	37500	37500	200000
other	112900	79665	70523	68833	67759	399680
TOTAL INFLOWS	375100	398901	383846	367985	390431	1916263
OUTFLOWS						
Debt service	141100	142047	125190	128357	146072	682766
Disbursements	75000	121472	174900	219920	230108	821400
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	312919	348490	376877	401080	1744066
NET INFLOW	70400	85982	35356	-8892	-10649	172197
INITIAL BALANCE	102511	172911	258893	294249	285357	102511
FINAL BALANCE	172911	258893	294249	285357	274708	274708

Analisis of Cash Flow Projection ($000)

		(1)	(2)	(3)	(4)	$\sum_{1}^{4}$ =
Disbursements	75000	140472	194900	224920	231108	
Loan and interest recovery	116600	156521	171129	189640	222195	
Disbursements - Recoveries	-41600	-16049	23771	35280	8913	51915
Disbursements plus Debt service	216100	282519	320090	353277	377180	
Cash n-1/ Dn+DSn		0.61	0.81	0.83	0.76	
Disbursments/Inflows	0.20	0.35	0.51	0.61	0.59	
Debt Service/Inflows	0.38	0.36	0.33	0.35	0.37	

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TABLE B-4

Consolidated cashflow, including $950.0 million in new approvals and $250.0 million paid-in capital; no club loan refinancing. ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	156521	171129	189640	222195	856085
Utilization of external resources	95600	85215	43594	26912	10477	261798
AID loan resources		20000	22500	6500	1000	50000
Required capital	50000	62500	62500	62500	62500	300000
other	112900	80081	70902	68785	67665	400333
TOTAL INFLOWS	375100	404317	370625	354337	363837	1868216
OUTFLOWS						
Debt service	141100	140546	119296	114829	120632	636403
Disbursements	75000	121472	174900	219920	230108	821400
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	311418	342596	363349	375640	1697703
NET INFLOW	70400	92899	28029	-9012	-11803	170513
INITIAL BALANCE	102511	172911	265810	293839	284827	102511
FINAL BALANCE	172911	265810	293839	284827	273024	273024

Analisis of Cash Flow Projection ($000)

		(1)	(2)	(3)	(4)	$\sum_{1}^{4} =$
Disbursements	75000	140472	194900	224920	231108	
Loan and interest recovery	116600	156521	171129	189640	222195	
Disbursements - Recoveries	-41600	-16049	23771	35280	8913	51915
Disbursements plus Debt service	216100	281018	314196	339749	351740	
Cash n-1/ Dn+DSn		0.62	0.85	0.86	0.81	
Disbursments/Inflows	0.20	0.35	0.53	0.63	0.64	
Debt Service/Inflows	0.38	0.35	0.32	0.32	0.33	

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TABLE B-5

Consolidated cashflow, including $950.0 million in new approvals, $250.0 million paid-in capital and $25.0 million from A.I.D. ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	156046	169679	187565	219970	849860
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		10000	11250	3250	500	25000
Required capital	50000	62500	62500	62500	62500	300000
cther	112900	81236	75002	77520	80856	427514
TOTAL INFLOWS	375100	414997	400625	396347	425803	2012872
OUTFLOWS						
Debt service	141100	142029	125134	128274	145983	682520
Disbursements	75000	121472	174900	219920	230108	821400
AID loan Resources						
Disbursements		9500	10000	2500	500	22500
Technical Assistance		500	1250	750		2500
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	302901	337184	373544	400491	1718820
NET INFLOW	70400	112096	63441	22803	25312	294052
INITIAL BALANCE	102511	172911	285007	348448	371251	102511
FINAL BALANCE	172911	285007	348448	371251	396563	396563

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	75000	130972	184900	222420	230608	$\sum_{1}^{4} =$
Loan and interest recovery	116600	156046	169679	187565	219970	
Disbursements - Recoveries	-41600	-25074	15221	34855	10638	35640
Disbursements plus Debt service	216100	273001	310034	350694	376591	
Cash n-1/ Dn+DSn		0.63	0.92	0.99	0.99	
sbursments/Inflows	0.20	0.32	0.46	0.56	0.54	
- Service/Inflows	0.38	0.34	0.31	0.32	0.34	

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TABLE B-6

Consolidated cashflow, including $950.0 million in new approvals, $250.0 million paid-in capital; no A.I.D. contribution - ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	155571	168229	185490	217745	843635
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources						0
Required capital	50000	62500	62500	62500	62500	300000
other	112900	81207	74893	75253	75474	419727
TOTAL INFLOWS	375100	404493	387816	388755	417696	1973860
OUTFLOWS						
Debt service	141100	142011	125077	128192	145894	682274
Disbursements	75000	121472	174900	219920	230108	821400
AID loan Resources						
Disbursements						0
Technical Assistance						0
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	292883	325877	370212	399902	1693574
NET INFLOW	70400	111610	61939	18543	17794	280286
INITIAL BALANCE	102511	172911	284521	346460	365003	102511
FINAL BALANCE	172911	284521	346460	365003	382797	382797

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	$\sum_{1}^{4} =$
Disbursements	75000	121472	174900	219920	230108	
Loan and interest recovery	116600	155571	168229	185490	217745	
Disbursements - Recoveries	-41600	-34099	6671	34430	12363	19365
Disbursements plus Debt service	216100	263483	299977	348112	376002	
Cash n-1/ Dn+DSn		0.66	0.95	1.00	0.97	
Disbursments/Inflows	0.20	0.30	0.45	0.57	0.55	
Debt Service/Inflows	0.38	0.35	0.32	0.33	0.35	

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TABLE B-7

Consolidated cashflow, including $950.0 million in new approvals, $250.0 million paid-in capital and $50.0 million from A.I.D. disbursed over six years - ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	155571	168675	186901	220195	847942
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		2500	11500	10500	10500	35000
Required capital	50000	62500	62500	62500	62500	300000
other	112900	81207	74916	75365	75748	420136
TOTAL INFLOWS	375100	406993	399785	400778	430920	2013576
OUTFLOWS						
Debt service	141100	142011	125127	128350	146169	682757
Disbursements	75000	121472	174900	219920	230108	821400
AID loan Resources						
Disbursements			9000	10500	10500	30000
Technical Assistance		2500	2500			5000
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	295383	337427	380870	410677	1729057
NET INFLOW	70400	111610	62358	19908	20243	284519
INITIAL BALANCE	102511	172911	284521	346879	366787	102511
FINAL BALANCE	172911	284521	346879	366787	387030	387030

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	75000	121472	183900	230420	240608	$\sum_{i}^{4} =$
Loan and interest recovery	116600	155571	168675	186901	220195	
Disbursements - Recoveries	-41600	-34099	15225	43519	20413	45058
Disbursements plus Debt service	216100	263483	309027	358770	386777	
Cash n-1/ Dn+DSn		0.66	0.92	0.97	0.95	
Disbursments/Inflows	0.20	0.30	0.46	0.57	0.56	
Debt Service/Inflows	0.38	0.35	0.31	0.32	0.34	

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TABLE B-8
Consolidated cashflows, including $550.0 million in new approvals, $250.0 million paid-in capital and 50% private sector arrears recovery - ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	156521	171129	187112	219316	850678
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		20000	22500	6500	1000	50000
Required capital	50000	62500	62500	62500	62500	300000
other	112900	81265	75111	74661	75100	419037
TOTAL INFLOWS	375100	425501	413434	396285	419893	2030213
OUTFLOWS						
Debt service	141100	142047	125190	128357	146072	682766
Disbursements	75000	121472	174900	219920	230108	821400
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	312919	348490	376877	401080	1744066
NET INFLOW	70400	112582	64944	19408	18813	286147
INITIAL BALANCE	102511	172911	285493	350437	369845	102511
FINAL BALANCE	172911	285493	350437	369845	388658	388658

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	75000	140472	194900	224920	231108	$\sum_{1}^{4} =$
Loan and interest recovery	116600	156521	171129	187112	219316	
Disbursements - Recoveries	-41600	-16049	23771	37808	11792	57322
Disbursements plus Debt service	216100	282519	320090	353277	377180	
Cash n-1/ Dn+DSn		0.61	0.89	0.99	0.98	
Disbursments/Inflows	0.20	0.33	0.47	0.57	0.55	
Debt Service/Inflows	0.38	0.33	0.30	0.32	0.35	

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TABLE B-9
Consolidated cashflow, including $950.0 million in additional approvals, $250.0 million paid-in capital and 40% private sector arrears recovery - ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	116600	156521	171129	186162	218240	848652
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		20000	22500	6500	1000	50000
Required capital	50000	62500	62500	62500	62500	300000
other	112900	81265	75111	73835	74118	417229
TOTAL INFLOWS	375100	425501	413434	394509	417835	2026379
OUTFLOWS						
Debt service	141100	142047	125190	128357	146072	682766
Disbursements	75000	121472	174900	219920	230108	821400
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	88600	29400	25900	22100	23900	189900
TOTAL OUTFLOWS	304700	312919	348490	376877	401080	1744066
NET INFLOW	70400	112582	64944	17632	16755	282313
INITIAL BALANCE	102511	172911	285493	350437	368069	102511
FINAL BALANCE	172911	285493	350437	368069	384824	384824

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	Σ =
Disbursements	75000	140472	194900	224920	231108	
Loan and interest recovery	116600	156521	171129	186162	218240	
Disbursements - Recoveries	-41600	-16049	23771	38758	12868	59348
Disbursements plus Debt service	216100	282519	320090	353277	377180	
Cash n-1/ Dn+DSn		0.61	0.89	0.99	0.98	
Disbursments/Inflows	0.20	0.33	0.47	0.57	0.55	
Debt Service/Inflows	0.38	0.33	0.30	0.33	0.35	

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TABLE C-1
Foreign Exchange Cash Flow as of June 30, 1985 ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90042	98390	99400	99493	467284
Utilization of external resources	95600	85215	43594	26912	10477	261798
AID loan resources						0
Required capital						0
other	84936	55980	49255	43682	47909	281762
TOTAL INFLOWS	260495	231237	191239	169994	157879	1010844
OUTFLOWS						
Debt service	135300	136410	116783	111564	116354	616411
Disbursements	36588	59206	61369	33619	458	191240
AID loan Resources						
Disbursements						0
Technical Assistance						0
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	201516	183952	150083	122412	878251
NET INFLOW	40207	29721	7287	19911	35467	132593
INITIAL BALANCE	58399	98606	128327	135614	155525	58399
FINAL BALANCE	98606	128327	135614	155525	190992	190992

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	36588	59206	61369	33619	458	$\sum_{1}^{4} =$
Loan and interest recovery	79959	90042	98390	99400	99493	
Disbursements - Recoveries	-43371	-30836	-37021	-65781	-99035	-232673
Disbursements plus Debt service	171888	195616	178152	145183	116812	
Cash n-1/ Dn+DSn		0.50	0.72	0.93	1.33	
Disbursments/Inflows	0.14	0.26	0.32	0.20	.00	
Debt Service/Inflows	0.52	0.59	0.61	0.66	0.74	

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TABLE C-2
Foreign Exchange Cash Flow, including $25.0 million from A.I.D. ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90517	99840	101475	101718	473509
Utilization of external resources	95600	85215	43594	26912	10477	261798
AID loan resources		10000	11250	3250	500	25000
Required capital						0
other	84936	56009	49285	44113	48710	283053
TOTAL INFLOWS	260495	241741	203969	175750	161405	1043360
OUTFLOWS						
Debt service	135300	136428	116840	111646	116443	616657
Disbursements	36588	59206	61369	33619	458	191240
AID loan Resources						
Disbursements		9500	10000	2500	500	22500
Technical Assistance		500	1250	750		2500
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	211534	195259	153415	123001	903497
NET INFLOW	40207	30207	8710	22335	38404	139863
INITIAL BALANCE	58399	98606	128813	137523	159858	58399
FINAL BALANCE	98606	128813	137523	159858	198262	198262

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	36588	68706	71369	36119	958	$\sum_{1}^{4} =$
Loan and interest recovery	79959	90517	99840	101475	101718	
Disbursements - Recoveries	-43371	-21811	-28471	-65356	-100760	-216398
Disbursements plus Debt service	171888	205134	188209	147765	117401	
Cash n-1/ Dn+DSn		0.48	0.68	0.93	1.36	
Disbursments/Inflows	0.14	0.28	0.35	0.21	0.01	
Debt Service/Inflows	0.52	0.56	0.57	0.64	0.72	

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TABLE C-3
Foreign Exchange Cash Flow, including $50.0 million from A.I.D. ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90992	101290	103550	103943	479734
Utilization of external resources	95600	85215	43594	26912	10477	261798
AID loan resources		20000	22500	6500	1000	50000
Required capital						0
other	84936	56038	49316	44547	49516	284353
TOTAL INFLOWS	260495	252245	216700	181509	164936	1075885
OUTFLOWS						
Debt service	135300	136446	116896	111729	116532	616903
Disbursements	36588	59206	61369	33619	458	191240
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	221552	206565	156748	123590	928743
NET INFLOW	40207	30693	10135	24761	41346	147142
INITIAL BALANCE	58399	98606	129299	139434	164195	58399
FINAL BALANCE	98606	129299	139434	164195	205541	205541

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	$\sum_{1}^{4} =$
Disbursements	36588	78206	81369	38619	1458	
Loan and interest recovery	79959	90992	101290	103550	103943	
Disbursements - Recoveries	-43371	-12786	-19921	-64931	-102485	-200123
Disbursements plus Debt service	171888	214652	198265	150348	117990	
Cash n-1/ Dn+DSn		0.46	0.65	0.93	1.39	
Disbursments/Inflows	0.14	0.31	0.38	0.21	0.01	
Debt Service/Inflows	0.52	0.54	0.54	0.62	0.71	

TABLE D-1

Foreign Exchange Cash Flow, including $50.0 million from A.I.D., $712.5 million in additional approvals, $250.0 million paid-in capital and club loan refinancing - ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90992	103008	116434	141223	531616
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		20000	22500	6500	1000	50000
Required capital		62500	62500	62500	62500	250000
other	84936	59721	59488	57720	59411	321276
TOTAL INFLOWS	260495	338428	329690	308666	326111	1563390
OUTFLOWS						
Debt service	135300	137947	122790	125257	141972	663266
Disbursements	36588	59206	98173	153846	178575	526388
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	223053	249263	290503	327147	1310254
NET INFLOW	40207	115375	80427	18163	-1036	253136
INITIAL BALANCE	58399	98606	213981	294408	312571	58399
FINAL BALANCE	98606	213981	294408	312571	311535	311535

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	36588	78206	118173	158846	179575	$\sum_{1}^{4} =$
Loan and interest recovery	79959	90992	103008	116434	141223	
Disbursements - Recoveries	-43371	-12786	15165	42412	38352	83143
Disbursements plus Debt service	171888	216153	240963	284103	321547	
Cash n-1/ Dn+DSn		0.46	0.89	1.04	0.97	
Disbursments/Inflows	0.14	0.23	0.36	0.51	0.55	
Debt Service/Inflows	0.52	0.41	0.37	0.41	0.44	

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TABLE D-2

Foreign Exchange Cash Flow, including $50.0 million from A.I.D., $712.5 million in additional approvals, $200.0 million paid-in capital and club loan refinancing - ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90992	103008	116434	141223	531616
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		20000	22500	6500	1000	50000
Required capital		50000	50000	50000	50000	200000
other	84936	59155	57775	54584	55050	311500
TOTAL INFLOWS	260495	325362	315477	293030	309250	1503614
OUTFLOWS						
Debt service	135300	137947	122790	125257	141972	663266
Disbursements	36588	59206	98173	153846	178575	526388
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	223053	249263	290503	327147	1310254
NET INFLOW	40207	102309	66214	2527	-17897	193360
INITIAL BALANCE	58399	98606	200915	267129	269656	58399
FINAL BALANCE	98606	200915	267129	269656	251759	251759

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	36588	78206	118173	158846	179575	$\sum_{1}^{4} =$
Loan and interest recovery	79959	90992	103008	116434	141223	
Disbursements - Recoveries	-43371	-12786	15165	42412	38352	83143
Disbursements plus Debt service	171888	216153	240963	284103	321547	
Cash n-1/ Dn+DSn	,	0.46	0.83	0.94	0.84	
Disbursments/Inflows	0.14	0.24	0.37	0.54	0.58	
Debt Service/Inflows	0.52	0.42	0.39	0.43	0.46	

TABLE D-3

Foreign Exchange Cash Flow, including $50.0 million from A.I.D., $712.5 million in additional approvals, $150.0 million paid-in capital and club loan refinancing - ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90992	103008	116434	141223	531616
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		20000	22500	6500	1000	50000
Required capital		37500	37500	37500	37500	150000
other	84936	58584	56062	51452	50693	301727
TOTAL INFLOWS	260495	312291	301264	277398	292393	1443841
OUTFLOWS						
Debt service	135300	137947	122790	125257	141972	663266
Disbursements	36588	59206	98173	153846	178575	526388
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	223053	249263	290503	327147	1310254
NET INFLOW	40207	89238	52001	-13105	-34754	133587
INITIAL BALANCE	58399	98606	187844	239845	226740	58399
FINAL BALANCE	98606	187844	239845	226740	191986	191986

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	36588	78206	118173	158846	179575	$\sum_{1}^{4} =$
Loan and interest recovery	79959	90992	103008	116434	141223	
Disbursements - Recoveries	-43371	-12786	15165	42412	38352	83143
Disbursements plus Debt service	171888	216153	240963	284103	321547	
Cash n-1/ Dn+DSn		0.46	0.78	0.84	0.71	
Disbursments/Inflows	0.14	0.25	0.39	0.57	0.61	
Debt Service/Inflows	0.52	0.44	0.41	0.45	0.49	

TABLE D-4

Foreign Exchange Cash Flow, including $50.0 million from A.I.D., $712.5 million in additional approvals and $250.0 million paid-in capital; excluding club loan refinancing. ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90992	103008	118047	147666	539672
Utilization of external resources	95600	85215	43594	26912	10477	261798
AID loan resources		20000	22500	6500	1000	50000
Required capital		62500	62500	62500	62500	250000
other	84936	58880	56321	51465	51012	302614
TOTAL INFLOWS	260495	317587	287923	265424	272655	1404084
OUTFLOWS						
Debt service	135300	136446	116896	111729	116532	616903
Disbursements	36588	59206	98173	153846	178575	526388
AID loan Resources						
Disbursements		19000	20000	5000	1000	45000
Technical Assistance		1000	2500	1500		5000
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	221552	243369	276975	301707	1263891
NET INFLOW	40207	96035	44554	-11551	-29052	140193
INITIAL BALANCE	58399	98606	194641	239195	227644	58399
FINAL BALANCE	98606	194641	239195	227644	198592	198592

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	36588	78206	118173	158846	179575	$\sum_{1}^{4} =$
Loan and interest recovery	79959	90992	103008	118047	147666	
Disbursements - Recoveries	-43371	-12786	15165	40799	31909	75087
Disbursements plus Debt service	171888	214652	235069	270575	296107	
Cash n-1/ Dn+DSn		0.46	0.83	0.88	0.77	
Disbursments/Inflows	0.14	0.25	0.41	0.60	0.66	
Debt Service/Inflows	0.52	0.43	0.41	0.42	0.43	

TABLE D-5

Foreign Exchange Cash Flow, including $25.0 million from A.I.D., $712.5 million in additional approvals, $250.0 million paid-in capital and club loan refinancing. ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90517	101558	114359	138998	525391
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		10000	11250	3250	500	25000
Required capital		62500	62500	62500	62500	250000
other	84936	59692	59457	57290	58605	319980
TOTAL INFLOWS	260495	327924	316959	302911	322580	1530869
OUTFLOWS						
Debt service	135300	137929	122734	125174	141883	663020
Disbursements	36588	59206	98173	153846	178575	526388
AID loan Resources						
Disbursements		9500	10000	2500	500	22500
Technical Assistance		500	1250	750		2500
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	213035	237957	287170	326558	1285008
NET INFLOW	40207	114889	79002	15741	-3978	245861
INITIAL BALANCE	58399	98606	213495	292497	308238	58399
FINAL BALANCE	98606	213495	292497	308238	304260	304260

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	$\sum_{1}^{5} =$
Disbursements	36588	68706	108173	156346	179075	
Loan and interest recovery	79959	90517	101558	114359	138998	
Disbursements - Recoveries	-43371	-21811	6615	41987	40077	66868
Disbursements plus Debt service	171888	206635	230907	281520	320958	
Cash n-1/ Dn+DSn		0.48	0.92	1.04	0.96	
Disbursments/Inflows	0.14	0.21	0.34	0.52	0.56	
Debt Service/Inflows	0.52	0.42	0.39	0.41	0.44	

TABLE D-6

Foreign Exchange Cash Flow, including $712.5 million in additional approvals, $250.0 million paid in capital and club loan refinancing; excluding A.I.D. contribution. ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90042	100108	112284	136773	519166
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources						0
Required capital		62500	62500	62500	62500	250000
other	84936	59663	59427	56855	57808	318689
TOTAL INFLOWS	260495	317420	304229	297151	319058	1498353
OUTFLOWS						
Debt service	135300	137911	122677	125092	141794	662774
Disbursements	36588	59206	98173	153846	178575	526388
AID loan Resources						
Disbursements						0
Technical Assistance						0
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	203017	226650	283838	325969	1259762
NET INFLOW	40207	114403	77579	13313	-6911	238591
INITIAL BALANCE	58399	98606	213009	290588	303901	58399
FINAL BALANCE	98606	213009	290588	303901	296990	296990

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	
Disbursements	36588	59206	98173	153846	178575	$\sum_{1}^{4} =$
Loan and interest recovery	79959	90042	100108	112284	136773	
Disbursements - Recoveries	-43371	-30836	-1935	41562	41802	50593
Disbursements plus Debt service	171888	197117	220850	278938	320369	
Cash n-1/ Dn+DSn		0.50	0.96	1.04	0.95	
Disbursments/Inflows	0.14	0.19	0.32	0.52	0.56	
Debt Service/Inflows	0.52	0.43	0.40	0.42	0.44	

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TABLE D-7

Foreign Exchange Cash Flow, including $50 million from A.I.D., $712.5 million in additional approvals, $250.0 mn. paid-in capital and club loan renegotiation. (A.I.D. disbursements over 6-year period). ($000)

	1985	1986	1987	1988	1989	TOTAL
INFLOWS						
Loan and interest recovery	79959	90042	100554	113695	139223	523473
Utilization of external resources	95600	105215	82194	65512	61977	410498
AID loan resources		2500	11500	10500	10500	35000
Required capital		62500	62500	62500	62500	250000
other	84936	59663	59444	56954	58055	319052
TOTAL INFLOWS	260495	319920	316192	309161	332255	1538023
OUTFLOWS						
Debt service	135300	137911	122727	125250	142069	663257
Disbursements	36588	59206	98173	153846	178575	526388
AID loan Resources						
Disbursements			9000	10500	10500	30000
Technical Assistance		2500	2500			5000
Other	48400	5900	5800	4900	5600	70600
TOTAL OUTFLOWS	220288	20551[illegible]	238200	294496	336744	1295245
NET INFLOW	40207	114403	77992	14665	-4489	242778
INITIAL BALANCE	58399	98606	213009	291001	305666	58399
FINAL BALANCE	98606	213009	291001	305666	301177	301177

Analisis of Cash Flow Projection

		(1)	(2)	(3)	(4)	$\sum_{1}^{4} =$
Disbursements	36588	59206	107173	164346	189075	
Loan and interest recovery	79959	90042	100554	113695	139223	
Disbursements - Recoveries	-43371	-30836	6619	50651	49852	76286
Disbursements plus Debt service	171888	197117	229900	289596	331144	
Cash n-1/ Dn+DSn		0.50	0.93	1.00	0.92	
Disbursments/Inflows	0.14	0.19	0.34	0.53	0.57	
Debt Service/Inflows	0.52	0.43	0.39	0.41	0.43	

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DEVELOPMENT OF GENERAL PLAN TO REHABILITATE THE PRIVATE SECTOR
AND REQUIREMENTS FOR TECHNICAL ASSISTANCE
(ESTIMATED COST IN $US)

Country / Borrower	Project Activity	Condition of Project	Evaluation by CABEI to determine rehabilitation factor of assets to be carried out	Result of Evaluations	Actions to be Taken	Evaluations and/or Appraisal On the Part of CABEI	Type of Assistance	Cost of Experts *	Costs of Studies and/or Rehabilitation Plans	TOTAL
RECAP PROJECTS										
GUATEMALA										
Pascual F. Méndez & Co. (FORMFIT)	Manuf. of Ladies Lingerie	Critical	Carried out	Rehabilitable	Assist. Oper.	-	Marketing/Admon	21, 200 **	-	21,20
Juárez Belloso y Co.	Hotel Services	Critical	Carried out	Rehabilitable	Adjudicated Loan	-	-	-	-	
Industria Na. Hotelera	Hotel Services	Critical	Carried out	Rehabilitable	Adjudicated Loan	-	-	-	-	-
Hotel del Lago	Hotel Services	Critical	Carried out	No-rehabilitable	Sale	-	Marketing/Hotel Expert	21,200 **	-	21,20
Proyectos Turisticos Maya	Hotel Services	Critical	Carried out	Rehabilitable	Supervision	-	-	-	-	-
PAASA	Processed Meat, Sausage	Closed	Carried out	Rehabilitable	Rehab. Plan	-	-	-	30,000	30,000
ALBACORA	Fishery	Adjudicated	Incomplete	No-rehabilitable	Valuation/Sale	8,000	-	-	-	-
AGROINSA	Sugar Industry	Critical	Carried out	Rehabilitable	Assist. Oper.	-	Marketing/Production Original Financing	42,400	-	42,400
EL SALVADOR										
Plásticos y Novedades, S.A.	Plastics	Critical	Carried out	Rehabilitable	Assist. Oper.	-	Marketing	31,800 **	-	31,800
Multipesca, S.A. de C.V.	Fishery and Seafood	Critical	Carried out	Rehabilitable	Rehab. Plan	-	-	-	120,000 **	120,000
Industria Salinera, S.A.	Refined Salt	Critical	Incomplete	Rehabilitable	Complete Eval.	5,000	-	-	-	-
Sacos Sintéticos Centroamericanos	Plastic Fiber Sacks	Critical	Incomplete	Rehabilitable	Adjudicated	5,000	-	-	50,000	50,000
Siderúrgica Centroam. del Pacífico	Steel Ingots	Closed	Carried out	Rehabilitable	Rehab. Plan	-	-	-	50,000 **	50,000
Acero, S.A.	Spindles and Wires	Closed	Carried out	Rehabilitable	Rehab. Plan	-	-	-	50,000 **	50,000
MARSAL-Prod. Marañonera Salvadoreña	Cultivation and processing of cashew nuts	Closed	Carried out	No-Rehabilitable		-	-	-	-	-

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intry Borrower	Project Activity	Condition of Project	Evaluation by CABEI to determine rehabilitation factor of assets to be carried out	Result of Evaluations	Actic to be Taken	Evaluations and/or Appraisal On the Part of CABEI	Type of Assistance	Cost of Experts *	Costs of Studies and/or Rehabilitation Plans	TOTAL
Iariscos de El Salvador, S.A.	Seafood Cultivation and Processing	Closed	Incomplete	No-rehabilitable	Valuation/Sale	500	-	-	-	-
'orre del Sol	Adjudicated Lands	Adjudicated	Carried out	No-rehabilitable	Sale	-	-	-	-	-
DURAS										
urlcentro y Hoteles, S.A.	Hotel Services	Critical	Incomplete	-	Complete Eval.	1,000	-	-	-	-
'ropical Plywood	Plywood Sheets	Critical	Carried out	Rehabilitable	Assist. Per. and P.R.	-	Marketing/Admon./ Original Financing	31, 800 **	50,000 **	81,800
International Wood Products	Adj. Lands & Wood Goods	Adjudicated	Incomplete	No-rehabilitable	Valuation/Sale	1,000	-	-	-	-
Resinas de Honduras	Oil of Turpentine	Adjudicated	Incomplete	Rehabilitable	Complete Eval. and Rehab. Plan	7,000	-	-	50,000	50,000
osé Sánchez y Hermanos	Oil of Turpentine	Adjudicated	Incomplete	No-rehabilitable	Valuation/Sale	500	-	-	-	-
otel Playa Dorada	Hotel Services	Adjudicated	Incomplete	No-rehabilitable	Valuation/Sale	2,000	-	-	-	
pyglass Hill de Honduras	Hotel Services	Adjudicated	Incomplete	No-rehabilitable	Valuation, Repair and Sale	3,000	-	-	-	-
:ia. Internamericana Desarollo de Honduras	Mining	Adjudicated	Incomplete	No-rehabilitable	Sale	-	-	-	-	-
PRAGUA	Cardamon Cultivation	Adjudicated	Incomplete	No-rehabilitable	Valuation/Sale	500	-	-	-	-
Marcelo Moncada Lugo	Possession: I terrene	Adjudicated	Incomplete	No-rehabilitable	Valuation	500	-	-	-	-
Accionistas Cementos de Honduras	Cement Production	Other	Carried out	No-rehabilitable	Collection	-	-	-	-	-
STA RICA										
Acabados Nacionales, S.A.	Textiles	Critical	Carried out	Rehabilitable	Collecting	-	-	-	-	-
REFAMETAL, S.A.	Metal Goods	Critical	Incomplete	Rehabilitable	Complete Eval. and Rehab. Plan	5,000	-		25,000 **	25,000
Pozuelo Picasso, S.A.	Wood Processing, windows	Closed	Incomplete	-	Complete Eval.	10,000	-	-	-	-
CABSHA	Cacao Derivatives	Closed	Carried out	Rehabilitable	Rehab. Plan	-	-	-	100,000 **	100,000
Industria Sedalana, S.A.	Textiles, Polyester, etc.	Adjudicated	Carried out	Rehabilitable	Rehab. Plan	-	-	-	30,000	30,000

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Country / Borrower	Project Activity	Condition of Project	Evaluation by CABEI to determine rehabilitation factor of assets to be carried out	Result of Evaluations	Actions to be Taken	Evaluations and/or Appraisal On the Part of CABEI	Type of Assistance	Cost of Experts *	Costs of Studies and/or Rehabilitation Plans	TOT.
HORECA	Hotel Services	Adjudicated	Carried out	No-rehabilitable	Valuation/Sale	8,000	-	-	-	
Hongos de Costa Rica	Processing of Mushrooms	Adjudicated	Incomplete	-	Complete Eval.	12,000	-	-	-	
TOTAL RECAP						70,000	-	212,000	630,000	842,00

PROYECTOS A CARGO DE SUPRO

GUATEMALA

Country / Borrower	Project Activity	Condition of Project	Evaluation by CABEI	Result of Evaluations	Actions to be Taken	Evaluations and/or Appraisal On the Part of CABEI	Type of Assistance	Cost of Experts *	Costs of Studies and/or Rehabilitation Plans	TOT.
Inversiones Unidas	Sold Adjudicated Lands	Normal	-	-	-	-	-	-	-	-
Industrias del Atlántico	Sold Adjudicated Lands	Normal	-	-	-	-	-	-	-	
Alimentos y Conservas Ana Belly	Fruit Juices and Nectars	Problematic	Incomplete	Rehabilitable	Complete Eval.	3,000	-	-	-	
Jesús Hernández y Cía.	Sold Adjudicated Lands	Problematic	Carried out	Collect Balance	Collecting	-	-	-	-	
EXMIBAL	Nickel Production	Problematic	Carried out	Collect Balance	Collecting	-	-	-	-	-
FIGSA	Financial Institution	Normal	-	-	-	-	-	-	-	-
Banco de Guatemala	Rural Enterprises	Normal	-	-	-	-	-	-	-	-
Banco del Café	Bank Services	Normal	-	-	-	-	-	-	-	-
FENACOAC	Credit to Cooperatives	Normal	-	-	-	-	-	-	-	-
FECOMERQ	Credit to Cooperatives	Problematic	-	-	-	-	-	-	-	-

EL SALVADOR

Country / Borrower	Project Activity	Condition of Project	Evaluation by CABEI	Result of Evaluations	Actions to be Taken	Evaluations and/or Appraisal On the Part of CABEI	Type of Assistance	Cost of Experts *	Costs of Studies and/or Rehabilitation Plans	TOT.
Almacenadora Centroam.	Warehouses	Normal	-	-	-	-	-	-	-	-
Cartotécnica Centroam.	Paper and Cardboard	Normal	-	-	-	-	-	-	-	-
Muebles Metálicos Prado	Home Appliances, Furniture	Problematic	Carried out	Proy. Normal	-	-	-	-	-	-
Implet. Agrícolas Centroam.	Agricultural Tools	Problematic	Carried out	Proy. Normal	-	-	-	-	-	-
Banco Desarrollo e Inver.	Credit Services	Normal	-	-	-	-	-	-	-	-
Federación de Cajas de Crédito	Credit Services	Normal	-	-	-	-	-	-	-	-
Bco. Fomento Agropecuario	Rural Enterprises	Normal	-	-	-	-	-	-	-	-
Financiera Salvadoreña	Credit Services	Normal	-	-	-	-	-	-	-	-
Federación Asoc. de Ahorro y Crédito	Credit Services	Problematic	Incomplete	-	Complete Eval.	3,000	-	-	-	

untry Borrower	Project Activity	Condition of Project	Evaluation by CABEI to determine rehabilitation factor of assets to be carried out	Result of Evaluations	Actions to be Taken	Evaluations and/or Appraisal On the Part of CABEI	Type of Assistance	Cost of Experts *	Costs of Studies and/or Rehabilitation Plans	TOTAL
IDURAS										
mil Bruno Falck C.	Sold Adjudicated Lands	Normal	-	-	-	-	-	-	-	-
aribbean Freight Lines	Sold Adjudicated Lands	Normal	-	-	-	-	-	-	-	-
acional de Envases	Cardboard and Plastic Cart.	Problematic	Incomplete	Rehabilitable	Complete Eval.	4,000	-	-	-	-
extiles de Honduras	Textile Industry	Problematic	Carried out	Rehabilitable	Rehab. Plan	-	-	-	-	-
ía. General Hotelera	Hotel Services	Problematic	Carried out	Rehabilitable	Assistance and Rehab. Plan	42,400 **	Marketing/Admon. Original Financing Hotel Expert	42,400 **	50,000 **	92,400
ementos de Honduras	Cement Production	Problematic	Carried out	Rehabilitable	Rehab. Plan	-	-	-	200,000 **	200,000
zucarera Central	Sugar Industry	Problematic	Carried out	Rehabilitable	Rehab. Plan	-	-	-	125,000	125,000
ANCAHSA	Bank Services	Normal	-	-	-	-	-	-	-	-
ederación de Cajas de rédito	Financing Corporation	Problematic	Incomplete	-	Complete Eval.	5,000	-	-	-	-
orpor. Nac. de Inversiones	Financing Services	Problematic	-	-	-	-	-	-	-	-
anco Nac. de Des. Agrícola	Agr. Financing Services	Problematic	-	-	-	-	-	-	-	-
STA RICA										
COOPESA	Planes Maintenance	Normal	-	-	-	-	-	-	-	-
TALMANA	Sold Adjudicated Land	Normal	-	-	-	-	-	-	-	-
otelera Corobicí, Cariari	Hotel Se vices	Normal	-	-	-	-	-	-	-	-
ANDMARK, S.A.	Hotel Services	Problematic	Carried out	Rehabilitable	Assit. Oper.	- 53,000	Marketing/Admon. Original Financing (Hotel Expert)	53,000	-	53,000
Azucarera Guanacaste	Sugar Industry	Problematic	Carried out	Rehabilitable	Rehab. Plan	-	-	-	100,000	100,000
Banco Central	Agroindustries	Normal	-	-	-	-	-	-	-	-
Banco Central	Agroindustries	Normal	-	-	-	-	-	-	-	-
Banco Crédito Agric.							-	-	-	-

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Country	Borrower	Project Activity	Condition of Project	Evaluation by CABEI to deter- mine rehabili- tation factor of assets to be carried out	Result of Evaluations	Actions to be Taken	Evaluations and/or Appraisal On the Part of CABEI	Type of Assistance	Cost of Experts *	Costs of Studies and/or Rehabilita- tion Plans	T
Cartago		Creditor's Purchase	Normal	-	-	-	-	-	-	-	
INFOCOOP		Agroindustries	Problematic	Incomplete	-	Complete Eval.	3,000	-	-	-	
COFISA		Bank Services	Problematic	-	-	-	-				
			TOTAL SUPRO				31,000		116,600	575,000	691.
			GRAND TOTAL (SUPRO + RECAP)				101,000		328,600 1/	1,205,000	1,533.

* Expert costs were estimated considering monthly salari ($US6,000) plus travel expenses and perdiem ($US2,600 each month).
Study costs were estimated according to the project magnitude and the complexity of its operations.

** Expert's work on rehabilitation to be implemented during the period from July/85 to June/86.

1/ Total costs include CABEI financing of $ 84,800 for short-term assistance for private sector loans in Nicaragua.

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