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UNITED STATES POST-DISASTER ASSISTANCE TO NICARAGUA

REPORT OF A STAFF SURVEY MISSION TO NICARAGUA

PURSUANT TO

H. Res. 267

AUTHORIZING THE COMMITTEE ON FOREIGN AFFAIRS TO CONDUCT THOROUGH STUDIES AND INVESTIGATIONS OF ALL MATTERS COMING WITHIN THE JURISDICTION OF THE COMMITTEE

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FOREWORD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D.C.

This report has been submitted to the Committee on Foreign Affairs by the Subcommittee for Review of Foreign Aid Programs and represents the observations and findings of a staff survey team which conducted a special study mission to Nicaragua in January 1974. The members of the team were Harry C. Cromer and Lewis Gulick, Staff Consultants to the Committee on Foreign Affairs.

The findings in this report are those of the staff survey team and do not necessarily reflect the views of the membership of the full Committee on Foreign Affairs.

THOMAS E. MORGAN, *Chairman.*

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INTRODUCTION

A two-man staff survey team of the House Foreign Affairs Committee, comprised of staff consultants Harry C. Cromer and Lewis Gulick, was sent to Nicaragua in January 1974 in anticipation of an Executive request for an authorization for a $15 million supplemental disaster relief assistance appropriation in the aftermath of the Managua earthquake. The $15 million appropriation, for a low-cost housing project in Managua, had been approved by Congress in December 1973, subject to subsequent authorizing legislation.

The survey team arrived in Nicaragua January 12 and departed January 19. The team spent most of the week in and around Managua, the heart of the disaster area. It inspected various project sites and met with officials involved in the reconstruction effort. It also took the opportunity to look into the operation of the U.S. aid program in Nicaragua generally. The following report was written upon the team's return to Washington.

SUMMARY

I. The earthquake which struck Managua December 23, 1972, caused heavy damage to the Nicaraguan capital estimated at from $300 million up to $1 billion and more in replacement cost. Immediate U.S. disaster relief aid was prompt and generous. Rebuilding in the city environs is now vigorously underway.

II. AID's $15 million emergency assistance program loan, extended in February 1973, focused on high priority needs. However, some questionable payments were made in AID financing of agreed Nicaraguan Government counterpart contributions to predisaster projects.

III. AID's $3 million grant project under which 11,135 temporary wood shelters were built in February–May 1972 on the Las Americas sites southeast of the city center currently houses some 25,000 people in reasonably clean quarters.

The $15 million AID loan now proposed would convert the temporary shelters to permanent, simple low-cost homes over a 3-year period, housing 50,000 low-income people on 5 Las Americas sites. The survey team believes the project merits authorization as soon as possible.

IV. AID has outstanding in Nicaragua eight predisaster loans totaling $36.5 million. AID personnel in past years appear to have been delinquent in monitoring some of these loans. Coping with continuing substantial difficulties on these older projects will take up a considerable portion of the AID mission's work capacity.

V. AID loans to Nicaragua averaged $6 million a year prior to the December 1972 disaster. AID's program for Nicaragua has soared to $34.2 million for fiscal 1974. AID is pushing reconstruction and expanded development assistance simultaneously. But Nicaragua's capacity to effectively use U.S. aid is limited.

The survey team believes the risk of exceeding capacities to carry out programs is real, that great caution must be exercised in undertaking new commitments, and that a clearer choice of U.S. aid priorities in Nicaragua must be established. The team offers options including a program space-out under which AID's proposed $15 million fiscal 1974 agriculture sector loan to Nicaragua would be delayed until fiscal 1975 or later.

VI. Coordination on the scene by major foreign aid donors to Nicaragua is voluntary, informal, and inadequate. The survey team believes a more formal and regular system should be established.

I. THE MANAGUA EARTHQUAKE DISASTER AND AFTER

The earthquake which struck Managua December 23, 1972, with a surface-wave Richter magnitude of 6.2, caused heavy loss of life and devasted large areas of the Nicaraguan capital. An estimated 10,000 people were killed and 20,000 injured. Perhaps half the city's population of nearly half a million was left homeless. More than one-third of the urban area of 33 square kilometers (12.7 square miles) was rated destroyed and much of the remainder damaged.

The impact hit hardest in Managua's center zone which housed government buildings, financial institutions, and commercial establishments. Some 550 city blocks were destroyed. Nearly all government buildings were leveled or damaged beyond use. So were some 2,500 small shops engaged in manufacturing and retail trade.

Essential services were crippled. The city's four main hospitals were destroyed, as were nearly two-thirds of its classrooms. Water, electric, and communications systems were damaged.

Estimates of the replacement value of physical assets destroyed range from $300 million upward. Higher replacement cost projections reach $1 billion (equal to Nicaragua's entire gross national product in 1972) and more, including increased expenses due to relocating buildings over a spreadout area, anti-earthquake specifications, new utilities required, and rising labor and materials prices.

Immediate Disaster Relief

The people and Government of Nicaragua moved quickly to cope with the disaster's immediate effects, with prompt and generous aid from the United States and other outside donors.

The speed and effectiveness of the American relief effort, which began within hours of the quake, has been the subject of testimony before the Subcommittee on Inter-American Affairs of the Foreign Affairs Committee.

The Honorable Maurice J. Williams, Deputy Administrator of the Agency for International Development and the President's Special Coordinator for Emergency Relief to Nicaragua, reported to the subcommittee on January 30, 1973.

Williams noted, among other things, the round-the-clock efforts of U.S. officials in Managua and on the disaster relief task force quickly set up in Washington. The U.S. Armed Forces flew a disaster team in from Panama within 8 hours after the quake. American planes airlifted in two field hospitals.

Tents, medicines, and food poured in from U.S. Government stocks and elsewhere. Private Americans contributed large amounts of relief supplies and cash. Relief assistance came from some 68 countries and 9 international organizations in addition to the United States.

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Followup Emergency Assistance

The immediate response to the tragedy was followed by a first round of relief and reconstruction efforts in which American aid played a significant role.

The U.S. Agency for International Development provided $12.5 million in grants for food, the two U.S. military field hospitals and other emergency assistance, including $3 million for an emergency shelter program.

In February, AID extended a $15 million emergency program loan to help pay for rubble removal, clearing of drainage canals, construction of 2 new 250-bed hospitals, and emergency repair and expansion of an existing hospital, roadbuilding and bridgebuilding, and other needs.

The loan also is being used for technical assistance in improving the Nicaraguan Government's capability for planning reconstruction projects. Two existing AID loans were revised to assist rebuilding of Managua's elementary schools and health centers.

Other emergency loans from outside donors included a $16.7 million loan from the Inter-American Development Bank in May for telecommunications restoration, building temporary university facilities, rehabilitation credit for smaller industries, construction industry development, and rural credit. The World Bank authorized a $20 million loan, of which $4.5 million is programed for Managua, for housing sites and services, high school reconstruction, water and power systems, and small industries.

Meanwhile the private sector was rebounding with vigor. People started repairing and building homes. Businesses began reopening, many in new locations. One Managuan daily newspaper resumed publishing little more than a week after the quake, and two major meat plants were back in production in less than a fortnight.

By the time the staff survey team arrived in Managua, more than a year after the earthquake disaster, parts of the downtown center of the capital still looked like a bombed-out city of World War II. But around Managua's outskirts there was building and bustle. New commercial establishments attested to the resilience of Nicaragua's free enterprise economy.

The new shopping centers, homes, and other activity reflected a dynamism which is helping to shape Managua's future growth pattern while official planners work on long-range designs.

Reconstruction Planning

The destruction visited on Managua in December 1972 presented both a need and an opportunity to rebuild in an improved way. The region has a long history of earthquakes, and experts expect one similar to that of December 1972 to strike the Nicaraguan capital again within the next 50 years. The last such disaster occurred in 1931.

After the 1972 disaster, a general long-range plan for Managua's reconstruction was prepared by Mexican consultants who previously

had been working on modernizing the downtown area. The plan, which projects to approximately 1985, was presented to the Nicaraguan Government in October. With modifications, the Mexican plan is serving as a conceptual guideline for recovery and development while a detailed master plan is being worked out.

The Mexican plan basically calls for a spreadout and deconcentration of the city to avoid a repetition of disaster in this earthquake-prone area. Rebuilding would take place under a new master plan taking into account geographic and seismic conditions, and with strict regulations for earthquake-resistant construction.

Under the Mexican plan concept, the old city center, which was 90 percent destroyed, would be rebuilt gradually as a nonresidential area of civic buildings, parks, museums, government and commercial offices. New residential areas would be developed in community units of around 40,000 population each, with schools, recreation and health facilities, and some commercial enterprises. This new development would extend generally southeast from the city center, because of geography and the location of industry.

Nicaragua's Economy

Contrary to early predictions after the earthquake disaster, Nicaragua's economy suffered no general decline in 1973. Rather, according to revised Government estimates, the country's gross national product grew in real terms by 3.2 percent over the year. A 9-percent growth is forecast for 1974.

One contributing factor in Nicaragua's quick economic resurgence was the relatively small (estimated 10–15 percent) and quickly repaired earthquake damage to industrial installations in the Managua area, which are located on the city's outskirts. Another was an end to the severe drought which had hurt the country's agriculture in 1972, coupled with rising prices for her money crops including cotton, coffee, meat, and sugar.

Nicaragua's exports, imports, and international reserves have climbed to record levels. Expected trade surpluses for 1973 and 1974 may turn to deficits, however, with the skyrocketing cost of oil imports.

At the same time Nicaragua's normally stable price structure was beset by inflation in 1973, caused by the drought, the earthquake, and climbing import prices. Some estimates place the inflation rate at more than 20 percent. Labor and materials costs in the construction industry were reported up 40 percent.

The Nicaraguan Government's current spending rate rose by nearly one-third in 1973 and is continuing upward. Revenues kept pace during the year, aided by an emergency tax on agriculture exports which was imposed after the earthquake. The Government's investment budget for 1974—which includes the amounts devoted to reconstruction—is more than double the pre-earthquake rate.

AID ASSISTANCE TO NICARAGUA—PROGRAM SUMMARY

[In thousands of dollars]

Fiscal year	Totals	Food production and nutrition	Population planning and health	Human resource development	Selected development problems	Selected countries and organizations	Other programs and support costs
1972: Development grants	2,489	427	560	363	424	----------	715
Total	2,489	427	560	363	424	----------	715
1973:							
Development loans	20,300	----------	----------	5,300	----------	[1] 15,000	----------
Development grants	2,420	300	500	210	219	----------	1,191
Total	22,720	300	500	5,510	219	15,000	1,191
1974:							
Development loans	31,000	[3] 15,000	----------	1,000	----------	[2] 15,000	----------
Development grants	3,248	249	659	215	720	----------	1,480
Other	----------	----------	----------	----------	----------	----------	----------
Total	34,248	15,249	659	1,215	720	15,000	1,480

[1] Emergency assistance program loan, see chapter II.
[2] Housing loan $15,000,000 separate appropriation (disaster relief assistance) subject to congressional authorization. See pp. 12ff.
[3] See p. 18f.

II. THE EMERGENCY ASSISTANCE PROGRAM LOAN

The survey team was able to inspect a number of the activities financed by the $15 million emergency program loan. Those visited by the team appeared to be progressing satisfactorily and in accord with planned completion dates and use.

Except for payments of some agreed Nicaraguan Government counterpart contributions to pre-disaster projects, discussed below, the AID mission's choice of projects was in line with highest priority needs. The projects did or will contribute to an early easing of the disruption caused by the disaster.

As of January 18, 1974, a total of 24 activities had been started under the emergency loan; 10 had been completed and the facilities were in use; 12 were said to be proceeding to completion on schedule; 2 had encountered minor delays from a labor strike or technical complications.

Of the $15 million, $14,226,269 had been programed for the various projects. The remainder of about $750,000 will probably be applied to further demolition and cleaning work and to pay for cost overruns on ongoing projects.

While the implementation rate for the projects was good, payouts from the loan lagged. Disbursements as of January 18 totaled only $4.7 million. The expenditures under the loan agreement are made in the first instance by the Nicaraguan Government, which in turn is reimbursed by AID upon presentation of valid certifiable expenditure documents. The delays have been due largely to slow document processing by both the Nicaraguan Government and AID. A lack of administrative capabilities and the need for precise checkups on the amount of work accomplished has led to a substantial backlog of Nicaraguan Government billings to AID for reimbursement.

AID officials assured the team that the process would be speeded up. Improvement is expected in part through the creation of an implementation and coordination office within the Nicaraguan Government, financed from the loan, to expedite documentation and assist in carrying out projects.

Questionable Payments for Counterpart Contributions

The team questions the use of emergency loan funds to pay for Nicaraguan Government counterpart for some activities not related to the disaster. Counterpart funds are sums contributed by the aid-receiving government as part of aid projects.

More than $3.3 million of the emergency loan was, under the original loan agreement, programed to pay for local counterpart costs of the Nicaraguan Government on four ongoing aid projects which had been underway before the earthquake. Actual commitments on these pay-

ments as of December 31, 1973, totaled $1,841,639 for the following projects: rural electric cooperatives, $357,142; education sector loan, $1,400,000; feeder road betterment, $60,643; and feasibility studies, $23,854.

AID payment of Nicaraguan counterpart requirements was ended December 31, 1973. The unused $1.5 million is being reprogramed for activities more directly related to the disaster.

In explaining the original $3.3 million commitment, AID officials said that at the time of the emergency loan agreement (February 9, 1973) the Nicaraguan Government asked for this aid on its obligations for predisaster projects because it expected a serious drop in its revenues. As it turned out, however, the Nicaraguan Government's revenues in 1973 were higher than pre-earthquake.

Other project activities under the emergency loan include:

Emergency hospital warehouses, Velez Paiz Hospital expansions (3 projects), Cauce Oriental, INCAE Advisory Center, Implementation and Coordination Office, medical supply warehouse, Managua By-Pass, repair to the Palacio Nacional government office building, demolition and rubble removal, salvage and rubble removal, construction of hospitals (2), repair of public buildings (18), technical support for national construction, customs offices and warehouse, bridge construction (5), physical rehabilitation center, traffic control equipment.

III. THE LAS AMERICAS PROJECT

From the outset of the earthquake disaster, it was clear that new housing would be a major need. Some 50,000 homes in Managua were destroyed or damaged. Among the most needy refugees were the urban poor who lacked means to relocate themselves and their families in suitable dwellings elsewhere.

The Temporary Shelter Program

President Nixon's personal representative and disaster relief coordinator, Maurice J. Williams, who went to Nicaragua following the earthquake, signed a $3 million U.S. aid agreement with Gen. Anastasio Somoza, president of Nicaragua's National Emergency Committee, on January 5, 1973. The $3 million grant—to be combined with Nicaraguan outlays—was for speedy, mass construction of temporary shelters in Managua for persons left homeless.

An implementation agreement, signed January 15, assigned responsibility for providing land and management of the shelter program to the Housing Bank of Nicaragua. The agreement called for completion of the construction of the temporary shelters within 3 months, so refugees could move from squatter communities into the new quarters by the time of the season of heavy rains starting in April.

Four sites were picked, totaling 197.3 hectares (487.3 acres). Called Las Americas, the sites are east and southeast of Managua's center. Their locations lie in the direction envisioned in the Mexican plan for decentralized reconstruction of the city.

Contracts were let and 11,135 shelter units built at $270 apiece. The first Las Americas shelters were completed in February, the last by May 24.

Today some 25,000 persons live on the 4 sites. Initial applications for shelters were heavy. The application rate dropped after April but families are still moving in at about 100 a week. As of mid-January 1974, Las Americas Nos. 1 and 2 were reported nearly fully occupied. Nos. 3 and 4 still had many vacant shelters. Virtually full occupation was predicted by mid-1974.

The shelters, built on 100-square-meter (1,076 square feet) lots, are simple cabins of rough, untreated pine placed directly on the ground without foundations. They have roofs of galvanized corrugated steel or corrugated asbestos cement panels. The floors are concrete. Electricity is available.

An outdoor latrine is provided for each shelter. For every six shelters, there are group clothes washstands and showers.

Each shelter contains two duplex units, each 20 square meters (215 square feet), under one roof. Many families occupy a full duplex, both halves of a shelter.

AID's $3 million paid for the shelters, construction, latrines, and washstands. Nicaraguan Government funding of about $4½ million

so far has paid for the land and for installing water and electric services, access roads and roads in each site, and the concrete floors. Schools have been put up on the sites.

Rent is supposed to be charged to the residents at a rate of $5.69 per month for a single shelter unit and $8.60 for families renting a full duplex.

Various problems have come up. The first heavy downpours of the rainy season showed inadequate drainage designing for streets and ditches. At site No. 2, 40 families had to be relocated on higher ground, and about 10 percent of the units had to be declared uninhabitable. There has been petty thievery. Installation of street lights has been too slow.

Rental collections have been poor because of defective administration. The AID mission said the Housing Bank has not been distributing monthly payment notices to Las Americas residents, with the result that up to 60 percent have not been paying. The survey team was assured that steps are now being taken to cure this lackadaisical performance.

Overall, the survey team gained a favorable impression of the physical arrangements at the Las Americas sites. The external premises were relatively clean compared with housing inhabited by the poor in many other places, and the team was told that many of the Las Americas residents are better quartered now than in their pre-earthquake dwellings.

The Permanent Housing Proposal

The project for which a new $15 million U.S. aid loan is proposed, in essence, would convert the Las Americas temporary shelters into low-cost permanent dwellings over the next 3 years and upgrade facilities for the communities.

The AID contribution of $15 million would be in addition to the $3 million grant already provided. The Nicaraguan Government would provide $15 million, making a total cost of $33 million including the sums already spent for the temporary units.

The simplest permanent housing would consist of the existing shelters, to which are added foundations and inside toilet, shower, and sink. The foundations are to preserve the life of the present untreated pine lumber which rests directly on the ground and is subject to rot and termites which would render it unusable within an estimated 3 to 5 years.

These basic 20-square-meter units would sell for $1,085 apiece at $6.30 a month payment terms. They would be for owners with incomes of $31 to $64 a month. Some 3,500 of the proposed 10,000 permanent homes would be of this type.

Five more levels of structures of increasing elaborateness and cost would be built to house those who can pay more. They would range up to a 55-square-meter (592 square feet) earthquake-resistant home of steel and concrete, in addition to including toilet, shower, and sink.

The 55-square-meter concrete house would sell for $3,860 at $28.35 a month. It would be for low-middle-income owners making $142 a month or more.

The mix of the levels of housing would be determined by the indicated homeowner demand as construction moves ahead.

An important feature of the plan is provision for do-it-yourself home improvement by owners as time goes on, including home expansion. To encourage this, the project includes a revolving home improvement credit fund from which the homeowners could borrow.

Community facilities, along with paved streets, walkways, drainage, et cetera, would be built under the Nicaraguan Government's $15 million contribution. The facilities include schools, health clinics, community centers, and roofed market structures. A community development program would encourage residents to take an active role in civic affairs.

A proposed fifth site, adjoining site No. 4, is presently undeveloped. It would contain 2,000 new units of permanent housing built similarly to those in sites Nos. 1–4.

Thus over a 3-year span, the project would establish some 10,000 homes in 5 residential communities with a total population of some 50,000.

The AID loan would be to the Nicaraguan Housing Bank, manager of the temporary shelter program. The $15 million would be repayable in dollars over 40 years, with a 10-year grace on principal repayments during which interest would be 2 percent, and interest at 3 percent thereafter.

The home buyers would purchase through 25-year mortgages, at low interest rates and with no downpayment. The interest rate for mortgages on the $1,085 units of the lowest income group would be 5 percent. At the high end of the six-step scale, for the $3,860 units, the mortgage interest rate would be 8 percent.

Questions Raised

The staff survey team raised many questions about the Las Americas project. The responses from United States and Nicaraguan officials indicated similar issues had been considered during the months of planning for the permanent housing program.

Among the first and most obvious questions was, Why should there be U.S. financing? Almost all of the expenditures for the project would be in local currency, and Nicaragua's overall economy is prospering.

Part of the answer was that Nicaragua's disaster reconstruction bill is far bigger than the small, low-income (GNP $500 per capita) country of 2 million people can pay for by itself over any reasonable time frame. The lowest damage estimate from the disaster—$300 million—is 30 percent of Nicaragua's entire gross national product for 1972. Projected reconstruction cost estimates range up to $1 billion and over.

A further response was that a number of other external donors already are committed to reconstruction aid to Nicaragua. The World Bank and Inter-American Development Bank loans totaling $36.7 million have previously been noted. The Canadian Government has provided a $1.9 million interest-free loan for heavy demolition equipment. The Spanish Government is donating $3 million for a vocational training institute.

The international lending institutions, already involved in other housing programs in Nicaragua, are not interested in taking on the Las Americas project. The Nicaraguan Government has committed large sums to housing. Counting the low-income houses that would be built

by both AID and non-AID financing over the next 3 years, the total would still fall well short of an estimated 40,000 units needed.

The United States already is involved in Las Americas through its financing of the temporary shelter program, the investment in which would be a takeoff point for the permanent housing project. Furthermore, the January 15, 1973, implementation agreement under the $3 million grant for temporary shelters includes the condition that "the shelter communities created under the program be eliminated or upgraded in the reasonably near future to prevent the creation of a permanent slum condition detrimental to the health and welfare of the occupants of such communities."

The question of site selection has been the subject of various studies, with the conclusions generally favorable to the Las Americas locations. Preliminary recommendations by seismic experts indicate the area is among the safest in the Managua vicinity. The locations are in accord with the Mexican plan concept of a decentralized spreading out of the city to the east and southeast.

Nicaragua's inflation since the earthquake poses severe and continuing problems, with the construction industry heavily affected. Over the 10-month period following the earthquake the prices of housing materials shot up 37 percent and labor rates 40 percent, and the upward trend is continuing. Built into the cost estimates for the Las Americas project is a 20-percent inflation factor for the coming year, 10–15 percent in 1975, and possibly 10 percent in 1976. Should building costs outrun estimates, the survey team was told that the size of the project would be trimmed.

The question of capacity to carry out the proposed project was of deepest concern to the survey team. The question applies both to the physical capability to undertake such a large building task in the face of myriad reconstruction activities competing for labor and materials, by both Government and private industry, and the capacity of the Nicaraguan Government (and to some extent AID) personnel to implement it.

The 40-percent inflation in construction costs in 1973 speaks for itself as an index of scarcity in the post-earthquake construction boom. Hourly wages of unskilled labor went up from 2.00 cardobas (7 cordobas=$1) to 2.80, and that of skilled workmen from 3.00 cardobas to 4.25. The sharpest materials price increases were in iron, wire and wire tubes, cables, floor drains, and pinewood, and deficits were reported in a wide range of items from cement blocks to lavatories.

Various efforts are underway or planned to overcome the shortages, though whether they will prove adequate remains to be seen. They include short- and medium-term training courses for construction workers. Expansion of Nicaraguan cement production is in process. Metal structures and steel must be imported.

The simplicity and standardization of the proposed Las Americas units is helpful in allowing a lesser use of skilled labor than for an equivalent area of more elaborate, varied housing. Also, the proposed competitive bidding for construction on the project, open to foreign as well as local firms, should be beneficial in holding down costs.

Nonetheless, strain on Nicaragua's construction capacity already exists and seems likely to increase in 1974–75. Some additional capacity will have to be imported. The Las Americas project stands to encounter less difficulty if it starts soon than if it is delayed until a

later date when there is even greater competition locally for construction manpower and materials.

Equally severe is lack of trained manpower and organization equipped for such a large-scale governmental housing task. The National Housing Bank (Banco de la Vivienda de Nicaragua) had a total staff of 85 before the earthquake. Its low-income housing division's principal production activity in 1972 was a 2,000-unit project. Its proposed programs over the next 3 years are 5 times the size of its 1972 volume, on an annual basis.

An AID study reported a wide range of inadequacies in the Housing Bank's capacity to handle the scale and quality of operations now confronting it. The Housing Bank itself sees the need for changes, and has commissioned a U.S. firm to develop a reorganization plan.

For carrying out the Las Americas permanent housing project, AID would have a special full-time project implementation unit set up within the Housing Bank. AID's $15 million also would include $100,000 apiece for technical assistance for the Housing Bank and for the construction industry.

Along with capacity to carry out the project, an absolute necessity is an unshakeable commitment by the Nicaraguan Government to accord it the highest priority. Assurance of top priority for low-income housing was contained in the Las Americas project loan application to Ambassador Turner B. Shelton signed by General Somoza, as President of the National Emergency Committee, and by the Acting Minister of the Treasury, Cesar Augusto Borge. The application stated that "the Government of Nicaragua has placed the highest priority on filling the large deficit of low-income housing as part of the first phase of our reconstruction effort."

Specifically concerning construction capability for the project, the application stated that should a problem develop in this regard "the BAVINIC (Nicaraguan Housing Bank) and the Government of Nicaragua will take all necessary measures to assure that this project is given the highest priority in the allocation of scarce construction industry capacity."

Conclusions and Recommendations

The staff survey team believes the proposed $15 million loan for the Las Americas permanent low-cost housing project merits authorization as soon as possible.

The aim of the project is in accord with the aid reforms of the Foreign Assistance Act of 1973 aimed at directly benefiting the poorest population sectors in the aid-receiving countries.

United States-Nicaraguan relations are good. Nicaragua has been a staunch ally of the United States on international matters.

The $3 million American grant and $4½ million invested by the Nicaraguan Government so far in the temporary shelter program offer a running start for the new project.

Not to act offers the prospect of a Las Americas slum city as the temporary shelters decay. Some 25,000 people live in the shelters now, and more are moving in. Once people are installed in their new homes, it becomes enormously difficult to move them to a new location.

Problems admittedly face the implementation of the project to convert the shelters to livable permanent houses, but these problems will not be made easier by delay. For the sake of the project, and for its most beneficial impact in the dynamism of a rebuilding Managua, the sooner the Las Americas permanent homebuilding program gets going the better.

IV. AID'S PRE-DISASTER LOAN PROGRAM

In addition to the $15 million emergency loan extended after the earthquake, AID has outstanding in Nicaragua eight other active loans totaling $36.8 million which were authorized or signed before the earthquake. They are:

STATUS OF ACTIVE DEVELOPMENT LOANS

[In thousands of dollars and equivalent]

Title	Date authorized	Date loan agreement	Amount authorized	Amount disbursed Nov. 3, 1973
CNI Private Development Bank	June 29, 1966	Sept. 27, 1966	5,000	4,984
Industrial Development Bank II	June 20, 1967	Oct. 23, 1967	5,000	3,694
Basic crop production	June 25, 1968	Aug. 23, 1968	9,400	7,394
Health centers and rural mobile health	do	do	2,200	1,905
Feasibility studies and surveys II	June 7, 1971	Sept. 21, 1971	2,800	100
Rural electric co-ops. III	June 14, 1971	do	4,300	456
Feeder roads betterment	June 15, 1971	do	2,800	28
Education sector loan	Aug. 2, 1972	Feb. 28, 1973	5,300	937
Total			36,800	19,498

The loans are in varying stages of implementation. In reviewing them with AID mission officials, the staff survey team found that several of these loans have faced and are continuing to face substantial difficulties. Coping with them will require a considerable portion of the mission's work capacity.

Some of the loans still suffer from problems they had up to 5 years ago. Thus it appears that prior to the earthquake disaster, AID personnel were delinquent in loan monitoring.

CNI-Private Development Bank ($8 million)

This borrower continues to be most troublesome for the AID mission. Two loans totaling $8 million were extended to CNI in 1965 and 1966 to finance loan and equity participation in private industrial enterprises. Repayment of the loan by CNI is not guaranteed by the Nicaraguan Government.

Over the years, CNI has been operated by the Bank of Nicaragua and badly managed. As a result the current loan and equity portfolios include substantial amounts of low-quality, nonliquid assets. The creditors, including AID, and shareholders have been searching for several years for an agreed formula for restructuring CNI's equity, debt, and management.

About two-thirds of CNI is owned by Nicaraguan institutions and individuals and one-third by foreign banks. The largest single stockholder, owning 20.3 percent of CNI's total outstanding stock, is the United California Bank. Of CNI's $16 million debt outstanding, $7.5 million or 47 percent is due AID.

The team was told that despite its creditor position, AID cannot force a reorganization of CNI though it could force CNI's liquidation. AID has moved to have the Nicaraguan Superintendent of Banks intervene to protect the positions of AID and other creditors.

AID currently is hopeful that the CNI problem will be solved by agreement on a new proposal providing for new equity financing, debt rollover, and different bank management.

INFONAC-Nicaraguan Government Industrial Development Bank ($5 million)

This loan was made in 1967 and followed an earlier loan of $4 million in 1964 to the same bank for industrial lending purposes. More than $1.1 million of the loan still remains to be disbursed.

AID mission officials said the loan has been subject to serious delays including disruptions caused by the earthquake disaster. Most recently delays have been due to late delivery of steel and other commodities purchased from the United States.

However, the principal reason for the delay in implementing the loan was its suspension for more than a year prior to 1972 because the Nicaraguan Government had failed to pay $5 million in equity contributions required under the 1964 loan. The Nicaraguan Government made the equity contribution after borrowing $5 million from U.S. banks. After receiving the capital contribution, INFONAC was said to have used the funds to repay other borrowings.

INFONAC expects that the AID loan, now fully committed, will be completely disbursed early in 1974.

Basic crop production ($9.4 million)

This loan made in 1968 is now nearly fully disbursed. There were initial delays, however, reportedly because the amounts were larger than the agriculture sector could handle.

Further problems were caused by unrealistic loan conditions required of the borrower, the National Bank, which were beyond its control. The conditions related to broad Government policy matters such as tax collection targets and maintaining budgetary surpluses.

The loan agreement was amended early in 1973 to simplify its terms and allow better use of the funds.

Health centers ($2.2 million)

This 1968 loan was primarily for construction of 55 health centers. The centers were built by early 1972, but so far have not been used effectively because the program exceeds the capacity of the Ministry of Health to fund, staff, supervise, and maintain it. The earthquake further diverted Ministry resources.

The AID mission contracted with a private consulting firm in the summer of 1973 for a full-scale evaluation of the project. The evaluation, completed in November, is now under AID study. It appears from the evaluation that the Nicaraguan Government will have to put more funds into the program to make best use of the centers.

Feasibility studies and surveys ($2.8 million)

While this loan is nearly 2½ years old, no study has yet been financed. A $750,000 electric power study for a general power plan for 1978–88 was in the process of being contracted for during the team's visit. Various other surveys were being discussed, including a geothermal energy study which would use up the remaining loan funds.

The delays on implementation of this loan can be attributed mainly to the disaster.

V. FUTURE U.S. AID TO NICARAGUA

Until the December 1972 earthquake, the U.S. assistance program for Nicaragua was rather typical for a Central American country. AID loans averaged about $6 million a year in 1959–72.

AID's program for fiscal 1972 came to about $2.5 million. Development grants were programed for activities in the fields of food, production, and nutrition; population planning and health; human resource development; and for selected development problems and for other programs and support costs.

From $2.5 million in 1972, AID's program for Nicaragua soared to $22.7 million in fiscal 1973 because of the earthquake disaster. The biggest item in the new total was the $15 million emergency program loan.

For fiscal 1974, AID's Nicaragua program total amounts to $34.2 million, another sizable increase. The main items for 1974 are the proposed $15 million loan for the Las Americas low-income housing project and $15 million for a loan in the agriculture sector.

The proposed $15 million agriculture sector loan, to help low-income farmers in Nicaragua, was contained in AID's general presentation to Congress in behalf of foreign assistance legislation for fiscal 1974. Since Congress has passed the authorizing and appropriating legislation, AID has authority and funds for the Nicaraguan agriculture loan this fiscal year.

However, the loan itself has not been made as yet. Rather, a number of important steps remain in working out just what the loan would involve. As of the time of the survey team's visit to Nicaragua in January 1974, an agriculture sector analysis was due for completion by the end of the month. With this anlysis as a basis, the AID mission planned to send a loan proposal to AID Washington for intensive review in accord with procedures for gaining approval of such a loan. AID officials were pushing ahead with the aim of having the loan committed before the end of June, when the fiscal year runs out.

In its fiscal 1975 program, AID plans to make a further contribution to Nicaragua's reconstruction. The survey team was not given a specific figure but presumes the amount will be substantial because AID envisions its total reconstruction assistance at about $50 million over 3 years.

A nondisaster AID loan in the health sector is expected to be requested in fiscal 1975, on the basis of a health sector assessment begun in fiscal 1974. New activities in the education sector also are proposed.

Conclusions and Recommendations

The staff survey team was impressed with the quality and dedication of the AID mission leadership and staff in Nicaragua. At the same time there are limits to the amount of American assistance which can be effectively used there. Nicaragua cannot be expected to move

ahead full speed with reconstruction programs and concurrently carry out development activities at a higher rate than if there had been no disaster.

U.S. aid in Nicaragua currently is being programed to move ahead at substantial levels, simultaneously, on both reconstruction and long-range development. In addition, large amounts of mission effort will be needed to assure performance on programs already undertaken. The Nicaraguan Government is heavily engaged in a wide range of activities. Obviously, not everything can get precedence. Some programs will have to receive lesser priority and be spaced out.

This report cannot evaluate the merits of the proposed agriculture sector loan or of other future programs. Supporting detail is still unavailable.

But it is the survey team's view that the risks of exceeding capacities to carry out programs is real, that great caution must be exercised in undertaking new commitments, and that a clearer choice of U.S. aid priorities in Nicaragua should be established.

The choices need not be between "reconstruction" and "development" per se, because the rebuilding effort generally is developmental as well.

Should No. 1 priority be attached to the Las Americas permanent housing project, as the survey team believes, one option would be to delay the agriculture sector loan until fiscal 1975 or later. The current push for the loan's approval relates more to a Washington fiscal deadline than to the situation in Nicaragua. A delay would reduce AID's fiscal 1974 program for Nicaragua by $15 million and contribute to strengthened management of existing projects.

Another option would be to proceed with proposed loan commitments at the pace presently planned, but provide for flexibility or delay in their implementation in accord with U.S. aid priorities.

Still another course, which could be combined with either of the above options, would be to drop one or more of the types of programs in which U.S. aid is currently engaged in Nicaragua, allowing fuller attention to the remainder.

VI. COORDINATION AMONG DONORS

Officials interviewed by the staff survey team indicated that coordination on the scene by representatives of Nicaragua's external aid donors is conducted mainly on a voluntary, informal basis and is inadequate. Yet the need for a high degree of coordination is apparent.

Large amounts of U.S. assistance are involved, whether directly through AID or indirectly through such institutions as the World Bank, the Inter-American Development Bank, the United Nations Development Program, and the Organization of American States in which the United States is a major donor. International organizations and institutions contributed more than $40 million for relief and reconstruction in the months following the earthquake and more is planned.

In some cases programs by other donors are complementary to U.S. programs and should be receiving a similar order of priority. For example, the World Bank's $20 million soft loan includes a subproject for building 6,400 homes for low- to middle-income families displaced by the quake. Half cf these homes would be located outside Managua, and are needed to help relieve the pressure for low-cost dwellings in Managua which would be partly met by the U.S.-financed Las Americas Project.

At the same time coordination is needed to prevent duplication of donors' efforts. For example, the Inter-American Development Bank's $16.7 million loan provides in part for rural credit for low-income farmers to finance basic crop production. AID's proposed agriculture sector loan also envisions extending such rural credit.

As examples of cooperative undertakings among donors: AID and the Inter-American Development Bank are cooperating with the Nicaraguan Government in determining needs for improving the generally poor health of the population; AID, the UNDP, and the OAS are jointly financing a vocational and technical training program.

The survey team believes that a more formalized and regular system should be established for on-the-scene coordination by representatives of the major donors to Nicaragua.

In addition to its other merits, such a system would also help improve the Nicaraguan Government's own coordination of reconstruction and development programs.