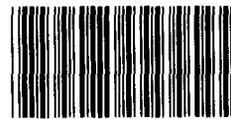


May 1991

AID TO NICARAGUA

Status of U.S. Assistance to the Democratically Elected Government



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-243559

May 1, 1991

The Honorable Robert C. Byrd
Chairman, Committee on Appropriations
United States Senate

The Honorable Claiborne Pell
Chairman, Committee on Foreign Relations
United States Senate

The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives

The Honorable Dante B. Fascell
Chairman, Committee on Foreign Affairs
House of Representatives

In March 1990 the administration advised the Congress that immediate U.S. assistance was needed to support the efforts of the new government of Nicaragua to deal with its inherited problems of hyperinflation, high unemployment, low productivity, and a weakened agricultural sector if the country's transition to democracy was to succeed. Some project funding and food aid were immediately provided, and on May 25, 1990, the Congress provided \$300 million through the Dire Emergency Supplemental Appropriations Act of 1990 (P.L. 101-302). The Agency for International Development (AID) budgeted these funds to three areas: cash transfer programs, development projects, and international programs for repatriation and resettlement. The legislation requires that we report by January 15, 1992, on the effectiveness of this assistance. As requested, we are providing this interim report on the status of the programs and projects funded through this appropriation.¹

Results in Brief

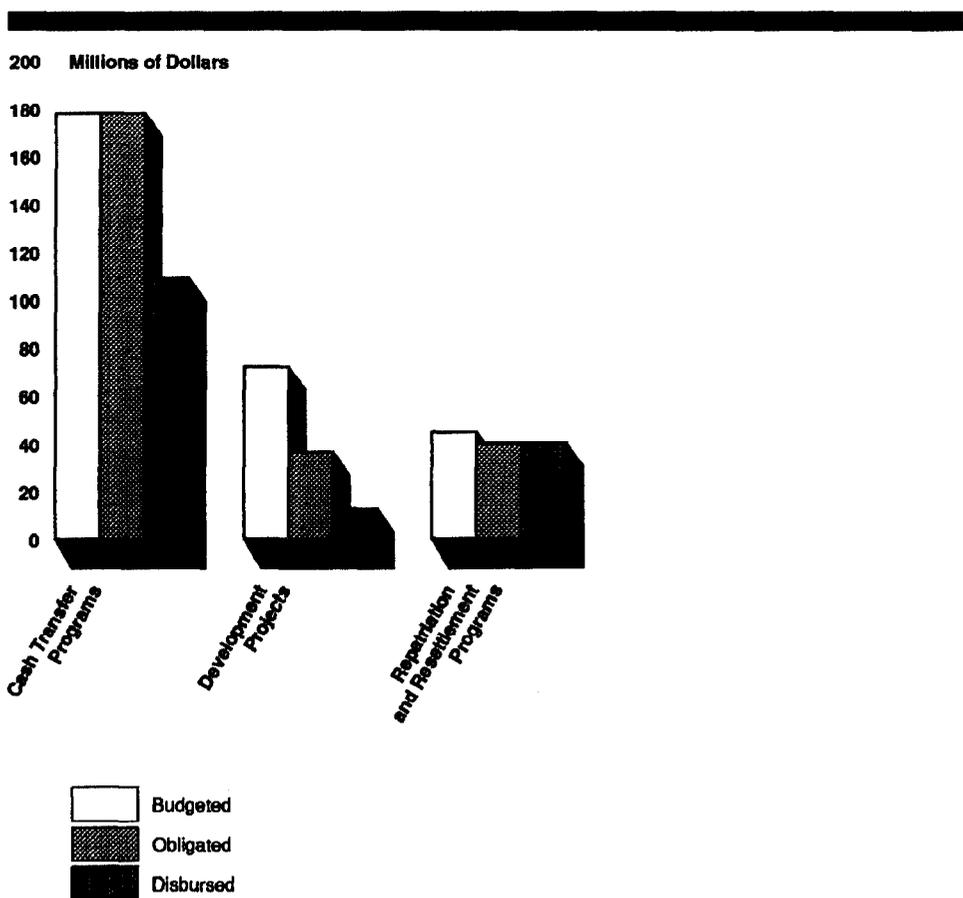
The U.S. assistance program has been directed toward (1) encouraging the new Nicaraguan government to seek long-term economic recovery by reforming its economic policies, (2) helping to meet Nicaragua's immediate foreign exchange and commodity import needs, (3) developing projects to address longer-term development needs, and (4) helping to

¹We are issuing a separate report on the effectiveness of international programs to repatriate and resettle former members of the Nicaraguan Resistance and their dependents, which were largely funded through this appropriation.

repatriate and resettle refugees and former Nicaraguan Resistance members, commonly known as Contras, and their dependents.

Despite streamlining the development of its early programs and projects, AID has disbursed only about half the funds budgeted. Unexpected legal, political, and other problems impeded the government of Nicaragua's ability to meet some preconditions for receiving U.S. funds. Of the \$300 million appropriated, AID had obligated \$256.8 million and disbursed \$163.1 million as of March 31, 1991. Figure 1 shows a breakdown of these amounts for the three main budget areas.

Figure 1: Status of Dire Emergency Funds for Nicaragua



Note: Figures are as of March 31, 1991, and do not include \$5 million budgeted for AID operating expenses.

Source: AID mission in Nicaragua.

Officials of the U.S. and Nicaraguan governments and the Inter-American Development Bank we spoke with believed that the U.S. assistance was critical to the Nicaraguan government's survival during its first year in office. Because U.S. programs and projects were still in their early stages, we were not able to assess their effects on the Nicaraguan economy. However, a group of bilateral donors and international organizations meeting in late March 1991 to explore ways to help Nicaragua clear its arrears to international financial institutions responded very favorably to a report on measures taken by the new government to combat hyperinflation and set the stage for a market-based economy. Some of these measures had been preconditions for receiving U.S. assistance.

U.S. Strategy for Nicaragua

Following the February 1990 election of President Violeta Chamorro, AID quickly developed its assistance program. Early projects were designed by AID staff in Washington and temporary duty personnel who began to arrive in Managua in March. These projects were generally simple in design and primarily involved large commodity purchases, such as textbooks, medicines, and food. Many of these projects were funded with \$14.8 million in pre-supplemental funds reprogrammed from other AID projects. In addition, the United States provided more than \$20 million of food aid. With the arrival of permanent AID staff in Managua and the infusion of funds from the Dire Emergency Act, AID began to develop longer-term economic strategies and define needed policy reforms.

During the first year, AID designed two cash transfer programs to address Nicaragua's immediate foreign exchange needs and to encourage the new government to undertake the reforms it had identified as necessary for economic recovery. By fulfilling the conditions for receiving U.S. funds, the government of Nicaragua will (1) address the underlying causes of inflation by reducing the fiscal deficit; (2) improve efficiency and competitiveness by removing state monopolies in the financial sector and foreign trade; and (3) reactivate the productive sectors by developing a regulatory framework for privatization. In addition, AID has directed first-year assistance to

- responding to requests for commodities, such as medicines and textbooks;
- creating jobs and vocational training courses for Nicaragua's many unemployed workers and young people;
- strengthening democratic values and institutions; and

- helping to repatriate and resettle refugees and former members of the Nicaraguan Resistance and their dependents.

A recent International Bank for Reconstruction and Development (World Bank) study, based on visits to Nicaragua in the second half of 1990, reported numerous corrective measures that the country needed to address. In addition to fiscal reforms, these measures included adopting new technologies for cotton, coffee, and basic grains; improving education; and improving the benefits of investments in the health sector by emphasizing preventive care. AID is designing projects that address many of these problems. For example, one project will strengthen the agricultural sector by supporting private agricultural associations in the areas of delivery of agricultural services, technology transfer, and identification of investment opportunities.

As of March 31, 1991, AID had initiated 2 cash transfer programs, had initiated or was designing 15 development projects, and had funded 2 international programs to resettle refugees and former Resistance members and their dependents. Appendix I shows the funds budgeted, obligated, and disbursed for each program and project, and appendixes II through IV describe each assistance effort in more detail.

For future projects in Nicaragua, AID is developing a 5-year country development strategy that will identify strategic objectives as well as performance indicators for evaluation purposes. According to AID officials in Nicaragua, the strategic planning document will be completed by October 1991.

Disbursement of U.S. Aid Slower Than Expected

Programs and projects to assist Nicaragua were developed quickly, but because of AID's 8-year absence from Nicaragua, initial planning was based on limited knowledge of the economic and social conditions there. Because AID believed that time was critical, it expanded regional projects already underway in other Central American countries to include Nicaragua, kept early program and project designs simple, and authorized reduced paperwork and liberal use of procurement waivers. It also decided not to require the government of Nicaragua to undertake policy reforms or other actions before receiving the first cash transfer payment of \$60 million.

Despite these efforts, only about half the budgeted funds have been disbursed. AID officials pointed out that AID had initiated or was designing

some multiyear projects, and the funds for these projects will be disbursed throughout project implementation. They also cited several problems that impeded the government of Nicaragua's ability to bring about policy reforms and initiate development activities, some of which were preconditions for receiving U.S. funds.

- The government experienced delays in developing and achieving a national consensus for its economic program, which was a prerequisite to receiving funds through AID's second cash transfer program.
- Extensive changes in Nicaraguan legislation and regulations were needed before policy reforms and other development activities could take place.
- Nicaraguan agencies needed time to establish adequate accounting and contracting mechanisms to control U.S. grant funds.

In addition, the development of projects had a slow start because of staffing problems encountered by AID as it reestablished its mission in Nicaragua. However, many of these start-up problems have been largely overcome, and AID is designing programs and projects that support longer-term economic development in Nicaragua.

U.S. Assistance Said to Play Critical Role in Helping Nicaraguan Government

According to the World Bank study, the government had successes as well as disappointments during its first 6 months in office. The study reported that, despite a number of corrective measures, the government had "not brought the fundamental causes of macroeconomic instability—the fiscal deficit and the highly expansionary credit policies—under control." As a result hyperinflation continued and the currency was overvalued, which contributed to ongoing instability, inhibited the return of expatriated capital, and handicapped the success of the recovery program.

Officials we spoke with at the U.S. Embassy, AID, the Nicaraguan government, and the Inter-American Development Bank believed that the U.S. aid played a critical role in keeping the new government afloat during a time of political and economic crisis. These officials said that the U.S. cash transfer program was proving to be a particularly valuable resource for the Nicaraguan government. They noted that it provided funds for urgently needed petroleum, had the flexibility to address changing problems, and provided incentives for undertaking difficult but essential economic reforms. However, they believed that U.S. assistance alone, even if it were disbursed quickly, would not be sufficient to resolve the social and economic problems facing Nicaragua. Significant

funds would be needed from other bilateral and multilateral donors, including the World Bank and the Inter-American Development Bank. However, neither of those institutions will make new financial commitments until Nicaragua clears its arrears to them.

Scope and Methodology

To determine the status of the U.S. assistance program, we interviewed officials and reviewed project documentation at the Department of State and AID in Washington, D.C.; Managua, Nicaragua; and at the Office of the AID Regional Inspector General in Tegucigalpa, Honduras. We also interviewed officials of the Nicaraguan government and other organizations receiving funds appropriated by the Dire Emergency Supplemental Appropriations Act of 1990. To obtain additional perspectives, we interviewed officials of the Inter-American Development Bank and the United Nations Development Program.

To obtain information on the status and control of funds, we reviewed financial documentation provided by AID. The scope of this report did not include an assessment of AID's management of these funds, but we have incorporated observations made by the AID Inspector General in a February 1991 report on the internal controls established by AID to manage its programs and projects in Nicaragua.

We conducted our review between July 1990 and March 1991 in accordance with generally accepted government auditing standards. As requested, we did not obtain written agency comments on this report. However, we discussed its contents with AID officials in Washington, D.C., and in Managua, Nicaragua. They generally agreed with the information in this report, and we incorporated their comments where appropriate.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of this letter. At that time, we will send copies to the Secretary of State and the Administrator of the Agency for International Development. We will also make copies available to other interested parties upon request.

Please call me on (202) 275-5790 if you or your staff have any questions. Major contributors to this report were Donald L. Patton, Assistant

Director; Dianne L. Rawl, Evaluator-in-Charge; and S. Sui-Ying Gantt,
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Harold J. Johnson
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Abbreviations

AID	Agency for International Development
GAO	General Accounting Office
INCAE	Instituto Centroamericano de Administracion de Empresas (Central American Institute for Business Administration)
INIFOM	Instituto Nacional de Fomento Municipal (National Institute for Promotion of Municipalities)
OAS	Organization of American States
UNHCR	United Nations High Commissioner for Refugees

Status of Dire Emergency Assistance for Nicaragua as of March 31, 1991

Dollars in millions			
Category of assistance	Budgeted	Obligated	Disbursed
Cash transfer programs			
Economic Stabilization and Recovery I	\$60.000	\$60.000	\$60.000
Economic Stabilization and Recovery II	118.000	118.000	49.000
Subtotal	178.000	178.000	109.000
Development projects			
Technical Assistance and Training	3.100	1.100	1.038
Program Development and Support	4.065	1.364	.271
Employment Generation	24.400	10.000	1.727
Public Sector Commodity Support	5.000	5.000	.063
Procurement of Medicines	1.500	1.450	0
Community Hospitals	2.500	2.500	.224
Textbooks	12.200	12.200	8.220
Vocational Training	1.700	1.700	.488
Democratic Initiatives			
Labor Union Support	.700	.700	.319
Media Support	.235	.235	.173
Strengthening Democratic Institutions	3.000	0	0
Private Voluntary Organizations Co-Financing	2.000	0	0
Natural Resources Management	8.000	0	0
Private Agricultural Services	1.600	0	0
Development Training and Support	2.000	0	0
Subtotal	72.000	36.249	12.523
International programs for repatriation and resettlement			
Repatriation and Resettlement of the Nicaraguan Resistance	30.000	30.000	30.000
Repatriation and Resettlement of Refugees	10.000	10.000	10.000
International Conference on Central American Refugees	5.000	0	0
Subtotal	45.000	40.000	40.000
AID operating expenses	5.000	2.546	1.598
Total	\$300.000	\$256.795	\$163.121

Source: AID mission in Nicaragua.

AID's Cash Transfer Programs

AID has implemented two cash transfer programs totalling \$178 million. The first program consisted of a single disbursement of \$60 million, which was used by the government of Nicaragua to finance imports of urgently needed commodities. In the other program AID will provide \$118 million in installments as the government of Nicaragua meets conditions established by AID. A total of \$68 million will be used to finance additional commodity imports, and one payment of \$50 million will be used to help clear Nicaragua's arrears with international financial institutions—arrears that totaled about \$350 million as of March 1991.

Two Programs Designed to Meet Different Needs of Nicaragua

AID decided to provide the funds through two programs because it believed that one disbursement of \$178 million might create an excessive inflow of short-term economic assistance, which could lower domestic prices and damage local producers. However, one relatively large disbursement was urgently needed to finance petroleum imports that had reached critically low levels. Thus, AID designed its first cash transfer program, Economic Stabilization and Recovery I, to facilitate the rapid disbursement of \$60 million.

Although it required the government of Nicaragua to take steps necessary to ensure accountability and control over these U.S. funds, AID did not require that the government undertake policy or economic reforms. However, in a special covenant that was not a precondition to the cash transfer, the Nicaraguan government agreed to prepare and initiate an economic program, which served as the basis for future balance-of-payments support grants.

AID designed its second cash transfer program, Economic Stabilization and Recovery II, to encourage the government of Nicaragua to develop a realistic economic recovery program and undertake reforms necessary to implement it. Actions AID sought included (1) the licensing of private financial institutions, (2) the licensing of private operators in foreign trade areas previously restricted to state-owned enterprises, and (3) the reduction of government expenditures through a program to encourage employees to resign from government jobs protected from involuntary dismissals.

Conditions Require Nicaragua to Ensure Control and Accountability

Although there are significant differences between the two programs, similarities also exist. Agreements for both programs require the government of Nicaragua to meet conditions designed to ensure control of and accountability for U.S. grant funds prior to the disbursement of funds. For example, the Central Bank of Nicaragua was required to

- open separate, non-commingled accounts in U.S. banks for each program and advise AID of the mechanisms by which funds would be withdrawn from these accounts;
- collect and maintain sufficient supporting documentation for each transaction to enable monitoring of the disbursements and to facilitate periodic reporting to AID on each disbursement; and
- agree to reimburse the special accounts for any funds that AID might determine were used inappropriately.

As these and other applicable conditions established by AID are met, AID instructs the U.S. Treasury to transfer the appropriate amount of U.S. currency to accounts opened by the Central Bank of Nicaragua at the Federal Reserve Bank of New York. With the exception of a \$50 million disbursement that will be used to help clear Nicaragua's arrears with international financial institutions, all funds deposited into the special accounts are withdrawn to finance import transactions approved by the Central Bank of Nicaragua.

Nicaraguan government agencies or government-owned enterprises and private sector importers submit applications to the Central Bank for the U.S. currency they need to import commodities. When the Central Bank approves a request, it prepares a letter of credit for the importer, which is sent with instructions specifying the commodities and prices approved to one of two Miami banks that have been chosen as corresponding banks. Funds are transferred from the Federal Reserve Bank of New York to one of the Miami banks to cover the letter of credit commitments. Exporters are paid through the designated Miami bank when the export transaction is completed. All funds in the Federal Reserve Bank of New York and the two Miami bank accounts earn interest that must be used for the purposes set forth in the cash transfer agreements.

Funds provided through both programs are available to finance imports of petroleum and its derivatives, raw materials, spare parts, intermediate and capital goods, and agricultural equipment and supplies (except pesticides). Funds cannot be used to finance military, paramilitary, or police requirements of any kind, and the source of the imports was

restricted to the United States, Central America, and selected oil-producing countries.

Funds Have Not Been Used as Initially Anticipated

When assistance for Nicaragua was initially requested, the administration did not know how the government of Nicaragua would allocate the \$128 million that the administration proposed for financing commodity imports. However, the State Department had some idea of how the funds would be used, and at a March 19, 1990, hearing before the Subcommittee on Foreign Operations, House Committee on Appropriations, a State Department official testified that the funds were expected to be used as follows:

- \$25 million would be spent on petroleum imports,
- \$30 million on agricultural inputs, and
- \$73 million on private sector production inputs.

The official testified that Nicaragua's potential for economic recovery was in its agricultural sector, which employs one-third of its labor force and is the source of two-thirds of its export earnings. He said that it was critically important that the first planting season under the new government go well, for both financial and political reasons. Nicaragua needed the foreign exchange from export earnings to buttress its macroeconomic reform package and to provide a means to pay for needed imports. The new government also needed to satisfy its primary constituency, the urban and rural poor, if it was to be a success.

Despite these expectations, the bilateral agreement for the \$60 million Economic Stabilization and Recovery I program set no limits on the amount of funds that could be used for any category of eligible purchases or on the amount that could be used by either public or private sector importers. According to its December 31, 1990, report, the Central Bank of Nicaragua had approved \$47.85 million for petroleum imports, \$8.76 million for private and public sector production inputs, and only \$771,000 for agricultural inputs. The balance included funds for transactions that had been disallowed by AID and needed to be reallocated by the Central Bank.

Nicaraguan officials told us that the unexpectedly large amount spent on petroleum products was due to increased oil prices, which added about \$10 million per month to Nicaragua's oil costs. We were also told that although there was less funding available for agricultural imports, there was limited demand for foreign exchange to import agricultural

inputs for a variety of reasons, including lack of credit. In addition, AID officials noted that the Congress did not pass the Dire Emergency Supplemental Appropriations Act until May 25, 1990, and although funds were disbursed to the government of Nicaragua in early June 1990, there was little time for producers to import commodities for the spring planting season.

Spending Guidelines for Second Cash

AID's concerns about the use of funds provided through Economic Stabilization and Recovery I prompted it to set controls on the use of funds provided for commodity imports through Economic Stabilization and

non for petroleum imports and allowed only private sector imports with the \$23 million balance. In addition, AID responded to requests from private sector importers and expanded the list of eligible commodities to include non-luxury consumer goods.

To address a major problem facing agricultural producers, the agreement for Economic Stabilization and Recovery II conditioned the disbursement of \$20 million of the \$68 million on the Nicaraguan government's licensing of private traders in foreign trade activities previously restricted to state-owned enterprises. In addition, AID officials have advised us that a third cash transfer program, using fiscal year 1991 appropriations, is being designed to, among other things, strengthen the Central Bank so that it can provide increased credit to the productive sectors, including the agricultural sector.

Although a variety of commodities could be purchased with funds provided through Economic Stabilization and Recovery II, most of the first disbursement of \$20 million was again used for petroleum imports. As of December 31, 1990, the Central Bank had transferred all but about \$9,900 of the \$20 million disbursement to the two Miami banks to fund approved letters of credit. The Central Bank approved \$16.83 million for petroleum imports, \$3.12 million for private sector production inputs, and only \$11,000 for agricultural inputs.

Control of Funds

AID's oversight of both cash transfer programs appeared to be adequate. We found that AID mission staff, working closely with auditors from AID's Office of the Regional Inspector General and a certified public accounting firm supervised by the Regional Inspector General, have taken a number of actions to ensure that the U.S. funds are controlled and used as intended.

- In May 1990, before signing the first cash transfer agreement, AID controller staff reviewed the internal controls of the Central Bank of Nicaragua and determined that it had adequate procedures in place to manage and account for the cash transfers.
- In September 1990, staff from the AID controller's office in Honduras reviewed program-related operations of the Central Bank and the government's petroleum importing processes.
- On February 8, 1991, the AID Inspector General issued the first of several reports required by the Dire Emergency Supplemental Appropriations Act of 1990 covering its review of program- and project-specific internal controls.
- Auditors from the accounting firm Price Waterhouse, under contract to and supervised by the AID Regional Inspector General, reviewed every import transaction initiated prior to November 30, 1990, to determine its eligibility under the terms of the cash transfer agreements and to bring discrepancies to AID's attention.
- Staff from the AID controller's office in Managua periodically reviewed Central Bank operations and import transactions approved by the Central Bank and disallowed those found to be ineligible.

As of December 31, 1990, on the basis of reviews of supporting documentation, AID had disallowed import transactions totalling more than \$8.38 million, including \$4 million in petroleum imports, which the AID controller's office determined had been provided to the Nicaraguan military, contrary to the prohibitions on such use in both program agreements. Disallowed transactions also included imports of herbicides and foreign-made vehicles. Under the terms of both program agreements, the Central Bank must reimburse the special account for all disallowed transactions.

Economic Stabilization and Recovery I (No. 524-0300)

Amount Budgeted: \$60 million
Amount Obligated: \$60 million
Amount Disbursed: \$60 million

AID and the government of Nicaragua signed an agreement on May 31, 1990, setting the terms of the cash transfer. AID determined on June 1, 1990, that the government of Nicaragua had met the conditions necessary for disbursement and authorized the U.S. Treasury to transfer \$60 million to a special account opened by the Central Bank of Nicaragua with the Federal Reserve Bank of New York.

AID officials told us that they had expected the import process to move faster than it actually did. For example, an AID report disclosed that as of September 3, 1990, import transactions totaling \$36.7 million had been approved by the Central Bank, but only \$11.8 million had actually been transferred to the Miami banks to cover letters of credit. AID attributed this to start-up problems in the Central Bank and to delays experienced by Nicaraguan importers in finding eligible sources for the commodities they wanted to import and in reestablishing business relationships in the United States.

After overcoming these initial problems, funds were withdrawn from the special account more quickly. As of December 31, 1990, only \$11,000 remained uncommitted in the special account in the Federal Reserve Bank of New York.

Economic Stabilization and Recovery II (No. 524-0311)

Amount Budgeted: \$118 million
Amount Obligated: \$118 million
Amount Disbursed: \$49 million

A bilateral agreement, signed on September 26, 1990, set out the terms and conditions for disbursing grant funds. AID authorized the disbursement of \$20 million to the government of Nicaragua on November 30, 1990, following receipt of the government of Nicaragua's economic stabilization and recovery program and AID's determination that the program would achieve its stated objectives. The agreement was amended on January 21, 1991, to provide that future disbursements would be made as follows:

- AID would disburse \$24 million after it received satisfactory evidence (1) of progress toward achieving the fiscal and monetary targets set forth in the economic program and (2) that private operators had been licensed for foreign trade activities that were previously the exclusive province of state-owned enterprises. The amendment did not change the conditions but updated the text of the agreement to reflect the most recent economic program submitted by the government of Nicaragua to donors attending a Consultative Group meeting in Paris on December 3,

1990.¹ AID determined that these conditions had been met and disbursed these funds in February 1991.

- AID would disburse another \$4 million after it received evidence that the government of Nicaragua had made substantial progress toward (1) achieving the remaining fiscal and monetary targets of its December 1990 economic plan and (2) licensing privately-owned, non-bank financial intermediaries. The government was also required to establish a regulatory framework for the privatization of state-owned enterprises. The January 1991 amendment reduced the amount that AID would disburse upon fulfillment of these conditions from \$24 million to \$4 million. The \$4 million had not been disbursed as of March 31, 1991.
- AID established new conditions for disbursing the remainder of \$20 million to accommodate the government of Nicaragua's urgent need for funds to finance programs that encourage the voluntary separation of employees from the public sector. It was hoped that the new conditions could be fulfilled quickly, as it was taking the government longer than expected to meet the original conditions. The amended agreement stated that \$20 million would be disbursed in four installments: \$5 million upon AID's receipt of a written commitment from the government of Nicaragua to reduce public sector employment by 15,000 employees over a mutually agreed 6-month period; \$5 million upon receipt of evidence that 2,500 civilian employees had left the public sector and that total public sector civilian employment had declined by a corresponding number; \$5 million upon receipt of evidence that a total of 5,000 civilian employees had left the public sector and that total public sector civilian employment had declined by a corresponding number; and \$5 million upon receipt of evidence that a total of 7,500 civilian employees had left the public sector and that total public civilian employment had declined by a corresponding number. AID made the first disbursement of \$5 million in January 1991.
- AID would disburse \$50 million upon receipt from the government of Nicaragua of a comprehensive and workable plan to clear all its arrears with international banks. This condition was not changed in the amended agreement.

In a separate covenant that was not a condition to any disbursements, the government of Nicaragua also agreed to provide upon request from

¹The Consultative Group is a mechanism through which interested donors and international organizations meet to review Nicaragua's economic development plans and progress, help Nicaragua obtain sufficient resources to clear its arrears, and develop strategies for debt reduction and restructuring. Members include the United States, Canada, Japan, Sweden, Norway, Finland, France, Spain, Italy, Germany, Denmark, the Netherlands, the European Community, the International Monetary Fund, the Inter-American Development Bank, and the World Bank.

AID the equivalent of \$5 million in local currency to be held in trust and used to help defray AID's in-country operating expenses.

Disbursements Have Been Slower Than Expected

As of March 31, 1991, AID had made three disbursements totaling \$49 million through this program, depositing the funds into a separate account opened by the Central Bank of Nicaragua in the Federal Reserve Bank of New York. AID officials told us that the funds had been disbursed slower than expected because the government of Nicaragua had taken longer than expected to meet the conditions established for the disbursements. For example, AID officials said that they had been prepared to make a rapid disbursement of \$20 million after signing the agreement for the second cash transfer program in late September 1990, upon receipt of the government of Nicaragua's economic stabilization and recovery program, and upon determining that the program would achieve its stated objectives. These officials told us that this disbursement was delayed when the Chamorro government unexpectedly decided to present its proposed economic program to a national forum for review and approval. The process took more than 30 days to complete.

AID officials could not predict when the government of Nicaragua might meet the conditions for the remaining disbursements because compliance depends in part on the actions of individuals or organizations outside the government. For example, the government's plan to encourage employees to voluntarily resign their government positions may be affected by a major devaluation of the Nicaraguan currency that occurred on March 3, 1991. The uncertainties created by the devaluation might cause employees to hold onto their jobs.

In addition, the government cannot finalize a plan for clearing its arrears to the World Bank and the Inter-American Development Bank until donors pledge the funds it needs, about \$350 million as of March 1991. In late March 1991 representatives from 15 countries and 6 international organizations met to discuss this issue. The World Bank reported that the Nicaraguan delegation described the measures taken by the government, particularly a package of reforms announced on March 3, 1991, which included a 400 percent devaluation of the gold cordoba, cessation of Central Bank credit to finance government deficits, reductions in government expenditures, and tax reforms. According to the World Bank, the donor community responded favorably to this reform program. The International Monetary Fund indicated support and continuing commitment to work with the government to monitor the

implementation of the plan, leading to a stand-by agreement once arrears to international financial institutions have been cleared. The World Bank reported further that it will work in close cooperation with the International Monetary Fund, the Inter-American Development Bank, and interested donors to put in place a firm plan for clearing Nicaragua's arrears in the next few months. A formal meeting to conclude fund-raising and preparation of a detailed plan was scheduled for mid-May 1991.

In early December 1990, we spoke with several Nicaraguan officials about the pace of disbursements. They did not dispute the merits of the conditions negotiated with AID; however, they believed that the conditions would take many months to meet and, in the interim, Nicaragua urgently needed a more rapid infusion of funds to finance production inputs. AID officials agreed that it was taking longer than expected for the government to meet the conditions but disagreed that the conditions were too stringent. These officials pointed out that the reforms contained in the agreement were ones that the government of Nicaragua included in its own economic recovery plan.

AID's Development Projects

Of the \$300 million appropriated for Nicaragua, AID budgeted \$72 million for 15 development projects. As of March 31, 1991, AID had obligated \$36.2 million of this amount and had disbursed \$12.5 million to the government of Nicaragua and other recipients. A discussion of each development project follows.

Technical Assistance and Training (No. 524-0301.01)

Amount Budgeted: \$3.1 million
Amount Obligated: \$1.1 million
Amount Disbursed: \$1.038 million

This project is designed to provide officials in the new Nicaraguan government with access to economic and public planning expertise. Consultants and information are provided through the Instituto Centroamericano de Administracion de Empresas (INCAE), a business management school based in San Jose, Costa Rica, with branches throughout Central America, including Nicaragua. Ministries in the Nicaraguan Economic Cabinet receive technical expertise through this grant by submitting a proposal to INCAE requesting the services of a consultant, selected from either INCAE's staff or other sources. To help the government recruit highly capable nationals who left the country or public service during the Sandinista administration, many consultants are expected to be Nicaraguans. A management committee, with members from AID, INCAE, and the government of Nicaragua, reviews and approves the requests. INCAE then hires the consultants for periods not to exceed 1 year.

Using grant funds, INCAE also sponsors workshops and seminars designed to enhance the understanding of both public and private sector officials of the constraints facing Nicaragua's economic and social development. Workshop and seminar topics cover subjects related to the government's economic program, such as privatization, development of nontraditional exports, and foreign and domestic private investment. Training is aimed at improving participants' skills in management, economic analysis, and related fields, within the framework of a market-oriented economy.

Status of Project

AID and INCAE signed a \$1.1 million grant agreement on June 4, 1990, less than 2 weeks after the passage of the Dire Emergency Supplemental Appropriations Act. Rapid implementation was possible, in part, because of AID's decision to waive competition in funding the unsolicited proposal submitted by INCAE. The waiver was based on INCAE's unique

position as the predominant school of higher learning in Nicaragua, its existing business and economic resources, its close relationship with the new administration, and its past experience in sponsoring the type of training and seminars envisioned in the grant agreement. In addition, this was one of seven projects that AID grouped into a program of immediate impact activities. AID authorized streamlined project design documentation for these projects in recognition of their political nature and/or timing requirements.

As of late February 1991, INCAE had placed 16 senior technical advisors in the Ministry of Economy and Development, the Central Bank, and other key institutions. AID reported that these advisors had, among other accomplishments, analyzed methods to privatize transportation, developed laws and designed an institution for export promotion, and reestablished procedures for maintaining national accounts. In addition, INCAE had sponsored nine seminars, with more than 800 participants.

The mission is considering a \$2 million increase and an extension of

assistance available to additional government sectors and develop a policy "think tank" to provide the public and private sectors with short- and medium-term assistance in defining and implementing the government's new economic program.

Prior to awarding the original grant, AID financial officials reviewed INCAE's accounting and internal control systems and determined that although INCAE was technically bankrupt, its systems were adequate to account for AID funds. However, in a report issued in February 1991, the AID Regional Inspector General found that INCAE had not reported the interest it had earned on AID funds. INCAE has since returned these earnings to AID.

**Program Development
and Support
(No. 524-0301.02)**

Amount Budgeted: \$4.065 million
Amount Obligated: \$1.364 million
Amount Disbursed: \$270,516

This umbrella project finances activities that are related to the identification, design, support, and evaluation of programs or projects, but that cannot be easily charged to an individual program or project. These activities include, for example, feasibility studies, sector assessments, or special studies that lead to a better understanding of technical or institutional constraints.

Status of Project

Funds have been spent for a variety of purposes, including

- \$22,200 for a preliminary analysis of Nicaragua's 1987 Constitution, identifying governmental and political weaknesses that impede social and economic progress and prevent full economic development;
- \$99,271 for an assessment of vocational and technical skills training needs in Nicaragua;
- \$66,000 for a contractor to assess the development needs of Nicaragua's Caribbean coast areas;
- \$47,000 for non-federal audit services; and
- \$15,000 for a pre-award review of a potential grant recipient.

Employment
Generation
(No. 524-0301.03)

Amount Budgeted: \$24.400 million
Amount Obligated: \$10.000 million
Amount Disbursed: \$1.727 million

This 2-year public works project will provide temporary jobs to some of Nicaragua's unemployed and underemployed work force. Jobs will be created to repair and rehabilitate severely deteriorated urban infrastructure, such as streets, sewers, schools, and municipal markets. At least 40 percent of the resources spent on projects in any municipality must be spent for labor. The project is expected to generate at least 20,000 temporary jobs, with approximately 1,500 people working at any one time.

The project is being implemented by the Instituto Nacional de Fomento Municipal (INIFOM), a branch of the Ministry of the Presidency. Municipalities submit construction proposals and budgets to INIFOM for technical review and approval and arrange for contracting local firms. By using private sector firms, the project is expected to assist Nicaragua's neglected construction and associated industries.

Because of INIFOM's inexperience in managing this type of operation and the demands placed on its administrative and logistical systems, the grant agreement provided that, with the exception of funds spent for AID contractors, no funds would be disbursed until AID had received and approved detailed financial and contracting procedures for INIFOM.

Status of Project

AID and the government of Nicaragua signed a 2-year, \$10 million grant agreement on September 19, 1990. As of March 1991, an additional \$14.4 million was budgeted for the project. The Employment Generation

project is one of several immediate impact activities for which AID authorized streamlined project paperwork.

Because INIFOM needed assistance to establish the financial control systems required by AID, AID decided to hire a certified public accounting firm to undertake this project. After unsuccessfully soliciting bids from several firms in Nicaragua, it widened its search to other Central American countries and finally signed a contract with Arthur Andersen & Company on December 2, 1990. AID also contracted for the services of a Nicaraguan architectural and engineering firm to help INIFOM review proposals, solicit and award contracts, and inspect completed projects.

On December 28, 1990, AID acknowledged receipt of satisfactory interim financial, accounting, and contracting procedures from INIFOM. On that same day, AID waived competitive procurement requirements for six road improvement projects that were ready to begin immediately. This cleared the way for the first disbursement of \$1.5 million to INIFOM on January 11, 1991. Future disbursements of funds are contingent upon the establishment of permanent financial and contracting procedures, which Arthur Andersen is now helping INIFOM to develop. Price Waterhouse, a certified public accounting firm contracted and supervised by the AID Regional Inspector General, is responsible for auditing this project.

**Public Sector
Commodity Support
(No. 524-0301.04)**

Amount Budgeted: \$5 million
Amount Obligated: \$5 million
Amount Disbursed: \$62,610

This grant will provide more than 20 government ministries and institutions with communications and office equipment, supplies, and vehicles urgently needed for daily operations. The new government found that offices had been stripped by members of the outgoing administration of equipment, furniture, air conditioners, vehicles, and supplies. AID and Nicaraguan officials believed that the lack of equipment would seriously constrain the government's ability to provide public services efficiently and effectively.

The Ministry of the Presidency is responsible for soliciting commodity needs requests from other government ministries and institutions, ranking the requests in priority, and deciding the final allocation of the equipment and supplies. Concerns about the new government's ability to control the commodities prompted AID to contract (1) a U.S. procurement

services agent to purchase the approved commodities and review the commodity control systems of the participating ministries and agencies and (2) a project manager to monitor project activities.

The source and origin of all commodities are limited to the United States, Nicaragua, and the Central American Common Market. AID plans to request an ocean transportation waiver to use other than U.S. vessels because it has determined that U.S. ships do not regularly serve Nicaraguan ports.

Status of Project

AID and the government of Nicaragua signed a grant agreement on September 25, 1990. The project was designated an immediate impact activity, for which AID took special actions to speed project implementation, including authorizing streamlined project design documentation. AID also waived the normal advertising requirements in favor of a more generalized announcement seeking proposals and expressions of interest from a reasonable number of potential vendors and suppliers, which helped speed the award process once the procurement services agent was contracted.

Despite efforts to hasten the design and implementation of the project, it is behind schedule. It took longer than expected for the government of Nicaragua to meet the preconditions set out in the project agreement and prepare its commodity lists and for the Small Business Administration to approve the contract for the procurement services agent. The AID project officer expected the first commodities to arrive by the end of April 1991 and all the commodities to arrive by June 1991.

In its February 1991 report, the AID Regional Inspector General noted no apparent weaknesses in the internal control systems established for this project.

Procurement of Medicines (Nos. 524-0301.05 and 524-0301.21)

Amount Budgeted: \$1.50 million
Amount Obligated: \$1.45 million
Amount Disbursed: 0

Through this project, AID will provide urgently needed pharmaceutical and medical supplies and equipment to Nicaragua and assess the needs of its health care delivery systems. The implementing agency is the U.S. Public Health Service, which is responsible for (1) determining the assistance that Nicaragua requires and is able to receive, store, distribute

and use and (2) purchasing approved items and delivering them to the Nicaraguan Ministry of Health.

This project is an expansion of a \$2.5 million interagency agreement between AID and the Public Health Service, financed with pre-supplemental funds and signed on May 10, 1990, before the passage of the Dire Emergency Supplemental Appropriations Act. On February 19, 1991, an amendment to this project was signed providing \$1.45 million of Dire Emergency Act funds. AID budgeted \$50,000 under a different project number because it expected to use the funds for a separate health-related project; however, this decision is being reviewed, and AID expects to add these funds to the ongoing project.

AID entered into the May 1990 agreement with the Public Health Service after determining that no private source could obtain and deliver the pharmaceutical and medical supplies within the short time frame it considered necessary. The Public Health Service's Office of Emergency Preparedness had the necessary technical experts to conduct the needs assessment and a medical supply depot from which the supplies could be drawn.

Status of Project

Shipments of medicines and other supplies purchased with pre-supplemental funds have been delivered. As of March 31, 1991, no funds had been disbursed under the February 19, 1991, amendment.

On October 11, 1990, the AID Regional Inspector General wrote AID expressing concern over the security and distribution of the AID-funded pharmaceutical supplies. This concern was based on reports that the distribution of medical donations from other donors had been mismanaged. As a result, AID and the Ministry of Health signed a memorandum of understanding, dated November 7, 1990, which set forth each party's responsibility for controlling AID-financed commodities.

Community Hospitals (No. 524-0301.22)

Amount Budgeted: \$2.5 million
Amount Obligated: \$2.5 million
Amount Disbursed: \$223,534

This project is designed to help restore Nicaragua's health care systems and decrease morbidity and mortality in children under the age of 15 and pregnant women by revitalizing the emergency, pediatric, and

delivery services and the clinical laboratories of four community hospitals in rural areas affected by the civil war. Although the project focuses on maternal-child health care, it will also benefit the community at large by providing urgently needed medical and pharmaceutical supplies, equipment, and technical assistance for all patients. Project funds will provide the four hospitals with

- essential medicines, medical supplies, and basic equipment;
- short-term surgical teams and other specialists in areas such as pediatric surgery; and
- continuing education and professional support for selected staff to study in Managua.

AID awarded a 2-year cooperative agreement to Project Hope, a private voluntary organization, to undertake these activities. Project Hope has also entered into a 5-year cooperative agreement with the Nicaraguan Ministry of Health, where it has established an office. The Ministry of Health participated in the development of the AID-funded project.

Before submitting its proposal to AID, Project Hope assessed the need for medicines, medical supplies, and equipment for the four hospitals. It then developed lists of supplies and basic equipment to be purchased and hired a manager to oversee the receipt, storage, and distribution of these materials.

Status of Project

The cooperative agreement between Project Hope and AID was effective August 31, 1990. Since that time, Project Hope officials have concentrated on organizing the program and administrative support system to increase the speed of program implementation and promote effectiveness. They have streamlined the logistical process for receiving medicines, hospital supplies, and equipment and have produced a procedures manual. An automated system to manage information is being designed to increase control and facilitate reporting. Acquisition of medicines and materials for the hospitals has begun, and local specialists and volunteer physicians, nurses, and other specialists from the United States and Central America are being recruited to work with Nicaraguan counterparts.

AID participates closely in the project's implementation, and project expenditures will be audited by Price Waterhouse, a certified public accounting firm contracted by the AID Regional Inspector General for that purpose.

**Textbooks
(No. 524-0301.23)**

Amount Budgeted: \$12.200 million
Amount Obligated: \$12.200 million
Amount Disbursed: \$ 8.220 million

The main purpose of this project is to replace schoolbooks currently used in Nicaragua's primary and secondary schools with pedagogically sound, politically neutral ones. Procurement of new textbooks was viewed as a top priority by the new government, and the Ministry of Education requested AID's assistance. Rather than designing a new project for this purpose, AID added funds to an existing regional project established to make university textbooks available to Central American students at affordable prices. AID also expanded the regional project to include a feasibility study to determine whether the university program could be implemented in Nicaragua.

Status of Project

AID's 1986 contract with Aguirre International, of San Mateo, California, was amended without competition, effective June 8, 1990, to add \$5.2 million to buy up to 4 million primary school textbooks and pay for the feasibility study. A second noncompetitive amendment was effective on September 13, 1990, adding \$7 million to buy up to 1.3 million secondary school textbooks. All books were to be delivered by early March 1991, the beginning of the school year in Nicaragua.

AID waived competitive procurement procedures on the basis that competition would add at least 6 months to the procurement process and that rapid delivery of the textbooks would facilitate the U.S. objective of providing immediate, tangible support to the new government. Because AID believed that Spanish-language textbooks would not be available from U.S. sources in the desired time frame, which was considered critical, it waived source, origin, and nationality restrictions. This allowed Aguirre International to procure texts from Latin American publishing companies.

Committees appointed by the Nicaraguan Ministry of Education selected the textbooks from an assortment of Spanish-language textbooks published in a variety of Latin American countries. The committees then requested that publishers modify the books to make them more "Nicaraguan"; for example, illustrations of children wearing long-sleeved shirts were changed to short sleeves to reflect Nicaragua's warm climate, and fruits and vegetables were given their common Nicaraguan names.

Because of the political sensitivity of the project, AID waived its normal marking requirements. As a result, there is no indication on the books that they are gifts from the United States. However, the project has attracted positive publicity for AID. Nicaraguan newspapers, radio, and television have featured stories on the project, and President Chamorro appeared at a public ceremony with the Minister of Education, the contractor, and the AID mission director to accept the first copies of the schoolbooks.

AID's contractor negotiated advantageous prices for the purchase of the textbooks; as a result, AID was able to purchase 7.6 million textbooks instead of the 5.3 million originally expected. Within the original budget, the contractor also created new civic texts for grades two through six and a new series of primary-level mathematics textbooks; provided dictionaries in Spanish and Spanish/English; and developed a computerized registry of Nicaragua's schools, students, teachers, and teacher profiles.

Less than 2 months after the signing of the textbooks contract, a special shipment of 270,000 reading books for grades two and three was delivered in time for the second semester of the 1990 school year, which began in July. As of January 31, 1991, more than 1,000 teachers had attended training seminars, and the computerized school population data base had brought 12 to 15 previously unknown schools to the attention of the Ministry of Education. As of March 31, 1991, 6.58 million primary and secondary school texts had arrived in Nicaragua. The remaining books were expected to be delivered by the end of April 1991.

A system, managed by the contractor's program manager in Nicaragua and a certified public accounting firm, was set up to control the textbooks from their shipment by the publisher to delivery to their final destination. AID's Regional Inspector General reviewed this system and found no apparent weaknesses.

Vocational Training (No. 524-0310)

Amount Budgeted: \$1.7 million
Amount Obligated: \$1.7 million
Amount Disbursed: \$487,669

This 30-month project will provide short-term vocational training to about 7,370 young Nicaraguans in areas such as masonry, carpentry, computers, office work, sewing and tailoring, and electricity. Graduates will qualify for jobs as assistants in these trades, and up to 60 percent of the graduates will receive job placement assistance. The project calls for

all students to receive training in civic and moral values and for 50 percent of all students to be women.

The project is being implemented by the Salesian Missions, a private voluntary organization that has administered educational programs in Nicaragua since 1912. The grant provides funds for tools, equipment, repair and upgrading of workshops, salaries of instructors and other personnel, and operating and administrative costs. The Salesian Missions has agreed to make cash and in-kind contributions of more than \$600,000.

Status of Project

AID awarded the grant on September 28, 1990, as a result of an unsolicited proposal submitted by the Salesian Missions on August 20, 1990. This project is one of several immediate impact activities for which AID authorized streamlined project paperwork.

The Salesian Missions encountered difficulties in setting up a separate dollar account in the Central Bank of Nicaragua, which delayed the start of some workshop renovations by about a month. However, AID reported in early February 1991 that the renovation of buildings under the project was over 50 percent completed and 70 new computers had been purchased and installed. Also, 120 students had begun classes in typing and 120 in basic computer skills.

In the Managua training center, it was determined that unstable electric currents could burn out the motors of the newly purchased office equipment and that \$65,000 was needed to install an electrical substation to prevent future damage to project equipment. The Salesian Missions was given some machinery it had expected to purchase with AID funds and has asked AID to amend the grant agreement to authorize the purchase of the substation instead. AID is considering a waiver of procurement restrictions to authorize the purchase of locally procured equipment and labor based on expediency, compatibility of equipment and parts with the existing municipal system, and the guarantee of equipment and labor.

An AID evaluation of the financial controls established by the Salesian Missions for this project resulted in 14 recommendations for corrective measures. Although AID did not find evidence of misuse of funds, it was not able to determine the actual amount or use of expenditures. Recommendations called for more formal methods of financial accountability,

proof of competitive contracting, and more responsible record-keeping and reporting practices.

**Democratic
Initiatives/Labor
Union Support
(No. 524-0308)**

Amount Budgeted: \$700,000
Amount Obligated: \$700,000
Amount Disbursed: \$319,050

The purpose of this project is to provide support, technical assistance, and training to Nicaragua's free trade unions through a cooperative agreement with the American Institute for Free Labor Development, an organization affiliated with the American Federation of Labor and the Congress of Industrial Organizations. According to the institute, the Sandinista government weakened the democratic and independent labor movement while creating a strong and politically dominated labor movement of its own. The institute estimated that the project would result in (1) an increase in membership of at least 50 percent in the Confederation of Labor Unity and three other independent trade unions that make up an umbrella group of labor confederations and (2) the creation of 25 new unions in urban and rural sectors.

This project is designed to provide union members with training, workshops, and seminars on topics such as union development, grievance procedures, union administration, labor legislation, and democratic political behavior. Union leaders will be trained to effectively promote the interests of labor with the various branches of government. The project will also provide budget support to individual unions for administrative expenses, as well as basic services, such as health clinics, for union members. The project includes plans for conducting assessment and feasibility studies to identify programs needed to recruit and retain new members from the ranks of the Sandinista unions.

Status of Project

AID and the American Institute for Free Labor Development signed a cooperative agreement on September 28, 1990, to cover the period July 1, 1990, through June 30, 1991. The institute's first report notified AID of its expenditures and activities through September 1990. It reported that several of its headquarters officials had consulted with local labor leaders and assessed agrarian reform and land distribution problems in Nicaragua. It also reported that grant funds had been used to pay for a consultant on labor organizing and several organizing events, an international seminar of political and economic affairs for labor leaders, and union education programs.

On the whole, the report did not provide enough information to explain how grant funds were used. For example, the only justification for \$7,500 in expenses was a statement that one union "carried out a combined activity in support of democratic labor union ideals. Approximately 4,000 workers participated, demonstrating their opposition to political party control over worker rights and interest."

The institute's next report, for the period October through December 1990, discussed increases in union memberships and new unions organized. Once again, the report supplied only general descriptions of how grant funds were spent, stating, for example, that funds were used for "organizing activities and administrative support" and for salaries and travel expenses of organizers. AID advised the institute that its reporting was inadequate and asked for a written explanation as to why more information could not be provided.

On November 14, 1990, the institute requested AID to provide an additional \$257,968 to expand activities to the agrarian sector and to help members of the umbrella group merge into one confederation. AID officials concluded that more information was needed before the amendment could be approved and requested that the institute resubmit a more complete proposal.

The AID Regional Inspector General noted several deficiencies in the early implementation of this project, primarily resulting from the institute's failure to provide sufficient information on its grant-funded activities and on agreements it had reached with Nicaraguan unions.

**Democratic
Initiatives/Media
Support
(No. 524-0309)**

Amount Budgeted: \$235,000
Amount Obligated: \$235,000
Amount Disbursed: \$172,811

Through this project, the National Endowment for Democracy is assisting Radio Corporacion, Nicaragua's largest independent radio station, to replace equipment damaged during Sandinista-led strikes in July 1990. Radio Corporacion's transmitter, antenna, and other equipment were damaged, rendering the station incapable of transmitting outside of Managua, whereas previously it was the only independent radio station capable of transmitting to the entire country.

Status of Project

AID and the National Endowment for Democracy signed a \$235,000 grant agreement on September 29, 1990. The grant provides funds to purchase and deliver a new transmitter, communications tower, and studio equipment to Radio Corporacion. The National Endowment for Democracy subsequently awarded a sub-grant, in the same amount, to Delphi International to perform these services. Delphi International is a nonprofit, nonpartisan organization with several years' experience in Nicaragua and previous involvement with the National Endowment for Democracy, U.S. Information Agency, and AID.

All contracts for the purchase of needed equipment and construction for the transmitter have been executed, and all equipment has been prepared for shipment except for the radio transmitter. The construction of the transmitter was delayed because the manufacturer in Costa Rica lacked certain parts.

Strengthening
Democratic
Institutions
(No. 524-0316)

Amount Budgeted: \$3 million
Amount Obligated: 0
Amount Disbursed: 0

This umbrella project will finance a variety of activities aimed at strengthening democratic institutions and processes at all levels in Nicaragua. Project objectives will be met by activities that institutionalize free and open national and local elections, increase the effectiveness of the legislature, increase civic participation in the democratic process, and promote the growth of a free press and other communications media.

Status of Project

AID had not completed the design of this project.

Private Voluntary
Organizations Co-
Financing
(No. 524-0313)

Amount Budgeted: \$2 million
Amount Obligated: 0
Amount Disbursed: 0

Through this umbrella project, AID will co-finance a variety of projects implemented by private voluntary organizations. AID will select projects that focus on the areas of employment generation, primary health care, environmental protection, and support to grass-roots-level democratic institutions. Projects are expected to foster an improvement in the

overall well-being of the socially and economically disadvantaged portions of the Nicaraguan population. Generally, the grants will help finance small-scale development activities that are simple in design, easy to implement, and entail strong community involvement. Private voluntary organizations receiving these grants must obtain 25 percent of the funding for their projects from sources other than the U.S. government.

Status of Project

AID had not completed the design of this project.

**Natural Resources
Management
(No. 524-0314)**

Amount Budgeted: \$8 million
Amount Obligated: 0
Amount Disbursed: 0

This project is intended to improve the management of renewable natural resources and protect biological diversity in selected priority sites in Nicaragua. As currently envisioned, AID will support the Nicaraguan Institute for Natural Resources and the Environment in its efforts to develop a national plan for protected areas, including the development of baseline information and information management systems and programs for buffer area development and management, a national environmental education campaign, and a conservation center. The project will be coordinated with several other AID regional environment and natural resources projects. AID will provide technical assistance, training, and equipment.

Status of Project

AID expected to design this project and sign a project agreement with Nicaraguan officials by June 1991.

**Private Agricultural
Services
(No. 524-0315)**

Amount Budgeted: \$1.6 million
Amount Obligated: 0
Amount Disbursed: 0

AID is developing this project to increase the stability and production levels of Nicaragua's private agricultural sector, primarily through improvements in the provision of agricultural services. As currently planned, AID will assist the national association of private agricultural producers to improve its internal coordination and management systems

and its delivery of agricultural services, technology transfer, and information on investment opportunities to member associations. Project funds will also be funneled to member associations for projects that improve their ability to provide agricultural services. AID will finance technical assistance and training, commodities, operational support, and the establishment of a small project office.

Status of Project

AID had not completed the design of this project.

**Development Training
and Support
(No. 524-0318)**

Amount Budgeted: \$2 million
Amount Obligated: 0
Amount Disbursed: 0

This project is expected to improve the technical skills of approximately 800 leaders, potential leaders, and professionals in Nicaragua by providing them specific training and an understanding of the workings of a free enterprise economy in a democratic society. AID hopes that individuals who receive the training will be better able to help Nicaragua achieve goals such as decreasing the size and role of government, increasing government effectiveness to implement policies, fostering an appreciation of democratic pluralism, and stimulating broad-based economic growth.

The project will have two major components: the Central American Peace Scholarship Program II and general development training. A national merit scholarship program, to fund long-term scholarships for university students at regional institutions, might be added at a later date.

According to AID, participation in the Central American Peace Scholarship Program II will expose trainees to practical skills and the workings of U.S. organizations and to the benefits of democratic, pluralized societies. Under this program,

- all training is carried out in the United States,
- at least 70 percent of the participants must be from socially or economically disadvantaged groups,
- 40 percent of the participants must be women, and
- no participants will come from economically or politically "elite" families.

Under the second component, public sector employees will receive training to improve their organizational, communication, and planning skills and to upgrade technical skills in their area of expertise. The project will emphasize training that helps government organizations streamline operations and implement economic policies that encourage broad-based economic growth yet reduce government restrictions and expenditures. Training will also be provided to individuals from private sector organizations in areas that will facilitate the adoption of competitive trade and investment policies and assist in export promotion and overall economic growth.

Status of Project

The project is expected to cost a total of \$20 million, \$2 million of which has been budgeted from Dire Emergency Supplemental Appropriations Act funds. The remaining \$18 million will be provided by AID over the next 5 years. AID expects to complete the design of this project and authorize it by late May 1991.

International Programs for Repatriation and Resettlement

AID originally budgeted \$47 million from the \$300 million appropriated in the Dire Emergency Supplemental Appropriations Act to support four international programs addressing the needs of former Nicaraguan Resistance combatants, commonly known as Contras, and their dependents; Nicaraguan refugees; and displaced persons and other people returning to the country. As of March 31, 1991, \$40 million had been obligated and disbursed to the international organizations involved in this effort.

AID budgeted, but had not obligated, \$5 million for a development program being designed by the United Nations Development Program and the United Nations High Commissioner for Refugees (UNHCR). AID also budgeted \$2 million for the peace-keeping activities of the United Nations Observer Group in Central America. However, when that group decided it did not need the funds for Nicaraguan-based activities, AID reprogrammed the \$2 million for its own development projects in Nicaragua.

Repatriation and Resettlement of the Nicaraguan Resistance (No. 524-0307)

Amount Budgeted: \$30 million
Amount Obligated: \$30 million
Amount Disbursed: \$30 million

The Dire Emergency Act directed that \$30 million be used to support the voluntary demobilization, repatriation, and resettlement of former members of the Nicaraguan Resistance and their dependents, an important objective of the United States and the new Nicaraguan government and a focus of Central American peace plans. The legislation directed that the assistance be provided through the newly established International Commission for Support and Verification, a joint effort of the United Nations and the Organization of American States (OAS).

AID allocated the \$30 million to the Department of State, which disbursed \$2.5 million to the United Nations for UNHCR and \$27.5 million to OAS. These funds were to support the costs of demobilizing and repatriating an estimated 60,000 ex-combatants and dependents and to provide them with food, medicines, civilian clothes, and a basic package of tools, seeds and fertilizers, housing materials, and sufficient food to sustain them until their first harvest.

**UNHCR Efforts in
Honduras**

UNHCR reported that it had registered and provided food and medical assistance to about 37,000 former fighters and dependents in Honduras and ultimately had repatriated about 18,700. UNHCR officials told us that by November 30, 1990, the last group of ex-combatants and dependents who wanted to be repatriated through this program had been taken to destinations of their choice in Nicaragua.

According to U.S. officials, UNHCR successfully met the primary program objective of repatriating a large number of former Resistance members and their dependents from Honduras in a reasonable period of time. Although UNHCR experienced significant start-up problems in its food distribution and medical care programs, the problems were eventually resolved. Program officials speculated that beneficiaries who registered with UNHCR for assistance in Honduras but did not repatriate through the UNHCR program either decided to stay in Honduras or went back to Nicaragua on their own. In addition, the registration figures might have been inaccurate.

OAS Efforts in Nicaragua

OAS registered about 95,000 ex-combatants and dependents in its resettlement program in Nicaragua, including the 18,700 repatriates from Honduras. This was far more than the 60,000 beneficiaries anticipated by the United States, and on which the U.S. contribution of \$30 million was based. The increase in registrations resulted, in part, because the original estimate did not anticipate the registration of non-combatant Resistance-related personnel or dependents already living in Nicaragua.

The OAS resettlement program in Nicaragua was designed to help the Resistance become self-sufficient, and it was expected that this could be done within the first 6 months after repatriation. According to OAS, it ran out of funds in February 1991, with a large number of beneficiaries still needing assistance. This resulted from a variety of factors, including some outside the control of OAS, such as the new government's slow distribution of land promised to the former combatants as an incentive to demobilize. This delay was caused, in part, by poor land title records and Sandinista opposition to distributions. Without farm or ranch land, the former combatants were unable to plant the crops or raise the cattle they needed to become self-sufficient. Another reason for the shortage of funds was OAS's decision to register dependents living in Nicaragua, which greatly expanded the beneficiary population.

AID has decided to extend the OAS program and budgeted an additional \$10 million from fiscal year 1991 appropriations for this purpose. The

program is now scheduled to end on July 31, 1991. AID and OAS are negotiating new program procedures, including a method to identify beneficiaries who no longer need assistance. At this time, because OAS does not know how many beneficiaries still need assistance, AID does not know whether the 5-month, \$10 million extension will be sufficient to complete this program.

Repatriation and Resettlement of Refugees (No. 524-0307)

**Amount Budgeted: \$10 million
Amount Obligated: \$10 million
Amount Disbursed: \$10 million**

During the Sandinista regime, UNHCR registered about 50,000 Nicaraguan refugees in Costa Rica and Honduras. As part of regional peace plans developed by the five Central American presidents at Tela, Honduras, in August 1989, the International Commission for Support and Verification undertook the voluntary repatriation of Nicaraguan refugees, as well as the Nicaraguan Resistance. In April 1990, the Secretary General of the United Nations issued a worldwide appeal for funds to support its responsibilities for the repatriation and resettlement of Nicaraguan refugees and the Nicaraguan Resistance. In addition to contributions from other donors, the United States contributed \$10 million for programs benefitting Nicaraguan refugees.

The United Nations program was designed to transport the refugees to their chosen destinations in Nicaragua and provide them with construction materials, seeds, tools, and sufficient food to sustain them until their first harvest.

UNHCR registered about 24,000 Nicaraguan refugees in Honduras and repatriated 23,744 of them. The repatriation program in Honduras was officially closed on February 28, 1991. Repatriations from Costa Rica have been slower. UNHCR registered about 27,000 Nicaraguan refugees in Costa Rica and repatriated about 7,000 of them. Most of those still in Costa Rica are expected to stay. Toward the end of its repatriation program, UNHCR decided to expand its program to include about 5,500 "refugee-like" Nicaraguans who were living in Honduras. Refugees are expected to receive assistance from UNHCR for about 6 months after they return to Nicaragua. However, no date has been set for the termination of these programs.

**International
Conference on Central
American Refugees
(No. 524-0307)**

Amount Budgeted: \$5 million

Amount Obligated: 0

Amount Disbursed: 0

The International Conference on Central American Refugees was held in Guatemala City, Guatemala, in May 1989 to address the needs of refugees, returnees, and displaced persons throughout the region. The conferees developed a 3-year plan of action calling on national and international committees to develop priority projects to be implemented with the cooperation of UNHCR and the United Nations Development Program.

A number of countries pledged contributions to support these projects. The United States pledged \$5 million and allocated these funds to the Department of State for disbursement to international organizations to help the Nicaraguan government carry out projects related to repatriating and reintegrating returnees and displaced persons. These projects are being designed by UNHCR and the United Nations Development Program, and no funds have been disbursed.

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