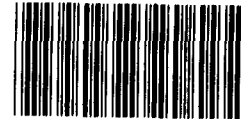


August 1992

# AID TO NICARAGUA

## U.S. Assistance Supports Economic and Social Development



147154



---

---



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

**National Security and  
International Affairs Division**

B-248306

August 14, 1992

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

Through the Dire Emergency Supplemental Appropriations Act of 1990 (P.L. 101-302), Congress provided \$300 million for assistance to the newly elected democratic government of Nicaragua. The legislation also required that we report on the effectiveness of this assistance. As requested, we issued an interim report on the status of assistance to Nicaragua in May 1991; this report examines the effectiveness of the aid and makes recommendations for improved management of the program.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of State; and the Administrator, Agency for International Development; and interested congressional committees. Copies will also be made available to other interested parties upon request.

This report was prepared under the direction of Harold J. Johnson, Director, Foreign Economic Assistance Issues. He can be reached at (202) 275-5790 if you or your staff have any questions. Other major contributors to this report are listed in appendix IV.

Frank C. Conahan  
Assistant Comptroller General

---

# Executive Summary

---

## Purpose

Upon its inauguration on April 25, 1990, the democratically elected government of Nicaragua headed by President Chamorro inherited an economy in very poor condition. The country faced hyperinflation, high unemployment, and dire social needs. The United States provided almost \$500 million in economic support and development assistance from February 1990 through fiscal year 1991 to support Nicaragua's efforts to address its economic and social needs, and it plans to provide an additional \$142 million in fiscal year 1992 and about \$200 million annually through fiscal year 1996. The Dire Emergency Supplemental Appropriations Act of 1990 (P.L. 101-302) required that GAO report on the effectiveness of and lessons learned from U.S. assistance to Nicaragua.

---

## Background

The Agency for International Development (AID) designed its assistance program to (1) help meet Nicaragua's foreign exchange and import needs, (2) encourage the Nicaraguan government to undertake economic reforms, (3) address immediate social concerns and longer term developmental needs, and (4) support the efforts of the United Nations and the Organization of American States (OAS) to repatriate and resettle former Nicaraguan Resistance members and their dependents.

---

## Results in Brief

Cash grants totaling \$340.5 million between June 1990 and December 1991 were effective in helping Nicaragua begin to stabilize its economy and to lay the foundation for future growth. The grants enabled Nicaragua to import goods and helped the government clear its arrears with international financial institutions. An important lesson learned is that AID's continuing dialogue with the government of Nicaragua and the international financial institutions, along with the immediate availability of hard currency, was effective in supporting economic stabilization.

The conditions placed on the grants encouraged Nicaragua to undertake economic reforms, and as an incentive deposits were made to Nicaragua's account as grant agreement conditions were met. However, this occurred in advance of Nicaragua's need to spend the funds. As a result, Nicaragua earned interest on the funds and the U.S. government incurred additional interest costs.

Nicaragua still faces several obstacles to economic growth, such as defining property rights and resolving political conflicts that have led to violence. Moreover, Nicaragua has not yet resolved U.S. citizens' claims for expropriated property.

AID programmed \$82.2 million for 18 development projects in education, health, employment, and other sectors. AID implemented some projects quickly, but implementation of the long-term development projects has been slower than AID expected.

Resettling the former Resistance took more than 1 year longer than expected and will cost about \$13.7 million more than the \$28.8 million the United States initially provided. U.S., OAS, and Pan American Health Organization officials estimated in November 1991 that between 75 and 80 percent of the former Resistance members had been resettled, but data were not available to verify this estimate.

---

## Principal Findings

---

### Cash Grants Encouraged Economic Reforms

AID's cash grants of \$265.5 million for balance of payments support and \$75 million to help clear arrears with international financial institutions provided the Nicaraguan government with the financial support necessary to begin stabilizing the economy. The assistance was conditioned on implementing certain economic reforms, and funds were deposited to Nicaragua's account as the conditions were met. However, AID's policy of depositing funds in Nicaragua's Federal Reserve Bank account as conditions were met meant that funds were financed by U.S. borrowing and deposited in Nicaragua's account in advance of when they were used to finance imports. As of March 31, 1992, the funds had earned about \$6.7 million in interest for Nicaragua. To prevent this from occurring in the future, AID could require that (1) recipient government accounts in the Federal Reserve Bank do not earn interest or (2) interest be paid to the U.S. Treasury.

Nicaragua made progress during 1990, transforming its economy from a command economy to a market economy. Exchange rates were unified, public revenues were stabilized, and fiscal deficit was reduced. In March 1991, monetary policy and budget reforms were introduced. These actions, supported by U.S. assistance, contributed to reducing inflation from a peak of 117 percent in May 1990 to near zero by December 1991. With the help of the U.S. grant, Nicaragua cleared its arrears of \$303.2 million to the World Bank and the Inter-American Development Bank in September 1991. These banks, along with the International Monetary Fund, have since earmarked about \$450 million in additional assistance through fiscal year 1994.

Additional measures, in particular, settling property disputes and resolving political conflicts that have led to violence, will be necessary to create an economic climate favorable to investment and economic growth. Also, no significant investment in productive resources will likely occur until Nicaragua guarantees property rights of investors. About 150 U.S. citizens had claims for expropriated property as of June 1992, but the Nicaraguan government has not yet resolved most of them. The State Department believes Nicaragua is taking appropriate steps to settle these claims, as required by section 620(e) of the Foreign Assistance Act of 1961, as amended, for U.S. assistance to continue. However, the act does not require the State Department to provide the Congress the factual basis for this conclusion.

---

### U.S.-Financed Development Projects Started More Slowly Than Anticipated

AID wanted to demonstrate quick, visible support of the Chamorro government, and accordingly, allocated 72 percent of fiscal year 1990 development assistance for nine "immediate impact" projects, such as providing needed schoolbooks and pharmaceuticals. Other funds were allocated to nine longer term development projects, such as managing natural resources and strengthening democratic institutions, but these projects took almost 18 months to begin. Fifteen of the 18 projects had been designed and approved by the end of 1991, although not all had begun operations. At that time, \$32.4 million of the \$82.2 million obligated in fiscal years 1990 and 1991 had been disbursed, with most of the funds being spent on immediate impact projects. AID requires evaluations of projects, but the mission had performed an interim evaluation of only one project and had extended two projects without an evaluation of their effectiveness or impact.

---

### U.S. Aid Supported Resettlement Efforts

At the time of the elections in February 1990, the United States hoped that OAS would be able to resettle the former Resistance—an estimated 20,000 former Resistance members and 40,000 dependents—in time for them to begin producing their own food at the August 1990 harvest. With \$28.8 million in U.S. assistance, OAS established a program to provide transportation to resettlement areas, farm tools, housing construction materials, monthly food packages, and medical care. However, resettlement took longer and cost more than expected because of (1) delays in demobilization and repatriation, (2) the Nicaraguan government's failure to provide enough land, and (3) an increase in the number of program beneficiaries to about 117,500. As a result, AID provided OAS \$10.9 million more in fiscal year 1991 to continue and

---

expand its program, and later an additional \$2.8 million to continue its efforts to mediate disputes among the former Resistance, Sandinistas, and the government.

---

## Recommendations

GAO recommends that the Administrator of AID (1) revise the policy for structuring grant agreements for cash transfers held in Federal Reserve accounts to minimize the costs to the United States and (2) direct the AID mission in Nicaragua to make timely evaluations of projects and complete them before projects are extended.

---

## Matters for Congressional Consideration

To ensure that it is adequately apprised of the steps being taken by any foreign government to provide relief to any U.S. citizen whose property has been seized or expropriated, the Congress may wish to consider amending section 620(e) of the Foreign Assistance Act of 1961 to require the President to report to the Congress the factual basis for any conclusion that the foreign government has taken or is taking the appropriate steps to provide such relief.

---

## Agency Comments and GAO Evaluation

AID agreed that evaluations should be timely and undertaken before projects are extended and stated that corrective actions had begun. AID indicated that complying with a proposed recommendation that the timing of cash transfers coincide more closely with Nicaragua's need for the funds would seriously affect the incentives offered Nicaragua to quickly carry out the policy and economic reforms. GAO agrees that depositing funds in Nicaragua's account as conditions are met offer an incentive to institute reforms; however, GAO believes that this could be accomplished more economically. GAO has revised its recommendations on this point to encourage AID to adopt better cash management principles in developing future grant agreements.

Both the State Department and AID said that over the past 2 years, senior U.S. officials have placed a high priority on resolving claims. GAO notes that specific actions cited have occurred since January 1992. Both State and AID acknowledged, however, that most claims had not been resolved. The State Department maintained that because Nicaragua had taken some action, the prohibition against continued aid did not apply. GAO believes that the factual bases for reaching such a conclusion in cases like Nicaragua should be reported to the Congress.

# Contents

---

<b>Executive Summary</b>		2
<hr/>		
<b>Chapter 1</b>		8
<b>Introduction</b>	U.S. Assistance to Nicaragua	9
	AID's Development Strategy for Nicaragua Through 1996	11
	Support for the Former Resistance	12
	Objectives, Scope, and Methodology	13
<hr/>		
<b>Chapter 2</b>		15
<b>U.S. Assistance Supported Successful Efforts to Begin Economic Stabilization</b>	Cash Grants Provided Incentives for Economic Reform and Hard Currency for Imports	15
	Assistance Helped Nicaragua Clear Its Arrears to International Financial Institutions	17
	Economic Recovery Program Funds Spent Slower Than Expected	18
	Continued Assistance Will Emphasize Additional Reform	19
	Nicaraguan Efforts to Generate Long-Term Economic Growth	20
	Lessons Learned	24
	Recommendation	25
	Matters for Congressional Consideration	25
	Agency Comments and Our Evaluation	26
<hr/>		
<b>Chapter 3</b>		27
<b>Development Projects Address Short- and Long-Term Needs</b>	Funding Status of Development Projects	27
	Development Projects Linked to Broad Strategic Objectives	29
	Nine Projects Offered Urgent Support for the Nicaraguan Government	29
	Long-Term Projects Just Beginning	32
	AID Placed Low Priority on Project Evaluation	33
	Lessons Learned	35
	Recommendations	35
	Agency Comments	35
<hr/>		
<b>Chapter 4</b>		36
<b>Resettlement of Former Nicaraguan Resistance Was More Difficult Than Expected</b>	Initial Plans Called for Self-sufficiency Within 6 Months	36
	Unanticipated Obstacles to Resettlement	37
	OAS Adjusted Its Program to Meet New Needs	39
	OAS Expanded Its Program in Response to Increased Political Unrest	42



---

Contents

---

	AID Improved Oversight of OAS Program	43
	Lessons Learned	44
	Agency Comments	45
<hr/>		
Appendixes	Appendix I: AID's Fiscal Year 1991 Development Projects	46
	Appendix II: Comments From the Agency for International Development	48
	Appendix III: Comments From the Department of State	59
	Appendix IV: Major Contributors to This Report	67
<hr/>		
Tables	Table 1.1 Sources of U.S. Assistance to Nicaragua	10
	Table 2.1: ESR Programs and Conditions	16
	Table 2.2 Nicaragua's Foreign Debt as of May 1991	20
	Table 3.1: Funding Status of Development Project Assistance for Nicaragua	28
<hr/>		
Figure	Figure 1.1: Allocation of U.S. Assistance to Nicaragua	11

---

Abbreviations

AIFLD	American Institute for Free Labor Development
AID	Agency for International Development
ESR	economic support and recovery
GAO	General Accounting Office
OAS	Organization of American States

# Introduction

---

When the democratically elected government of Violeta Barrios de Chamorro took office on April 25, 1990, it inherited an economy from the Sandinista government that was in very poor condition. Per capita gross domestic product had fallen to less than one-half of what it had been prior to the 1979 Sandinista revolution; the country had experienced hyperinflation, which peaked at 33,654 percent in 1988; foreign debt had accumulated to about \$11 billion; and per capita income was estimated at less than \$300 in 1991, the lowest in Central America.

When the new government took office, it did not have a clear idea of its resources or the country's needs, in part, because public records had been destroyed during the transition period between the February 1990 elections and the new president's inauguration in April. The new government had almost no foreign exchange available, not even the \$8 million to \$10 million needed to pay for a shipment of oil, according to one Agency for International Development (AID) official. Although the political coalition of President Chamorro won the election, the Sandinista party continued to hold a minority position in the Nicaraguan congress and continued to control much of the government bureaucracy, including the military and the police. This sometimes impeded the government's ability to implement reforms.

The political conflict through the 1980s and attendant poor economic conditions also had an impact on education and health in Nicaragua. Although the Sandinistas had instituted a major educational campaign in its early years that claimed significant success, by 1987 literacy rates were estimated at 26 percent of the population. Texts used in primary and secondary schools were heavily politicized. Nicaragua's universal medical system established under the Sandinista government concentrated on primary care for the diarrheal and respiratory illnesses that are among the leading causes of death in Nicaragua. However, the health system could not respond to the needs of the population because it lacked funds for medicines and equipment. In early 1991, Nicaragua had one of Central America's highest infant mortality rates at 61 deaths per thousand, and an estimated 20 to 30 percent of Nicaraguan children were malnourished.

The demobilization of the former Nicaraguan Resistance, or the Contras, and their return to Nicaragua put additional strains on Nicaragua's social, economic, and political systems. Although the new government promised the returning former Resistance members land to farm and protection from harassment by Sandinista-controlled security forces, the government could not entirely fulfill these promises.

---

## U.S. Assistance to Nicaragua

U.S. assistance for Nicaragua was assembled quickly after the election of Chamorro on February 25, 1990. Representatives from AID and the Departments of Agriculture, State, the Treasury, and Commerce formed a working group and by March 15, 1990, had formulated, in consultation with Congress and Nicaraguan officials, a plan for allocating \$300 million in assistance, including \$30 million for the repatriation and resettlement of the former Nicaraguan Resistance. The working group had limited first-hand knowledge of the conditions and needs of Nicaragua, and consequently, it used World Bank and Inter-American Development Bank reports to help determine the best use of the funds. The working group earmarked about \$128 million (43 percent) of the \$300 million assistance package for cash grants that could be disbursed quickly to provide immediate support for the Nicaraguan economy and \$50 million to help clear Nicaragua's arrears with international financial institutions. Other projects were designed to address traditional development areas, such as health and education.

The executive branch submitted its proposed assistance program to Congress on March 19, 1990. The objectives of the assistance, reflecting AID's overall strategy for development in Central America, were to help restore the productive capacity of the economy, provide support for long-term economic growth and development, strengthen democratic institutions, and support international programs for repatriation and resettlement of the former Resistance and Nicaraguan refugees. Congress responded by appropriating \$300 million in the Dire Emergency Supplemental Appropriations Act of 1990 (P.L. 101-302), enacted May 25, 1990. In addition, AID has allocated \$186.3 million from its fiscal year 1991 appropriations to assist Nicaragua.

Even before the Dire Emergency Supplemental Appropriations Act was enacted, AID provided \$13.2 million in assistance to Nicaragua from funds reprogrammed from other AID projects, including \$3.3 million for the repatriation and resettlement of the former Resistance. AID also provided about \$20 million in immediate food aid. The early projects were generally simple in design; primarily involved large commodity purchases, such as schoolbooks and medicines; and relied heavily on projects ongoing in the region that could be expanded to include Nicaragua.

During fiscal years 1990 and 1991, AID obligated about \$499.5 million in assistance to Nicaragua and obligated an additional \$60 million in food aid. Table 1.1 summarizes the source of funds for economic support and

development assistance to Nicaragua, and figure 1.1 shows the uses of these funds provided by Nicaragua for fiscal years 1990 and 1991.

**Table 1.1: Sources of U.S. Assistance to Nicaragua (Fiscal Years 1990 and 1991)**

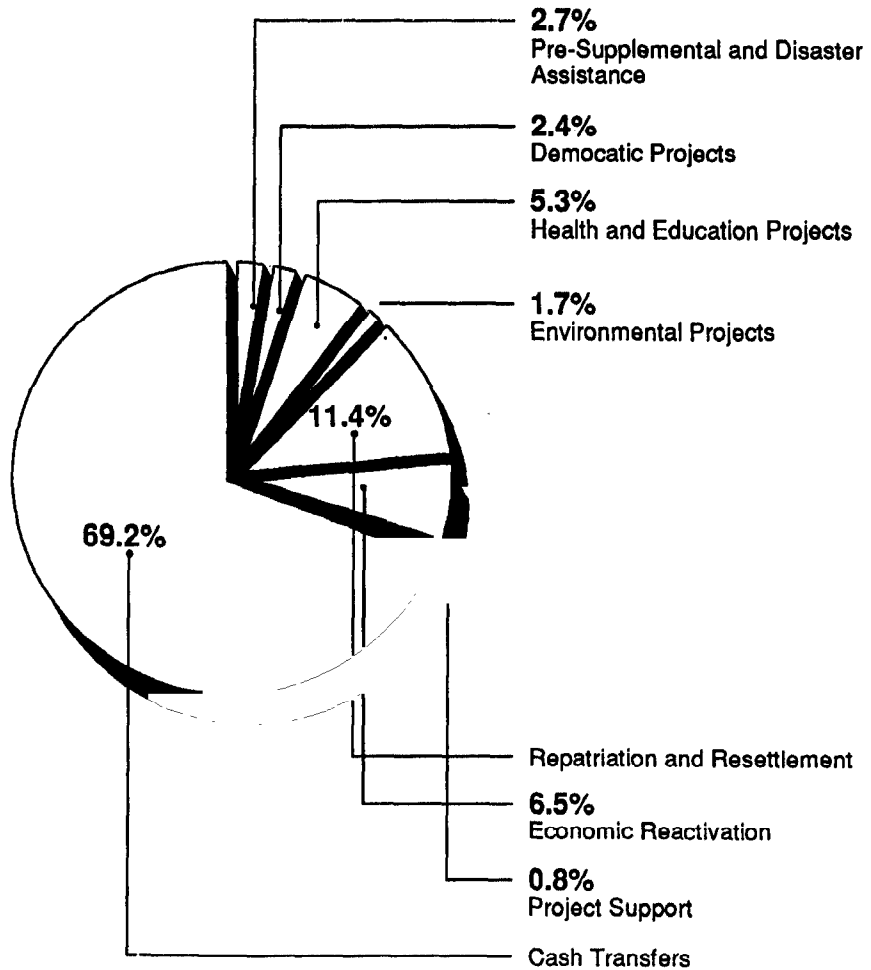
Dollars in millions

<b>Source</b>	<b>Amount</b>
Pre-supplemental assistance	\$13.2
Dire Emergency Supplemental Appropriations Act	300.0 <sup>a</sup>
Fiscal year 1991 Appropriations	186.3
<b>Total</b>	<b>\$499.5</b>

<sup>a</sup>Of this appropriation, \$6.7 million was allocated for the AID mission's salaries and operating expenses for fiscal years 1990 and 1991, leaving \$293.3 million for program activities.

Source: AID.

**Figure 1.1: Allocation of U.S. Assistance to Nicaragua** (Fiscal Years 1990 and 1991)



Source: AID.

## AID's Development Strategy for Nicaragua Through 1996

In July 1991, the AID mission's 5-year Country Development Strategy Statement for Nicaragua was approved. Consistent with AID's overall economic assistance strategy for Central America, the mission identified seven strategic objectives addressing needs that it believed were most critical:

- increased foreign and domestic investment,
- increased participation in the economy,
- greater consensus on democratic values,

- improved maternal and child health,
- increased competitiveness and diversification in the economy,
- improved productive and natural resource management practices, and
- improved quality and efficiency of basic education.

The mission believes that a broad-based strategy addressing critical economic and social sectors will be most effective over the long term because of the strong linkages among the areas, such as the linkage between progress in democratic values and basic education. Therefore, the mission decided to fund some projects to address each economic and social sector over the next 5 years.

The mission's program plans anticipate an annual program budget of about \$142 million in fiscal year 1992 and about \$200 million in economic support and development assistance funds for fiscal years 1993-96, in addition to food assistance of about \$20 million to \$30 million annually. Of these funds, the mission plans to allocate 75 percent to economic recovery programs, including cash grants, and 25 percent to development projects addressing democratization and social objectives.

---

## Support for the Former Resistance

The Dire Emergency Supplemental Appropriations Act of 1990 earmarked \$30 million to support assistance programs for the former Nicaraguan Resistance members and their dependents. The Organization of American States (OAS) received \$1.3 million in pre-supplemental funds and \$27.5 million of the \$30 million<sup>1</sup> to support the former Resistance with personal and household items, farming and housing construction materials, and monthly food rations for 6 months, until the August 1990 harvest, when they were expected to be resettled or self-sufficient. AID provided OAS an additional \$9.9 million to continue the program through July 1991 and used \$100,000 to monitor the program. In addition, AID provided \$2.8 million to continue mediation and human rights monitoring through June 1992.<sup>2</sup> AID also provided \$1 million for a project to distribute rice seed to communities on Nicaragua's Atlantic coast. OAS was also exploring with other donors the possibility of financing its activities through December 31, 1992.

---

<sup>1</sup>The United Nations High Commissioner for Refugees received \$2 million in pre-supplemental funding and the remaining \$2.5 million of the \$30 million to support and repatriate former Resistance members and their dependents from Honduras and Costa Rica. The High Commissioner received an additional \$15 million to repatriate and resettle Nicaraguan noncombatant refugees.

<sup>2</sup>Of the \$2.8 million, \$2.1 million was allocated from fiscal year 1992 appropriations.

---

## Objectives, Scope, and Methodology

The Dire Emergency Supplemental Appropriation Act of 1990 requires that we report on the effectiveness of assistance to Nicaragua in meeting its objectives of (1) revitalizing the economy and reestablishing relationships with international financial institutions, (2) providing long-term economic growth and development and strengthening democratic institutions, and (3) aiding the repatriation and resettlement of former Nicaraguan Resistance members and their families. Congress also directed that we address lessons learned from the Nicaraguan assistance program that could be applied in other countries. We did not review food aid provided under Public Law 480. We issued interim reports on the status of the aid program in May 1991 and on the progress of repatriation and resettlement of the former Resistance in July 1991.<sup>3</sup>

To assess the effectiveness of the U.S. economic stabilization efforts on behalf of Nicaragua, we reviewed AID project documentation for the cash grants, the Nicaraguan government's economic plan, and information on reforms undertaken as conditions for disbursement of aid. Although data was limited and unverifiable, we collected and analyzed available economic indicators to ascertain whether economic reforms were improving economic conditions. We also interviewed officials at AID and the Departments of State and the Treasury in Washington, D.C., and the AID mission and U.S. Embassy in Managua, Nicaragua. We also interviewed some American citizens who have property claims against Nicaragua; Nicaraguan government officials and private citizens in Nicaragua; and representatives of the OAS, the United Nations High Commissioner for Refugees, the World Bank, and the Inter-American Development Bank in Washington, D.C., and Nicaragua.

To assess the effectiveness of U.S. development assistance projects, we interviewed AID officials in Washington, D.C., and Managua and reviewed AID's project documentation. We reviewed AID's assistance program in Nicaragua to determine whether it was consistent with AID's short- and long-range plans. We examined records on selected projects to determine whether projects were meeting objectives. We reviewed the AID Regional Inspector General's reports on the mission's compliance with AID internal control procedures, and we reviewed audit reports on individual projects. We also interviewed representatives of a broad spectrum of Nicaraguan business and political interests, including government officials, Sandinista

---

<sup>3</sup>Aid to Nicaragua: Status of U.S. Assistance to the Democratically Elected Government (GAO/NSIAD-91-183, May 1, 1991) and Nicaraguan Resistance: Programs for Repatriation and Resettlement (GAO/NSIAD-91-234, July 25, 1991).

officials, former Resistance members, and a representative of the Catholic Church, to obtain their opinions on the structure and impacts of the projects.

To assess the effectiveness of the program to resettle former members of the Nicaraguan Resistance, we interviewed AID and State Department officials in Washington, D.C., and Managua; representatives of several international organizations, including OAS and the Pan American Health Organization in Washington, D.C., and Nicaragua; contractors undertaking project activities; and beneficiaries of the resettlement program. We also examined available documentation on the results of this program.

We conducted our review between August 1991 and January 1992 in accordance with generally accepted government auditing standards. AID and the State Department provided written comments on a draft of this report. The agencies' major comments, along with our evaluation of them, are discussed in chapter 2. The full texts of their comments are reprinted in appendixes II and III. We have updated our report when more current data are available and have incorporated the agencies' comments as appropriate.



# U.S. Assistance Supported Successful Efforts to Begin Economic Stabilization

Cash grant assistance totaling \$340.5 million between June 1990 and December 1991 was effective in helping Nicaragua begin to stabilize its economy through economic reforms and to lay the foundation for future economic growth and development. The cash grant agreements conditioned release of funds on reforms contained in Nicaragua's economic stabilization plan and provided Nicaragua with hard currency for balance of payments support and to clear debt arrears. Nicaragua has undertaken significant economic reforms that have begun to stabilize its economy. However, Nicaragua must address other obstacles, such as a large foreign debt and property ownership issues, if it is to create an economic climate conducive to sustained growth. AID plans a cash grant of \$125 million for fiscal year 1992 conditioned on a continuation of economic reforms and sustained economic stabilization. In its 5-year Country Development Strategy Statement approved in July 1991, AID projected that Nicaragua would continue to need substantial cash infusions for budget support.

## Cash Grants Provided Incentives for Economic Reform and Hard Currency for Imports

Of the \$340.5 million given in cash to Nicaragua, \$265.5 million was used to finance eligible imports from the United States and the Central American Common Market,<sup>1</sup> and \$75 million was used to help clear arrears to the World Bank and the Inter-American Development Bank. The United States provided these cash grants from funds provided under the Dire Emergency Supplemental Appropriations Act of 1990 (\$178 million) and AID's 1991 appropriations act (\$162.5 million).

AID allocated almost 70 percent of its total assistance package to cash grants supporting its primary objective of assisting Nicaragua's economic recovery. AID divided the funds into three economic support and recovery (ESR) programs. ESR I was a quick infusion of \$60 million in June 1990 to help the Nicaraguan government finance eligible imports for the public sector. ESR II and ESR III funds were used to finance arrears clearing and public and private sector imports. ESR II totaled \$118 million and was disbursed between December 1990 and December 1991 as the government introduced policy reforms that were conditions of the grants. ESR III, funded with 1991 appropriations, totaled \$162.5 million and was disbursed between May and December 1991. It was also disbursed based on the implementation of policy reforms.

<sup>1</sup>Imports eligible for balance of payments support under the cash grant program must be non-luxury goods from the United States or Central America, or petroleum from developing countries. The Central American Common Market countries are Costa Rica, El Salvador, Guatemala, and Nicaragua.

**Chapter 2**  
**U.S. Assistance Supported Successful Efforts**  
**to Begin Economic Stabilization**

A wide variety of individuals with whom we spoke, including World Bank, Inter-American Development Bank, and U.S. and Nicaraguan officials, as well as opposition party members, all agreed that the cash grants gave the Chamorro government the financial support necessary to begin to stabilize the Nicaraguan economy. AID reported that during 1990, the Nicaraguan government made slow but steady progress in transforming Nicaragua's economy from a command economy to a market economy. During this period exchange rates were unified, public sector revenues were stabilized, progress was made in reducing the fiscal deficit, and a system of positive real interest rates for loans and deposits was established.

On March 3, 1991, the Nicaraguan government announced an economic reform plan designed to stabilize the economy and address hyperinflation, high government spending, and large foreign debts. Because the country's economy was in such poor condition, the economic plan gained support across the polarized political spectrum. Measures undertaken included a reduction in government spending, tax reform, the elimination of state trade and export monopolies, and the introduction of a new currency. AID supported the Nicaraguan government's economic plan by conditioning disbursement of ESR funds on initiation of some of the plan's reforms. Table 2.1 summarizes the ESR conditions.

**Table 2.1: ESR Programs and Conditions**

Dollars in millions		
<b>Program</b>	<b>Amount</b>	<b>Policy reform conditions</b>
ESR I	\$60.0	None.
ESR II	\$118.0	(1) Develop and adhere to an economic plan with specific targets, such as reduced government spending; license private operators in foreign trade; license private financial institutions; and develop a plan for moving state-owned enterprises into the private sector. (2) Develop and implement a plan to reduce civilian public sector employment. (3) Negotiate a workable arrangement to clear arrears with the World Bank and the Inter-American Development Bank.
ESR III	\$162.5	(1) Adhere to macroeconomic targets in the economic plan; and license private banks and allow them to buy and sell foreign exchange, accept demand deposits, and confirm letters of credit. (2) Continue to reduce civilian public sector employment. (3) Negotiate a workable arrangement to clear arrears with the World Bank and the Inter-American Development Bank.

Source: AID.

The Nicaraguan government has adhered to its plan of economic reform. It has continued to meet or exceed its macroeconomic targets, such as decreasing net Central Bank credit to the government and increasing net domestic assets. The stabilization measures Nicaragua initiated in early 1990, along with reforms announced in March 1991, contributed to Nicaragua's inflation rate falling from a peak of 117 percent in May 1990 to near zero in December 1991. In addition, Nicaragua has maintained a stable currency exchange rate (five cordoba oro to one dollar) since March 1991, in contrast to currency devaluations in the late 1980s averaging 310 percent annually. Civilian central government employment of about 80,000 has been reduced by over 19,000 (23.8 percent) since January 1991 through incentives for voluntary separation. State trading monopolies were abolished, private trading companies are being licensed, and private banks have been licensed. Nicaragua also cleared its arrears to the World Bank and Inter-American Development Bank.

ESR funds to finance imports are deposited in Nicaragua's account in the New York Federal Reserve Bank as conditions are met. Once deposited, the funds, financed by U.S. borrowing, earn interest until they are spent to finance imports. Because funds were deposited in Nicaragua's account as conditions were met, often well in advance of when they were actually needed to finance imports, the funds from the three ESR programs had earned about \$6.7 million in interest for Nicaragua as of March 31, 1991. Interest, like the ESR funds for imports, can be used to purchase eligible imports from the United States and Central American Common Market. We believe AID could minimize the cost of providing assistance by structuring grant agreements to provide that any interest accrued from disbursements to other countries' Federal Reserve accounts will accrue to the United States.

---

## **Assistance Helped Nicaragua Clear Its Arrears to International Financial Institutions**

Nicaragua fell into arrears on its debts to the World Bank in 1984 and the Inter-American Development Bank in 1987, and by September 1991, arrears to these institutions totaled \$303.2 million. Nicaragua needed to clear the arrears and institute an acceptable economic stabilization plan to receive new funds or assistance from those lenders or the International Monetary Fund. One of the specific objectives of U.S. assistance was to help Nicaragua reestablish relations with international financial institutions.

In September 1991, Nicaragua cleared its arrears with grants and loans from 11 donor nations. The United States provided the largest single

donation with its \$75 million grant. The Nicaraguan government contributed \$8.4 million to this effort, while six other donor nations provided \$27.5 million in grants and concessional loans, and four donor nations provided \$208 million in short- and medium-term loans. These funds totaled more than the \$303.2 million necessary to clear arrears. The remaining \$15.7 million was used to repay the short-term loans arranged to clear the arrears.

With arrears cleared, Nicaragua began receiving new assistance. By October 1991, the World Bank, Inter-American Development Bank, and International Monetary Fund had earmarked about \$450 million through fiscal year 1994 for balance of payments support and other programs. Nicaragua was expected to have received about \$274 million of that amount by May 1992. Some remaining funds are conditioned on continued economic stabilization, and some require additional reforms.

---

## **Economic Recovery Program Funds Spent Slower Than Expected**

When the Chamorro government took office, Nicaragua did not have enough foreign currency reserves available to buy imports. The Central Bank had some foreign currency reserves, but most were already committed for other purposes. One AID official told us that in May 1990, Nicaragua did not have enough available reserves to purchase a shipment of oil for about \$8 million to \$10 million. U.S. assistance provided Nicaragua with hard currency needed to finance imports and support the local currency. However, of the \$265.5 million AID deposited in a Federal Reserve account for Nicaragua to use to finance imports, only \$150.5 million had been released to the Nicaraguan Central Bank for eligible imports as of December 31, 1991.

When the Central Bank does not use ESR funds to finance eligible imports, it has to spend its own hard currency reserves. This can cause such reserves to fall to levels that AID officials consider too low to ensure that (1) importers will have access to hard currency for imports that are not eligible for ESR financing and (2) the central government will have reserves for other purposes. In January 1992, only about \$40 million of the Central Bank's reserves were available, and available reserves had been as low as \$20 million.

While overall the program was considered effective, U.S. officials attribute the problems that Nicaragua has had spending ESR funds to (1) AID's import restrictions, such as source and origin requirements, and documentation requirements and (2) processing delays at the Central

Bank. Importers also have had problems getting the cordoba oro necessary to buy hard currency. AID has taken some steps to streamline the process by changing documentation requirements and beginning pre-financing reviews for import eligibility. In addition, in September 1991 AID contracted with two teams to evaluate the ESR program and to recommend ways to improve the process for using ESR funds. Their evaluations were due in April 1992.

---

**Nicaragua Had Not Fully Reimbursed ESR Account for Ineligible Imports**

ESR grant agreements require the Nicaraguan Central Bank to reimburse the New York Federal Reserve account for funds used to finance ineligible imports, such as luxury goods or petroleum used by the military or police. According to AID, about \$12.3 million of the imports financed with ESR funds as of December 31, 1991, were ineligible for ESR financing. AID officials said that as of December 31, 1991, the Central Bank had reimbursed the Federal Reserve account for about \$8.5 million of these costs. The remaining costs of about \$3.8 million included about \$2.2 million that AID determined was spent on petroleum used by the military or police. Since imports of petroleum for public sector support were eligible for ESR funding, determining the amount used by the military and police caused delays in repayment of the ESR account.

---

**Continued Assistance Will Emphasize Additional Reform**

AID is preparing a plan for additional cash grants to Nicaragua, using about \$125 million appropriated in fiscal year 1992. AID has amended ESR III to add about \$25 million for continued support of reductions in public sector employment. The remaining \$100 million is to be designated ESR IV, a cash transfer program that will support further economic reform and compliance with International Monetary Fund, World Bank, and Inter-American Development Bank agreements. Both ESR IV and new ESR III funds are expected to finance (1) petroleum imports from developing countries and (2) eligible imports from the United States and the Central American Common Market.

U.S. and Nicaraguan officials and representatives of the international financial institutions believe that Nicaragua will continue to need cash infusions from external donors for years to meet its economic and social needs. AID anticipates that Nicaragua will need cash grant balance of payments support at least through fiscal year 1996, and AID plans to provide such support based on Nicaragua's continued adherence to its economic reform plan.

## Nicaraguan Efforts to Generate Long-term Economic Growth

Impediments to Nicaragua's economic growth have included large foreign debts; a centrally planned, state-run economy inherited from the Sandinista regime; and domestic tension over property and land ownership issues. With donor support, Nicaragua has been addressing its foreign debt and has begun to privatize many state-owned businesses. Property and land ownership issues and continuing political tension between various groups in the country are yet to be resolved.

## Nicaragua Is Attempting to Resolve Its Foreign Debt

Nicaragua has one of the highest debt-to-gross domestic product ratios in the world. According to the Inter-American Development Bank, its per capita debt of around \$2,700 compares with a 1990 per capita income of \$532 (in 1988 dollars). In May 1991, Nicaragua had external debt totaling nearly \$11 billion, as shown in table 2.2, and more than one-third of this debt was in arrears.

**Table 2.2: Nicaragua's Foreign Debt as of May 1991**

Dollars in billions

<b>Creditor</b>	<b>Amount</b>
<b>Bilateral creditors</b>	
Latin America	\$2.2
Paris Club <sup>a</sup>	1.0
Former Soviet Union and Central and East Europe countries	3.8
Asia	0.2
Africa	0.2
<b>Subtotal</b>	<b>7.4</b>
Multilateral organizations	1.3
Commercial banks	1.8
Other	0.3
<b>Total</b>	<b>\$10.8</b>

<sup>a</sup>For Nicaragua, the Paris Club creditors are Australia, Austria, Denmark, Finland, France, Great Britain, Germany, Holland, Israel, Italy, Spain, Sweden, and the United States.

Source: World Bank.

As part of its economic plan, Nicaragua has begun negotiating with its creditors and has made significant progress in reducing or rescheduling

much of its foreign debt. In September 1991, the United States forgave \$285 million of Nicaragua's \$327 million bilateral debt.<sup>2</sup> The U.S. debt forgiveness totalled nearly 3 percent of Nicaragua's external debt.

Nicaragua has also reached agreements resolving debts with other bilateral creditors. It has completed negotiations with Colombia, Mexico, Venezuela, and the Paris Club lenders which affect about \$2.7 billion of its debt. Nicaragua has also begun negotiations with some commercial creditors and is servicing its current debt to the international financial institutions. Debt owed to the former Soviet Union, the former German Democratic Republic and other East European countries, Iran, and Libya has been addressed in a preliminary manner, but no agreements have been completed.

In December 1991, the Paris Club agreed to address Nicaragua's debt with favorable terms. According to Treasury officials, individual member nations have the option of treating Nicaragua's bilateral debt under one of four possible options: (1) principal cancellation, (2) interest reduction, (3) capitalization of interest, and (4) debt rescheduling. Over the long run, the first three options result in net debt reduction of about 50 percent in the present value of the consolidated debt, which includes all arrears and all debt coming due over the period between September 1, 1991, and March 31, 1993. The fourth option reschedules the debt without debt reduction.

For all the options, the consolidated debt will be treated as new principal and will be rescheduled over a 25-year period, including a 15-year grace period. During the grace period, Nicaragua will pay only 50 percent of the interest on the new consolidated principal. The remaining interest will be paid in six equal payments between December 1992 and June 1995. Nicaragua is currently negotiating terms with the member countries. The United States, having already forgiven about 87 percent of the amount Nicaragua owed to the United States, chose the fourth option of rescheduling the remaining \$42 million debt. The Paris Club agreed to meet again in 3 years to discuss Nicaragua's remaining debt.

---

<sup>2</sup>Debt was forgiven under section 572 of the Foreign Operations Export Financing and Related Programs Appropriations Act of 1989 (P.L. 100-461) and section 411 of the Agriculture Trade Development and Assistance Act of 1954, as amended by the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624). These statutes authorize the President to forgive debt incurred under the acts if the country (1) is a "least developed" country and (2) has an International Monetary Fund standby agreement or other acceptable economic policy program.

World Bank and U.S. officials believe that Nicaragua should be able to service its rescheduled debt through 1994. However, much Nicaraguan debt has not been resolved, and Nicaragua's ability to service its debt in the long term is still uncertain. One indicator of investor confidence is the price of a country's debt on the secondary market. The price of Nicaragua's debt increased from a 98-percent discount rate (2 cents per dollar of debt) in February 1991, just before the economic stabilization plan was implemented, to a 93.75-percent discount rate (6.25 cents per dollar of debt) in February 1992, indicating a small increase in investor confidence in Nicaragua's ability to repay its debts. However, Nicaragua still has one of the lowest credit ratings among less developed countries.

---

### **Nicaragua Is Moving State-Owned Businesses to the Private Sector**

The Nicaraguan government has begun to move some of about 300 state-owned enterprises into the private sector under a privatization strategy developed as part of the economic stabilization plan. Privatization involves the sale of companies owned by the government, the return of companies confiscated by the government to their legal owners, and liquidation. By privatizing these businesses, the government aims to reduce the public sector's share in the economy, lessen its administrative responsibilities, and earn revenue. Under the privatization program, a government agency, the General Council of National Corporations of the Public Sector, acts as a holding company for the state-owned enterprises and arranges sales or leases.

Continued privatization is part of Nicaragua's agreement with the World Bank and should reduce the relative importance of state-owned enterprises from about 30 percent of gross domestic product to less than 10 percent. Nicaragua's goal is to retain only those enterprises whose function can clearly be better served by government management. According to Nicaraguan officials, disposal of the state-owned enterprises has been made more difficult because of political resistance to privatization and the difficulty in attracting capital in an uncertain business environment. According to a Nicaraguan official, as of November 1991, about 88 state-owned enterprises had been sold or leased.

---

### **Property Issues May Reduce Prospects for Economic Development**

U.S. officials and observers from all segments of Nicaraguan society acknowledge that no significant investment in productive resources will occur until the Nicaraguan government guarantees property rights of investors. Although the current government has voiced its commitment to return most business and residential property confiscated under the



previous government, or compensate previous owners, different political parties and private organizations within Nicaragua disagree on how to resolve issues of land reform and property ownership.

According to the State Department, over 5,000 individuals and families have filed claims that their property had been expropriated by Nicaraguan governments. As of June 1992, about 150 of these claims were filed by U.S. citizens, a number currently increasing at a rate of 2 to 3 claims per week. Section 620(e) of the Foreign Assistance Act of 1961, as amended, states that

the President shall suspend assistance to the government of any country. . . when the government of such country . . . has nationalized or expropriated or seized ownership or control of property owned by any United States citizen or by any corporation, partnership, or association not less than 50 per centum beneficially owned by United States citizens . . . and such country . . . fails within a reasonable time (not more than six months after such action . . .) to take appropriate steps . . . to discharge its obligations under international law toward such citizen or entity, including speedy compensation for such property in convertible foreign exchange . . . and such suspension shall continue until the President is satisfied that appropriate steps are being taken.

The act further states that its provisions "shall not be waived with respect to any country unless the President determines and certifies that such a waiver is important to the national interests of the United States." The certification is to be reported immediately to the Congress.

After the Chamorro government took office, it created a National Review Commission to review property claims and make title decisions. However, in May 1991, the Nicaraguan Supreme Court ruled that decisions by the commission did not have the force of law and were unenforceable. Since then, property transfer issues have been debated in the Nicaraguan National Assembly and legislation has been proposed, but no political solution to the problem has been found.

In commenting on a draft of this report, the State Department informed us that the Nicaraguan government announced in May 1992 that it will improve its claims program by creating a special office in the Attorney General's office and a strengthened National Review Commission to process all outstanding claims, and the Nicaraguan government informed the State Department on June 10, 1992, that it had instituted a plan to speed the resolution of U.S. claimants cases. These actions were taken after the conclusion of our fieldwork, and we were not able to assess whether these actions would improve the claims process.

Although the Nicaraguan government may now intend to resolve these claims, as indicated by the State Department, the "speedy compensation" contemplated by the Foreign Assistance Act has not occurred. Under section 620(e) of the Foreign Assistance Act, the President has the authority to determine whether conditions require the suspension of aid, and the President has delegated that authority to the Secretary of State. The act does not require the President to provide the Congress with the factual basis for the policy decision.

---

### **Political Violence Has Created Unfavorable Economic Climate**

Continuing violence in Nicaragua is likely to inhibit the rate of domestic and foreign investment. Conflicts among the government of Nicaragua, the Sandinista-controlled military, armed pro-Sandinista civilians, other armed civilians, and the former Resistance have continued and have led to sometimes violent confrontations. The government's inability to provide the land promised to the former Resistance at demobilization due to problems with competing claims has been a continuing source of frustration.<sup>3</sup> Several incidents of violence between ex-Resistance members and Sandinista civilians have occurred in the last year over access to land. In addition, Sandinista demonstrators destroyed public property and government offices in demonstrations on November 9, 1991, and labor unions have conducted sometimes violent strikes against industries for higher wages and for ownership of a share of private companies. According to AID, the police, who are part of the Sandinista Peoples Army, seem to be unable or unwilling to intervene in many of these protests.

---

### **Lessons Learned**

AID officials allocated about 70 percent of the total assistance package for Nicaragua to cash grants conditioned on economic reforms because they believed that stabilization of the economy was a prerequisite for other development. AID worked closely with other donors and the Nicaraguan government to design and implement the ESR programs, and the preconditions of these programs supported the Nicaraguan economic stabilization plan and conditions established by other donors. This approach seems to have worked well. For example, both AID and the World Bank imposed conditions that encouraged privatization of state-owned businesses. In addition, the arrears-clearing effort in Nicaragua brought together the Nicaraguan government, 12 other nations, the World Bank, Inter-American Development Bank, and International Monetary Fund. Such

---

<sup>3</sup>To encourage demobilization, the Nicaraguan government promised, among other things, to provide each former combatant with land on which to farm or raise cattle.

a coordinated strategy is an important factor in supporting a cohesive economic plan. Also, a plan that all donors support is more likely to attract the financial assistance necessary for success than a plan that is supported by only one donor.

AID's management of cash transfers has resulted in an added cost of providing assistance that is financed by U.S. government borrowing due to interest paid through the Federal Reserve Bank. To prevent this from occurring in future transfers, AID could revise its policy for structuring cash grant agreements to maximize incentives for economic reform while minimizing the costs of providing assistance. For example, while continuing to make funds available as conditions are met, AID could require that (1) recipient country accounts in the Federal Reserve Bank do not earn interest or (2) interest be paid to the U.S. Treasury. Because of the relationship between the Federal Reserve Bank and the U.S. Treasury, either option would provide recipient countries with the funds promised in the grant agreements as policy reforms were made, but would eliminate the possibility of additional U.S. spending for interest caused by delays in using the assistance.

Although the Nicaraguan government may have good intentions about resolving claims of U.S. citizens who have had their property confiscated, unresolved property issues could still be a potential stumbling block to both continued U.S. assistance and the creation of an economic climate attractive to private investment. Our review indicated that the actions taken by the Nicaraguan government to date have not provided the timely return of or compensation for properties expropriated from U.S. citizens.

---

## **Recommendation**

To ensure that U.S. assistance does not exceed the amount intended by Congress, we recommend that the Administrator of AID revise the policy for structuring grant agreements for cash transfers held in Federal Reserve accounts to minimize the cost of providing assistance to other countries.

---

## **Matters for Congressional Consideration**

To ensure that it is adequately apprised of the steps being taken by any foreign government to provide relief to any U.S. citizen whose property has been seized or expropriated, the Congress may wish to consider amending section 620(e) of the Foreign Assistance Act of 1961 to require the President to report to the Congress the factual basis for any conclusion that the foreign government has taken or is taking the appropriate steps to provide such relief.

## Agency Comments and Our Evaluation

In commenting on our draft report, AID focused its comments on its successful use of cash transfers as incentives for economic reform. The agency disagreed with our draft report recommendation that the timing of cash transfer payments closely coincide with the recipient country's need for the funds. AID stated that this requirement could impair the agency's ability to disburse funds rapidly. We agree with AID that the transfer payments should be made as the conditions specified in the grant agreements are met. However, the intent of our recommendation was to encourage the agency to adopt better cash management principles and reduce unnecessary costs to the U.S. government while at the same time maximizing incentives for economic reform. We have revised our recommendations accordingly.

The State Department and AID acknowledged in their comments that actions taken by the Nicaraguan government to resolve the property claims of U.S. citizens had to date not been sufficient and that the bulk of the claims remained unresolved. However, State did not concur with the recommendation in our draft report that it place a higher priority on this issue and stated that it had given the issue a high priority over the last 2 years. The specific actions cited in the comments indicate that the State Department's emphasis on this issue increased after we completed our fieldwork and Congress began demonstrating an increased interest in the return of U.S. citizens' properties. Therefore, we have dropped this recommendation from the final report.

The State Department also stated that the establishment by the government of Nicaragua of a claims registration program, combined with its assurances to U.S. officials that claims of U.S. citizens will be resolved on a priority basis, indicates that Nicaragua is in the process of taking appropriate steps to discharge its obligations under international law. The State Department has concluded that the prohibition in section 620(e) of the Foreign Assistance Act does not apply at this time. We are not convinced that the property claims of U.S. citizens will be resolved quickly; therefore, we are raising the process by which this section of the act is implemented as a matter for congressional consideration.

# Development Projects Address Short- and Long-Term Needs

AID allocated \$82.2 million from fiscal year 1990 and 1991 appropriations for 18 development projects in Nicaragua, not including regional projects. The purpose of these projects is to contribute to economic growth and building democratic institutions. Nine of the 18 projects were designed to target the country's immediate social and economic needs in support of the new government and 9 were to meet longer term needs. Fifteen of the 18 projects had begun as of December 31, 1991, and \$32.4 million (39 percent) of the \$82.2 million had been disbursed. AID has set quantitative and qualitative objectives for each project, but the mission has placed a low priority on evaluating the projects' effectiveness and impact; only one project had been evaluated as of December 31, 1991, and two projects had been extended without evaluation. In addition, our review indicated that two ongoing projects were not meeting all their objectives.

## Funding Status of Development Projects

Table 3.1 shows the funding status of AID's development projects as of December 31, 1991. The table includes \$70.2 million appropriated in the 1990 Dire Emergency Supplemental Appropriations Act and \$12 million appropriated for AID in fiscal year 1991. (See app. I for information on the four projects begun in fiscal year 1991.) Projects begun during fiscal year 1990 are discussed in our report, Aid to Nicaragua: Status of U.S. Assistance to the Democratically Elected Government (GAO/NSIAD-91-183, May 1, 1991).

**Chapter 3  
Development Projects Address Short- and  
Long-Term Needs**

**Table 3.1: Funding Status of Development Project Assistance for Nicaragua (Fiscal Years 1990 and 1991)**

Dollars in thousands

<b>Category of assistance</b>	<b>Obligated as of 12/31/91</b>	<b>Disbursed as of 12/31/91</b>	<b>Percentage of obligation disbursed</b>
<b>Fiscal Year 1990</b>			
Immediate impact projects			
Vocational training	\$1,700	\$1,105	65.0
Technical assistance and training	3,190	2,000	62.7
Employment generation	20,900	8,300	39.7
Labor union support	700	700	100.0
Media support	235	173	73.6
Public sector commodity support	7,780	2,987	38.4
Textbooks	12,200	11,921	97.7
Procurement of medicines	1,500	1,200	80.0
Community hospitals	2,500	1,427	57.1
<b>Subtotal</b>	<b>50,705</b>	<b>29,813</b>	<b>58.8</b>
Long-term projects			
Natural resources management	8,000	0	0
Strengthening democratic institutions	3,000	60	2.0
Private agriculture services	1,500	97	6.5
Private sector support	1,000	6	0.6
Development training and support	2,000	0	0
<b>Subtotal</b>	<b>15,500</b>	<b>163</b>	<b>1.1</b>
<b>Program development and support</b>	<b>4,064</b>	<b>2,107</b>	<b>51.8</b>
<b>Total</b>	<b>70,269</b>	<b>32,083</b>	<b>45.7</b>
<b>Fiscal year 1991</b>			
Long-term projects			
Family planning	1,000	258	25.8
Immunization assistance	1,219	36	3.0
Private voluntary organization co-financing	4,281	27	0.6
Rural electrification	5,000	0	0
<b>Subtotal</b>	<b>11,500</b>	<b>321</b>	<b>2.8</b>
Project extensions			
Private sector support	300	0	0
Technical assistance and training	110	0	0
<b>Subtotal</b>	<b>410</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>11,910</b>	<b>321</b>	<b>2.7</b>
<b>Grand total</b>	<b>\$82,179</b>	<b>\$32,404</b>	<b>39.4</b>

Source: AID.

---

## Development Projects Linked to Broad Strategic Objectives

AID's strategy for development project assistance to Nicaragua was twofold: (1) enhance social stability by responding to Nicaragua's urgent social and economic needs and (2) establish and begin to implement a long-term development plan. Nicaragua had many obvious economic and social development needs, and AID's goals of economic revitalization and strengthening democratic institutions were broad enough to encompass a wide range of social and economic project activities. AID chose to address a wide range of needs rather than prioritize needs to focus resources on any one or two areas because it believed that all the development areas needed immediate attention until Nicaragua was economically stabilized and could find more donors.

According to AID officials, some Sandinista-affiliated groups have sought AID's financial support for development projects they were promoting. However, these officials said that AID has not agreed to support these organizations' projects because (1) the project proposals were inadequately developed and defined and (2) the groups had not yet demonstrated adequate support for democratic principles.

---

## Nine Projects Offered Urgent Support for the Nicaraguan Government

AID selected nine "immediate impact" projects, such as providing textbooks, medicines, primary health care, short-term vocational training, and technical assistance on public policy, to help address urgent needs. AID allocated about 72 percent of fiscal year 1990 development assistance for these projects. Because these nine projects mainly sought to support the new government by addressing emergency needs, achieving sustainable improvements in Nicaragua's development was not a major objective. The AID mission believed that the short-term projects would create a framework for sustainable development projects that would begin later with assistance from the United States and other donor countries and international organizations.

AID authorized reduced paperwork requirements and the liberal use of procurement waivers to facilitate implementation of the nine immediate impact projects. In addition, some projects already ongoing in the region were expanded to include Nicaragua, and commodity purchase projects were relatively simple to implement. Five projects accomplished their objectives by delivering services and commodities within target time frames.

- Under the textbook project, AID purchased and delivered 8.5 million primary and secondary school books and 36,000 vocational education books to Nicaragua between June 1990 and November 1991.
- The hospital support project, implemented by a private voluntary organization, provided commodities, training, and other support for four regional hospitals.
- AID's pharmaceutical and medical supply project procured and delivered urgently needed supplies to hospitals and health clinics through the Nicaraguan Ministry of Health.
- The technical assistance and training project, through the Central American Institute for Business Administration, placed more than 40 advisers to assist government ministries in public policy formulation and implementation.
- The media support project procured a radio transmitter and communication equipment to reactivate a nationwide democratic radio station.
- AID's grant for labor union support was designed to provide union members and leaders with training, workshops, and seminars on topics such as union development, grievance procedures, union administration, labor legislation, and democratic political behavior.

The three other immediate impact projects, which required working with Nicaraguan ministries and private voluntary organizations or involved other project support organizations, took longer to begin. The public sector commodity support project, which was to deliver office supplies and equipment to more than 40 Nicaraguan ministries that had been ransacked by the departing Sandinista government, did not deliver the commodities until 1 year after the new government took office. The project was delayed because the government of Nicaragua took longer than expected to meet the conditions set out in the project agreement and to prepare lists of needed commodities. Also, the Small Business Administration was slow in approving the contract for the procurement services agent.

The employment generation project, although considered important to Nicaragua's economic recovery, was delayed by about 6 months because the implementing ministry, the Nicaraguan Institute for Municipal Public Works, did not establish the financial control systems required by AID until March 1991. Similarly, an AID Inspector General review noted internal control problems, such as a lack of formal financial accountability



procedures and thorough record keeping, in the vocational training project implemented by the Salesian Mission.<sup>1</sup> Project implementation was slowed while the Salesian Mission changed its internal procedures to address the problems.

---

## Two Projects Only Partially Meeting Objectives

Two of AID's nine ongoing projects—the employment generation project and the vocational training project—were only partially meeting planned objectives. The objective of the employment generation project was to create 20,000 temporary jobs in public works construction by using 40 percent of the initial \$10 million relatively low cost of unskilled labor compared with the costs of construction materials in Nicaragua made it extremely difficult for the projects to meet the 40-percent labor cost objective. Shortly after the project began to operate at full capacity, AID conducted an interim evaluation that showed that the initial \$10 million would lead to the creation of only 7,500 to 9,000 jobs. The mission then lowered the labor component required in each project's budget to 30 percent, with the objective of creating 35,000 jobs with a total project budget of \$30.4 million.

Our analysis shows that the project likely will not meet the revised employment generation objectives for the following reasons.

- At the current estimated cost-per-job-created estimate of \$1,000, the project will generate about 30,400 jobs, about 4,600 less jobs than mission's revised objective. In addition, the average length of employment under the program is just 2 months.
- AID overestimated the number of jobs projects would generate by as much as 60 percent. Mission officials calculated the number of jobs created by dividing total planned expenditures for labor by an average monthly salary of \$150. However, for some projects actual salaries averaged as high as \$250 per month.

Because the project has not met its primary employment generation objective, the AID mission is now emphasizing the secondary objectives of infrastructure improvement and support for private sector construction to justify continuing the project. However, one secondary objective, infrastructure improvement, is not consistent with the mission's Country

---

<sup>1</sup>The Salesian Mission is a private voluntary organization that has administered education and training programs in Nicaragua since 1912.

Development Strategy Statement. According to the Strategy Statement, the mission will not directly finance major rehabilitation and reconstruction or new construction of physical infrastructure because of the high costs associated with such programs and because the World Bank and the Inter-American Development Bank generally invest in improvements of infrastructure and public buildings.

With respect to the vocational training project, the original objectives of placing 60 percent of graduates were unrealistic given the economic and employment situation in Nicaragua. Initial objectives were to train 7,370 students in technical skills and integrate 4,200 of them, or 60 percent, into Nicaragua's work force by 1993. In commenting on a draft of this report, AID agreed that the project's original placement goal was unrealistic, but noted that it was based on hopes for an expanding market for skilled workers due to quick improvement in the economic situation. By September 1991, 1 year after the project began, 3,292 individuals had completed the 3- to 9-month training courses, but only 2 percent of these students had obtained jobs through the project's job placement program.

The project, being implemented by the Salesian Mission, offers training in such diverse vocational areas as carpentry, metal work, sewing, computer skills, and office work. AID officials believed that training being offered is of high quality, but job placement has been difficult because of Nicaragua's serious economic problems and unemployment rates estimated at between 25 and 50 percent. The Salesian Mission recently conducted a study to examine the job market for the training graduates, and Salesians have also opened a job placement center to assist course graduates in finding jobs.

---

## Long-Term Projects Just Beginning

AID allocated \$31.5 million to nine long-term projects and project support activities designed to support its goals of encouraging economic and social development and a stable, democratic government. The projects are natural resources management, private agricultural services, private sector support, immunization assistance, development training and support, strengthening democratic institutions, private voluntary organization co-financing, family planning, and rural electrification. As of September 30, 1991, AID had spent about 8 percent of funds allocated to these long-term projects. It is too early to assess their effectiveness and long-term impact.

AID officials attributed delays in project implementation to a lack of staff resources and time-consuming project design requirements. AID mission officials told us that they had focused their attention on the requirements

of designing a broad development project portfolio and did not have additional staff resources to devote to implementation of the complex long-term development projects. For example, they told us that they had delayed a project designed to attract private voluntary organizations to Nicaragua to promote various development activities until fiscal year 1992 because they believed the management of this project to be beyond their administrative capabilities until then. Moreover, the mission's 1991 internal controls assessment identified insufficient experienced staff to monitor mission assistance activities properly as a material weakness.

According to an official, the process for designing and documenting AID projects can take up to 2 years, delaying implementation of these projects. For the five fiscal year 1990 long-term projects, it took about 18 months to complete project design and documentation requirements because the mission was required to comply fully with standard project design and documentation procedures.

---

## **AID Placed Low Priority on Project Evaluation**

AID's policy states that measuring the impact of development assistance is essential for adequate management of the agency's projects. However, the AID mission in Nicaragua placed a low priority on evaluating the impact of its projects. The mission had conducted an interim evaluation on only one—the employment generation project—of the seven projects fully underway at the end of fiscal year 1991. This evaluation demonstrated the utility of interim evaluation. By disclosing problems early, the evaluation enabled the mission to take some corrective actions. Mission officials attributed the lack of additional interim evaluations in part to the one-time nature of the immediate impact projects and the newness of the other projects.

The mission did not finalize its project monitoring and evaluation strategy until January 1992. The AID Regional Inspector General, in an August 1991 report on the Nicaragua assistance program, recommended that the Director of the AID mission comply with agency guidance and issue an order establishing a monitoring and evaluation system.<sup>2</sup> Although the mission finalized its order in January 1992, it had not finalized a timetable for evaluation of ongoing development projects at that time.

---

<sup>2</sup>Audit of the Nicaragua Assistance Program Funded by Public Law 101-302 and Fiscal Year 1991 Appropriations as of May 31, 1991, AID Regional Inspector General (1-524-91-012).

As of the end of September 1991, the mission had completed two projects—one supporting democratic media and the other supporting labor unions—but neither had received a final evaluation by December 1991. The project to support democratic media, implemented by the National Endowment for Democracy, was a one-time provision of radio equipment to provide an alternative to Sandinista-controlled radio stations. As a one-time commodity purchase, AID considered the project complete upon delivery of the equipment and did not require further evaluation. According to AID, the radio station began operating in early May 1992.

The labor union support project, implemented by the American Institute for Free Labor Development, an organization affiliated with the American Federation of Labor Unions and the Congress of Industrial Organizations, was designed to provide technical assistance to create and support independent, democratic labor unions that offered an alternative to Sandinista labor unions. This project was granted an additional \$2.8 million in October 1991 to continue activities although an evaluation of activities funded by the original \$700,000 grant had not been performed.

According to AID mission officials, the mission provided additional funding for this project because it was instructed to do so by AID/Washington, not because the project was accomplishing its objectives. AID/Washington officials declined to tell us, or provide documentation on, why the project was granted additional funds. However, in commenting on a draft of this report, AID stated that it believed continuation of labor union support activities was critical and that there was no question that it would continue to work with the Institute. AID provided no further information on whether the project's objectives were being met.

According to the Institute's reports, it helped create nearly 500 new democratic labor unions, with an average of about 275 members each, in less than 1 year. The reports also indicated that over 150 seminars and conferences had been conducted under the original grant. An AID mission official doubted whether the reported results were accurate, but, according to AID, the mission was unable to verify the results due to staffing constraints. The AID mission had planned an evaluation of the labor union support project to be completed in June 1991, but mission officials repeatedly postponed the evaluation because of higher priorities. According to AID, an evaluation was performed during February 1992, after the completion of our fieldwork in Nicaragua. AID stated that it would place greater priority on assuring that activity reports are realistic and accurate in the future.

---

**Lessons Learned**

AID's experience in reestablishing a mission demonstrated the obstacles to initiating immediate impact projects while trying to comply with requirements for program development and internal controls. AID expedited some projects by waiving project design requirements, but implementation of the portfolio was delayed in some cases by a lack of host government internal controls to safeguard U.S. resources. The mission's primary goal was to begin projects as quickly as possible, but because evaluation requirements were sometimes neglected, the mission could not be reasonably certain that the projects would meet their objectives.

---

**Recommendations**

We recommend that the Administrator of AID direct the AID mission in Nicaragua to (1) make timely evaluations of projects and (2) complete appropriate evaluations before projects are extended.

---

**Agency Comments**

In its comments on a draft of this report, AID agreed with our recommendation and indicated that corrective actions had been initiated.

# Resettlement of Former Nicaraguan Resistance Was More Difficult Than Expected

The U.S.-funded OAS program for resettling former Resistance members lacked clear objectives and measurable criteria for determining its overall success and effectiveness. Furthermore, verifiable data on the resettlement status of the former Resistance members does not exist. On the basis of available information, we found that the program did not fully achieve the original U.S. objective of making all former Resistance members self-sufficient within 6 months. Because of unanticipated problems, resettlement efforts went on approximately 1 year longer than originally expected, with the United States providing additional funds to continue program operation. AID, OAS, and Pan American Health Organization officials estimated that about 75 to 80 percent of the former Resistance members were self-sufficient by November 1991, but these organizations could not provide supporting data for these estimates. U.S. officials nevertheless believed that the program was a success in resettling as many of the former Resistance members as it did, given the difficult obstacles faced by OAS and others implementing this program.

## Initial Plans Called for Self-Sufficiency Within 6 Months

With U.S. funding of \$27.5 million in fiscal year 1990, OAS originally planned to help the former Resistance members resettle by providing them with (1) personal and household items, medical services, and transportation to locations of their choice in Nicaragua; (2) tools and materials for the construction of homes; (3) seeds and farm tools for planting crops; and (4) food for themselves and their dependents for about 6 months until the August 1990 harvest. OAS and U.S. officials originally estimated a beneficiary population of about 60,000 persons—20,000 former Resistance members and 40,000 of their dependents.

The implementation of the resettlement plan depended in large part on the Nicaraguan government's timely provision of land for each of the former Resistance members it had promised at demobilization. Demobilization was expected to end by April 25, 1990, when the new government took office. U.S. officials and OAS had expected the Nicaraguan government to provide ex-combatants with land on which to plant crops shortly after demobilization or repatriation and had linked the initial stages of self-sufficiency with the August 1990 harvest season. By December 1990, the former Resistance members were expected to be fully resettled, and the assistance program was expected to end in February 1991.

## Unanticipated Obstacles to Resettlement

Unanticipated problems arose that prolonged resettlement efforts beyond the planned program time frames. First, demobilization was delayed due to security concerns of the former Resistance members, and repatriation did not begin until July 5, 1990, too late for the May 1990 planting season.

Second, the inability of the Nicaraguan government to completely fulfill its promise of distributing land to the former Resistance created a major obstacle to resettlement. By the end of February 1991, only about 8,000 of the 22,373 former Resistance had received land, and by July 1991, the government had distributed land to only 11,385 members of the former Resistance. As of November 1991, the government had made no further progress. An OAS official estimated that an additional 25 percent of the former Resistance members had obtained access to land, whether owned, leased, or borrowed, and could feed themselves and their families without outside assistance. However, an estimated 25 percent of the former Resistance did not have access to land. Of this group, an estimated 10 percent were considered by OAS officials to have serious economic problems.

The government's efforts to distribute land were hindered by Sandinista objections, poor records of land titles, and the decision by many former Resistance to settle in areas other than those where the government had promised to provide land. The former Resistance's original plan was to resettle on three large tracts of land called "development poles" to ensure safety in what the former Resistance perceived to be hostile territory. These development poles were to be located in less densely populated regions of the country where land was readily available, and the government of Nicaragua pledged to supply infrastructure facilities such as roads, electricity, and schools. Shortly after demobilization, many former Resistance went to these areas, but because the promised infrastructure had not yet been provided and they felt less threatened than anticipated, most of them migrated to their areas of origin, primarily in the more populous northern region of the country, where there was less land available for distribution. Without land, the former Resistance could not farm or raise cattle, prolonging their dependence on food support from the OAS program. The slow distribution of land sometimes led to violent confrontations when former Resistance members seized land by force or settled on land that was not legally theirs.

A third obstacle to resettlement was the substantial underestimation of the beneficiary population, which resulted in unplanned increases in the work load of the OAS program. U.S. government and OAS estimates of 60,000

program beneficiaries were based on the number of people the U.S. government had supported in Honduras. This estimate failed to take into account a large number of Resistance supporters and their dependents already living in Nicaragua. OAS initially made only ex-combatants and their immediate family members eligible for the program; however, this excluded about 16,700 persons who had been supported by U.S. programs in Honduras and were being repatriated by the U.N., but who were not close relatives of former Resistance members. OAS initially judged them ineligible for the program; however, after discussions with U.S. and U.N. officials, OAS agreed to accept everyone repatriated by the U.N. as well as extended family members of the former Resistance residing in Nicaragua into its resettlement program.

By the end of the U.N. repatriation program in December 1990, OAS had registered about 97,700 beneficiaries in the food distribution program. Between January 1 and July 31, 1991, OAS accepted into its program approximately 9,600 more Nicaraguans who repatriated on their own from Honduras and Costa Rica, and about 10,200 based on late demobilizations, raising the total number of program beneficiaries by July 1991 to about 117,500. The increased number of beneficiaries caused large increases in the cost of purchasing and distributing food and immediate assistance items. However, not all beneficiaries requested food rations every month.

Because OAS initially expected to support most of the beneficiaries in the three large development poles and expected its food program to last only 6 months, it did not invest in computers to register information on the number and location of the beneficiaries. Manual record keeping made it difficult to control the distribution of commodities and forecast food needs, especially as the number of beneficiaries increased and they began migrating throughout the country looking for places to settle. When the program was extended, OAS purchased computers in February 1991 to help keep track of beneficiaries receiving assistance and to forecast the food needs of the different distribution points. According to OAS, the use of computers also helped control cases of fraud in which some beneficiaries traveled to more than one distribution center in a given month to claim rations or obtained more than one identification card and received duplicate rations.

Finally, the government's inability to fulfill its promise to restructure the police force and the military, which continued to be controlled by Sandinistas, created conflicts with the former Resistance. According to OAS officials, the former Resistance members reportedly suffered harassment



by the police and to a lesser extent by the military. By early 1991, political polarization had intensified, and personal security surfaced as the major concern of the former Resistance. As a result, approximately 500 former Resistance members and new followers rearmed. In 1991, the government of Nicaragua, assisted by OAS mediation efforts, began to negotiate with the former Resistance.

---

### **OAS Adjusted Its Program to Meet New Needs**

When the former Resistance members repatriated to Nicaragua, OAS provided them with immediate assistance to help them resettle, monthly food packages, general health services, and special medical attention for disabled veterans. Because the former Resistance members were not self-sufficient 6 months after the program began, OAS, with an additional \$10.9 million in U.S. funding, extended its program through July 1991 and expanded the support services it provided.

---

### **Immediate Assistance Program**

Responsibility for the former Resistance members was transferred from the U.N. to OAS upon their arrival at reception centers in Nicaragua. At the centers, OAS provided the repatriants with identification cards registering them for the planned 6-month assistance program. OAS supplied items for personal use such as clothing, soap, and toothpaste; provided medical attention; and offered food and lodging for the first night. The following day, OAS transported the repatriants and their belongings to the location of their choice.

OAS also provided all families, on a one-time basis, aluminum roofing material and tools for the construction of homes and seeds and tools for farming to those who requested them. All former Resistance members and heads of household were eligible to receive these items regardless of whether they had received land from the Nicaraguan government.

---

### **Food Program**

OAS provided food assistance to program beneficiaries on a monthly basis from May 1990 through July 1991. Basic food items distributed consisted of beans, rice, cooking oil, corn flour, salt, sugar, corn drink powder, and powdered milk for children and pregnant women. To minimize the costs of preparing food packages for varying family sizes, OAS distributed pre-packed food packages based on their own calculations of average family sizes: six members per family on the Atlantic Coast and four in the rest of the country. The OAS official responsible for food distribution stated that OAS was confident this amount was sufficient for the population and

that it had never received a complaint about the size of the food rations. By the end of the food program, OAS had increased the number of distribution points to 232 to reduce the distance the beneficiaries had to travel to pick up their rations.

---

### **General Health Program**

OAS initially allocated approximately \$2.1 million to the Pan American Health Organization to provide general health services to the former Resistance and their dependents during demobilization and repatriation. After repatriation, the organization worked primarily in coordination with the Nicaraguan Ministry of Health to provide health services in the security zones where the former Resistance had demobilized and were expected to settle. Although the health posts were in areas of high concentration of former Resistance, medical services were also provided to other residents of the communities, and we were unable to determine what percentage of the beneficiaries were former Resistance members or their dependents.

In February 1991, the organization was awarded an additional \$300,000 to establish eight health posts, train health-care workers to staff them, and purchase medicines to stock them. As of November 1991, none of the eight health posts had yet become operational.

---

### **Medical Services for Disabled Veterans**

OAS awarded the Pan American Development Foundation \$549,400 to provide surgical and other medical services to approximately 400 former Resistance members who had been injured in combat. The program provided assistance to about 650 patients. Foundation doctors attended to all of the patients' medical needs, from diagnosing and treating heart conditions to giving eye exams and supplying glasses. Although OAS officials were pleased with the foundation's program and medical needs remained after the grant period ended in November 1991, the foundation's contract was not renewed, primarily for financial reasons. OAS staff and Nicaraguan doctors took over the management and implementation of the program.

OAS also granted a \$1.5 million contract to Creative Associates International, Inc., a U.S. firm, in August 1990 to implement a reintegration program for 329 permanently disabled veterans, most of whom had previously been cared for by AID-funded organizations in Honduras and Costa Rica. OAS granted the firm two extensions totaling about \$784,500 to continue resettlement support for the veterans, and to expand the program to support resettlement of approximately 130 other disabled veterans and

their families. The program was ended in March 1992. Efforts to reintegrate the disabled former Resistance included

- obtaining land donations and, with OAS assistance, providing permanent housing for 160 disabled veterans and their families;
- establishing small businesses and providing technical assistance and vocational training in areas such as machine repair, carpentry, metal working, shoe repair, and farming; and
- providing seminars on services the disabled veterans were entitled to receive from the Nicaraguan government and information on human rights laws.

---

## Development Projects

OAS decided, with U.S. approval, to provide the former Resistance members additional support to help them reintegrate into Nicaraguan society because of Nicaragua's high unemployment and the lack of social and medical services available to them. Accordingly, after the initial 6-month program, OAS expanded its program from providing immediate assistance items, food, and medical services to include development projects and other support efforts. OAS officials said there was no precedent for providing the kind of resettlement and reintegration efforts needed in Nicaragua, so most of their projects and activities were developed to meet needs as they were identified. U.S. officials said that because OAS's procedures were not bureaucratic, it was able to respond quickly to changing needs. Development projects included

- agricultural support projects to provide tools, seeds, animals, and technical assistance;
- a joint OAS/AID rice seed distribution project to provide high-quality rice seed and other agricultural items to 15,000 families in 150 villages on the Atlantic Coast; and
- a housing project to provide jobs and vocational training, such as carpentry and masonry, by employing the former Resistance in the construction of their own homes.

Other support projects included

- operating a medical clinic in Managua for the former Resistance members and their family members;
- arranging for the transfer and burial of the remains of 140 former Resistance members killed during the war; and

- supplying emergency medical or food assistance for outbreaks of diseases or other special circumstances.

AID agreed to fund the extension of the housing construction project and two medical services projects after the official project deadline of July 31, 1991.

---

## OAS Expanded Its Program in Response to Increased Political Unrest

Between August 1, 1990, and November 30, 1991, the OAS program registered 1,026 accusations of human rights abuses against former Resistance members or their supporters, including 105 cases of armed aggression, 259 cases of threats and harassment, and 84 homicides. In the 919 cases in which an abuser was identified, most were members of the police (42 percent), the Sandinista party (29 percent), or the army (15 percent).

In February 1991 a former Resistance leader was assassinated, an event that, according to OAS officials, increased hostilities between the former Resistance and the Sandinistas. As a result, a group of about 500 former Resistance and new recruits rearmed—calling themselves “recontras”—reportedly for protection against the Sandinista-run security forces. However, some conflicts have been instigated by the recontras, who have taken over land by force, responded to alleged harassment with weapons, or taken control of towns or roads in order to focus national attention on their demands. In opposition to the recontras, groups of armed pro-Sandinista civilians formed calling themselves “recompas.”

In response to the increase in political tension and violent confrontations, OAS increased its human rights monitoring activities. OAS registered and followed up on accusations of human rights abuses against the repatriated and demobilized population. Upon receiving a charge, OAS personnel try to verify it by visiting the scene of the alleged incident and gathering as much evidence as possible. If the charges are verified, they are documented, shared with government authorities and human rights organizations, and followed up on through contact with the proper authorities. According to OAS officials, investigations into these crimes are rarely acted upon by the government.

In addition to monitoring human rights abuses, OAS expanded its activities to include facilitating and mediating negotiations between the recontras and the government of Nicaragua. OAS personnel coordinate meetings, provide transportation and protection for participants, and serve as

third-party witnesses to discussions. When parties cannot be brought together, OAS serves as an intermediary transmitting messages or demands.

U.S. and Nicaraguan government officials stated that OAS has played a vital role in mediating conflicts to arrive at peaceful solutions and contributed greatly to increased political stability of Nicaragua. AID and Nicaraguan human rights officials believed that OAS's status as an objective international organization has enabled it to deter violent confrontations between the recontras and the recompas, army, and police.

---

## **AID Improved Oversight of OAS Program**

A joint AID/Washington and State Department steering committee officially oversees the OAS program; however, according to AID officials, the AID mission took over day-to-day monitoring activities in early 1991 because it was in the best position to stay in close touch with OAS project officials and activities. Although requested to do so, OAS had never provided the steering committee a progress report. Our July 1991 report pointed out the weak oversight and the lack of documented data.

Under a new agreement, OAS agreed to submit monthly financial and progress reports to keep AID informed of program activities. Although OAS submitted monthly financial reports, it did not provide AID with a progress report until September 1991, when it issued a report that incorporated the 6-month period between February and July 1991. OAS officials attributed the previous lack of reporting to insufficient staff.

After the initial report, OAS submitted progress reports on a bimonthly basis, providing detailed accounts of activities undertaken. Also, AID and OAS officials met weekly to discuss the OAS program. According to a mission official, they verbally agreed with the expansion of OAS's original program plan to include development projects and other activities, although their approval was not formally documented.

In March 1991, AID hired a full-time contractor to monitor and report on the implementation of the OAS programs, assess the support it was providing the former Resistance, and determine the status of health care and other needs of the former Resistance for becoming self-sufficient. The contractor's overall assessment was that OAS had done an outstanding job under difficult and unprecedented conditions. However, he added that since the OAS program attempted to meet almost all of the former Resistance's needs, the government of Nicaragua had not been forced to

assume that responsibility and no adequate replacement for the OAS program appeared likely.

AID also contracted a financial consultant in June 1991 to (1) evaluate the status of the AID funds; (2) provide budget projections for future needs; and (3) determine whether OAS's contracting, financial management, and property control practices met AID requirements or needed modifications. The contractor reported that OAS had done an excellent job of fiscal control, and his overall assessment of the program was favorable.

---

## **Lessons Learned**

We agree with AID and other U.S. officials that the expectation of resettling the former Resistance within 6 months to 10 months of demobilization was probably unrealistic. Following 10 years of civil war, the former Resistance members, most of whom had little or no vocational training, could not be reintegrated quickly into a society where unemployment was estimated between 25 and 50 percent and political tensions were high. Also, planning did not anticipate possible delays in demobilization and repatriation, which delayed the beginning of the resettlement program.

Nevertheless, U.S. and OAS officials should have agreed upon clear objectives and evaluation concern prior to the inception of the resettlement program so that achievements could be measured based on initial expectations. Terms such as "resettlement" and "self-sufficiency" were open to interpretation, making it difficult for OAS to plan a program to meet varying expectations. Further, eligibility criteria should have been agreed upon from the beginning to avoid confusion over the size of the beneficiary population. Similar programs should establish clear criteria and collect the data necessary to measure success.

There are several advantages to using an international organization like OAS to implement a politically sensitive program such as the resettlement of the former Resistance. According to U.S. and Nicaraguan officials, OAS was able to gain the confidence and respect of many Sandinistas and Nicaraguan government officials, which facilitated its efforts to seek peaceful solutions to conflicts. Also, the reduced level of bureaucracy enabled OAS to respond quickly to the changing needs of the former Resistance.

The commitment of a government to reintegration is an essential element of a successful program; however, in the case of Nicaragua, the government was unable to fulfill its promises made at demobilization of

providing land and security. The wisdom of a government making well-intentioned promises that it could not ultimately fulfill, particularly in a politically polarized country like Nicaragua, has been debated; and we cannot draw a conclusion on this issue. However, we believe that one lesson to be learned from this experience is that contingency plans should be developed that could be implemented if, for reasons beyond the government's control, it could not fulfill its promises. While by no means certain, such plans may have precluded some of the unrest and violence that ensued when land the repatriated Nicaraguans believed they were to receive was not forthcoming.

---

## Agency Comments

In commenting on a draft of this report, AID stated that its mission in Nicaragua was not responsible for monitoring the OAS program. AID is correct that a joint AID and State Department steering committee officially oversaw the program; however, day-to-day monitoring of OAS activities in Nicaragua was performed by the AID mission.

AID and the State Department commented that the total number of resettlement program beneficiaries was 95,000 rather than the 117,500 we reported. However, OAS documents show that OAS registered 97,700 beneficiaries by December 1990 when the U.N. repatriation program ended, an additional 9,600 beneficiaries who repatriated on their own from Honduras and Costa Rica, and about 10,200 who demobilized late; this brings the total receiving OAS support to 117,500.

# AID's Fiscal Year 1991 Development Projects

The objectives and status of the four projects authorized using fiscal year 1991 funds are discussed below. Projects funded through the 1990 Dire Emergency Supplemental Appropriations Act were described in our May 1991 report.

## Family Planning Project

This project is intended to strengthen and expand the Nicaraguan Association for Family Well-Being, a nonprofit family planning organization, including supporting the acquisition of four regional family planning centers and two new clinics. According to AID, research and studies collected around the world indicate that encouraging mothers to space births will make mothers healthier and enable them to provide better care for their families. Nicaragua's birth rate is relatively high, averaging 6.2 children for each woman between ages 14 and 45. The project is expected to improve Nicaragua's family planning services by supporting

- expansion of community-based distribution of contraception,
- expansion of clinical contraceptive and gynecological services,
- increased public information and educational programs, and
- evaluation of and research on family planning.

## Immunization Assistance Project

This project, jointly supported by AID, the United Nations Children's Fund, and the Pan American Health Organization, and Rotary International, aims at (1) increasing vaccination coverage for children in Nicaragua under 5 years old and of women in fertile age against tetanus toxoid and (2) improving Nicaragua's epidemiological research and surveillance system. An AID mission official told us that this project could have both social and economic impact because better health equates to an increased opportunity to be productive. The project, begun in early 1991, has reported significant progress on its goal of vaccinating at least 90 percent of children under 5 years of age. Funds also are earmarked for the purchases of vehicles, boats, and computer equipment to assist in fulfilling project objectives.

## Private Voluntary Organization Co-Financing Project

Under its private voluntary organization co-financing project, AID expects to support a variety of projects implemented by private voluntary organizations. Planned projects emphasize primary health care, family planning, employment generation, microenterprise development, and environmental protection.



The project's implementation has been slower than AID planned. AID expected the contractor for the project to arrive in Nicaragua in January 1992 to begin implementing the project, but the mission and the contractor had not completed their negotiations by the end of that month. Although the mission planned to make two or three grants to U.S. private voluntary organizations before the end of the first quarter of fiscal year 1992, AID had not signed any grant agreements by January 31, 1992. A mission official estimated that implementation might begin in April 1992.

---

## Rural Electrification Project

The purpose of the 3-year rural electrification project, scheduled to begin in fiscal year 1992, is to provide Nicaragua's two principal Atlantic Coast port towns with a sufficient and stable supply of electric power. This project is part of a regional rural electrification project and is to be implemented by Nicaragua's National Rural Electric Cooperative Association, working closely with AID. The Nicaraguan government and the cooperative are expected to contribute the equivalent of about \$1.8 million in local resources or local currency to the project. AID has also planned training and technical assistance for employees who operate and maintain the power and distribution systems.

# Comments From the Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

JUN 23 1992

Mr. Frank C. Conahan  
Assistant Comptroller General  
National Security and International Affairs Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Conahan:

Thank you for the opportunity to comment on the draft GAO report entitled AID TO NICARAGUA: U.S. Assistance Supports Economic and Social Development. Administrator Roskens has asked that I respond to your letter of May 13, 1992, in which you solicited A.I.D. comments on this report.

We have reviewed the GAO draft report and have a number of observations and comments. Attached is a list by paragraph of some important factual corrections which will help to make the report accurate. On the report's three recommendations, however, A.I.D.'s comments are the following:

A) The GAO recommends that the A.I.D. Administrator direct the A.I.D. Mission in Managua to: (1) make timely evaluations of projects; and (2) require that evaluations be performed before projects are extended. To assure that evaluations of projects are performed in a systematic manner, our A.I.D. Mission issued a Mission Order on Evaluation and Monitoring. This Mission Order sets forth the Mission's evaluation policy and describes the process and concepts for evaluating and monitoring of projects and programs, including the preparation of an annual evaluation plan. Since September 30, 1991, the Mission has conducted three evaluations of projects and programs. Other evaluations are in process as scheduled. This is a relatively aggressive evaluation effort considering that the Mission reopened just eighteen months ago and that many of its projects are still in an early stage.

The Mission also agrees to perform evaluations prior to the close of the projects or before extending their life. These evaluations already have been scheduled. Because the A.I.D. Mission places great value in evaluation as a management tool and has taken corrective action on the GAO recommendation, we ask that the final report indicate this recommendation as "resolved/closed."

B) Regarding the recommendation that the timing of cash transfers be made to closely coincide with Nicaragua's need for

See comment 1.

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

**Appendix II  
Comments From the Agency for International  
Development**

See comment 2.

money, A.I.D. does not agree with the recommendation. Complying with this recommendation would seriously affect the incentives to carry out quickly the policy and economic reforms that are the objective of the cash transfer program. The audit focused on the financing of imports and overlooked the prime purpose for ESF cash transfers, which is economic policy reform. Most importantly, the recommendation fails to take into account the integral role of rapid A.I.D. disbursement in the overall success of the economic stabilization and recovery strategy for Nicaragua. (Pages 2-4 of the attachment to this letter further elaborate on this point.)

See comment 3.

C) Concerning the GAO recommendation that the Secretary of State place a higher priority on resolving claims by U.S. citizens for expropriated property, the Department has placed a very high priority on resolving such claims. Senior U.S. Government officials have met and discussed with the President and Ministers of the Government of Nicaragua the issue of property claims of U.S. citizens. On numerous occasions, U.S. Embassy officials in Nicaragua have raised specific claims with various Government of Nicaragua officials. Those efforts have been successful in specific instances. The Embassy has asked the GON to formally advise us on what specific steps will be taken to resolve remaining U.S. citizens' property claims.

In summary, we thank you for the chance to contribute to the draft report on Nicaragua and feel assured that the comments above and in the attachment to this letter will improve the accuracy and utility of this report.

Sincerely,



Richard A. Ames  
Associate Administrator  
Directorate for Finance and  
Administration

**Appendix II  
Comments From the Agency for International  
Development**

ATTACHMENT

A.I.D. Mission Comments on Draft GAO Report

The A.I.D. Mission has reviewed the subject draft report which comments on the effectiveness of assistance to Nicaragua in meeting economic objectives. Following are our observations and comments on the findings and recommendations in the draft Report:

On page 2, first paragraph, change the amount of \$500 million to \$552 million.

On page 4, first paragraph, the Report states that "Nicaragua has not yet acted on U.S. citizens' claims for expropriated property". Over the past two years, the United States Government (more specifically the State Department) has accorded a very high priority to the resolution of United States citizen property claims against the Government of Nicaragua. Senior United States Government officials have pressed the Government of Nicaragua hard on the claims issue.

During a January 1992 visit to Nicaragua, Secretary of State James Baker III forcefully urged President Chamorro and Presidency Minister Antonio Lacayo to move quickly to resolve outstanding U.S. citizen property claims. Treasury Under Secretary for Monetary Affairs David Mulford also addressed the issue in a meeting with President Chamorro, Presidency Minister Antonio Lacayo and members of the Economic Cabinet during a February 1992 trip to Managua. In Washington, senior State Department officials, including Secretary Baker, Assistant Secretary Bernard Aronson and Deputy Assistant Secretary David Malpass, have repeatedly raised the property claims issue with visiting Government of Nicaragua officials.

In Managua, the Charge and other Embassy officials maintain a constant dialogue with senior government officials on the property issue. On numerous occasions, Embassy officials have raised specific claims cases with officials in the Ministry of the Presidency, the Ministry of Economy, the Attorney General's Office, and CORNAP (the holding company for state enterprises). In the past, the Embassy dedicated one officer full time to help resolve U.S. citizen claims cases. The Embassy also recently developed a computerized property claims data base to improve USG effectiveness in pressing for resolution of claims.

Although the bulk of cases remain unresolved, U.S. Embassy intervention has proven decisive in specific instances. For example, Embassy efforts proved decisive in a Government of Nicaragua decision to return almost one dozen houses to U.S. citizen claimant Mrs. Teolinda Gonzalez de Becklin in 1991. More recently, the Embassy has requested that the Government of Nicaragua provide it with a letter outlining concrete steps which

Now on p. 2.  
See comment 4.

Now on p. 2.  
See comment 3.

**Appendix II  
Comments From the Agency for International  
Development**

Now on p. 5.  
See comment 1.

Now on p. 3.  
See comment 5.

Now on p. 12.  
See comment 6.

Now on p. 4.

See comment 3.

Now on p. 4.  
See comment 7.

Now on pp. 4 and 5.  
See comment 8.

Now on p. 12.  
See comment 5.

Now on p. 3.

the government plans to take to resolve U.S. citizen property cases.

On page 4, second paragraph, the Report states that "A.I.D. placed a low priority on project evaluation". Please review our comments made for page 55 and 56 of the draft report.

On page 4, third paragraph, the Report indicates that the U.S. provided \$28.8 million to resettle the former resistance. A.I.D. actually obligated \$30 million plus \$4.98 million in pre-supplemental funds.

On page 5, first paragraph, add that "OAS/CIIV was also exploring with other donors the possibility of financing the CIIV activities through December 31, 1992".

On page 6, first paragraph, the report states that "Appropriate steps to compensate U.S. claimants within a reasonable time is required by the Foreign Assistance Act of 1961, as amended, [Sec. 620 (e) (i)] in order for U.S. economic assistance to continue." This statement is not accurate. Section 620 (e) (i) requires suspension of assistance until such time as the President is satisfied that appropriate steps are being taken to resolve expropriations of U.S. citizens. This authority was delegated by the President to the Secretary of State through Executive Order. As noted on page 39 of the audit Report, the State Department is satisfied that the GON is taking appropriate steps to resolve expropriation claims. The requirement for continuing assistance of Section 620 (e) (i) has therefore been satisfied.

On page 6, second paragraph, the Report states that "only \$32.4 million of the \$82.2 million obligated had been spent". It should be noted that the amount expended is reasonable as the life of the projects are for three to five years. Also, please clarify that 15 of the 18 projects had been designed and approved and that some of the projects had not been started by the end of the fiscal year 1991.

On page 7, third paragraph, the Report indicates that the OAS would resettle about 60,000 former Resistance members and their families. The number should be 22,500 members and 72,500 dependents.

On page 7, third paragraph, the amounts of \$1.3 million and \$27.5 million should be changed to \$4.5 million and \$30.0 million.

On page 8, second paragraph, the GAO indicates that ESF "funds were deposited well in advance of when they were needed for funding imports". A.I.D. provides assistance on condition that economic reforms be undertaken. GAO recognizes such conditioning has been extremely successful. Once the GON undertook needed policy and economic reforms, the GON had the right to request

**Appendix II  
Comments From the Agency for International  
Development**

disbursement of the economic support assistance and the U.S. Government had the obligation to disburse. Further conditioning of disbursement on the basis of when funds might be needed diminishes tremendously the incentive to carry out quickly the economic and policy reforms that are the ultimate objective of the cash transfer program. The audit's exclusive focus on import financing misses completely the purpose of ESF cash transfer programs, which is economic policy reforms.

Our balance of payments support programs are not intended to finance the import of specific goods and services. Rather they are intended to provide transitional financing for the overall balance of payments, while the Government of Nicaragua implements measures which will make such financing unnecessary in the medium term. These programs are based on a detailed analysis of the balance of payments financing gap, other sources of financing, and the policy measures needed to eventually eliminate it.

Disbursements of dollars for balance of payments financing accomplish this purpose through a number of mechanisms. First, the disbursement of dollars makes possible an immediate, noninflationary expansion of domestic credit of an amount equal to the value of the transfer. This makes it possible for the Government of Nicaragua to eliminate inflationary pressures without the severe credit contraction which this would otherwise entail. Second, the disbursement adds to the net international reserves of the Central Bank of Nicaragua. This not only assists the Government of Nicaragua to meet the targets of its IMF program but increases its ability to meet the full range of its international obligations. Third, the availability of international reserves above the IMF targets makes possible an overall increase in economic activity throughout the economy. Finally, the dollars available from the separate account are used to finance imports of critically needed goods from the U.S. and Central America. Thus the use of the dollars for imports is only last of a series of vitally important mechanisms through which AID dollars have contributed to the elimination of hyperinflation and the beginnings of economic recovery in Nicaragua. All four effects are essential to economic stabilization and recovery, not just the last.

Every balance of payments support PAAD contains an analysis of the balance of payments requirements of the recipient country, usually over a one year period. This analysis takes into account the likely receipts from exports, expected capital flows, both official flows from other donors and private investment, debt service requirements, and projects demand for imports of goods and services. Import demand is projected based on a variety of factors, including the real exchange rate, level of economic activity, level of demand for investment, etc. Thus, the levels of financing are carefully matched with the financing needs of the country and coordinated with other donors.

**Appendix II  
Comments From the Agency for International  
Development**

In addition to financing balance of payments requirements, our balance of payments support programs are designed to encourage the recipient government to undertake the reforms necessary to eliminate the need for extraordinary financing. The frequency and levels of disbursements are dictated by the nature of these required reforms. In some cases, as with ESR II, this implies small, frequent disbursements. In other cases, as with the upcoming ESR IV program, the conditionality structure calls for a few large disbursements. USAID/Nicaragua has been as successful as it has been in encouraging major policy reforms, precisely because of the flexibility of the cash transfer instrument in providing transitional financing, conditioned on the recipient government's undertaking needed policy reforms in a timely manner.

To summarize, the disbursements from our policy reform programs were not "premature"; they were made exactly when called for based on our analysis of the balance of payments situation and when the needed reform measures agreed to between ourselves and the Government of Nicaragua had been implemented. As a result of these programs, the current fiscal deficit has been eliminated, almost half the enterprises in the hands of the government have been privatized, and the financial system transformed. These reforms, which are a direct and immediate result of USAID/Nicaragua's cash transfer program, have transformed the Nicaraguan economy and laid the basis for a resumption of private sector-led growth.

Now on p. 11  
See comment 9.

Regarding the chart on page 17, we suggest that the 6.5% title be changed to "Economic Reactivation".

Now on p. 12.  
See comment 9.

On page 20, first paragraph, A.I.D. provided \$9.9 million plus \$100,000 to monitor the program.

Now on p. 15.  
See comment 9.

On page 23, first paragraph, the Report states that "A.I.D. plans a cash grant of \$128 million". The amount of the grant will be \$125 million. The amount of \$25 million has been added to ESR III and \$100 million will be provided under ESR IV.

Now on p. 19.  
See comment 9.

On page 31, first paragraph, the Report states "the grant agreement does not specify a repayment date for ineligible imports". This is not correct. The various A.I.D. ESR Agreements contain a standard provision which requires the Grantee to redeposit funds within 60 days of the receipt of an A.I.D. request for reimbursement for funds that have been made for a use other than authorized by the terms of the Agreements.

Now on p. 19.  
See comment 9.

On page 31, second paragraph, the Report refers to \$8 million that was reprogrammed from another A.I.D. activity. The amount should be deleted from the Report because the funds were not made available for reprogramming. The amounts in this paragraph should

Appendix II  
Comments From the Agency for International  
Development

Now on p. 21

See comment 9.

Now on p. 24.

See comment 9.

Now on p. 27

See comment 7.

Now on pp. 31 and 32.

See comment 9.

Now on pp. 33 and 34.

See comments 1 and 9.

be a total of \$125 million in fiscal year 1992 funds: \$25 million for occupational conversion and \$100 million for ESR IV.

On page 34, second paragraph, concerning your comments about the debt owed to the former Soviet Union and East European countries, we suggest that the Report state that the debt owed has not yet been "resolved" rather than "addressed" because debt negotiations have been ongoing for over a year.

On page 40, at the end of the first paragraph, we suggest you add a footnote that the "police, who are part of the EPS, seem to be unable or unwilling to intervene in many of these protests".

On page 44, first paragraph, the Report indicates that only "\$32.4 million (39 percent) had been disbursed". The fact that 39 percent of the allocated funds had been spent is about right considering the three-to-five-year projects were in their first year.

On page 51 and 52, the report comments that the vocational training project was only partially meeting planned objectives. The Mission would like to note that the project proposal was developed immediately after the installation of the Chamorro administration. The economic situation at the time was very unclear but there was a high degree of hope for improvement and expectations for a large influx of foreign investment. It was anticipated that the employment market would improve as Nicaragua entered into a market economy. Everything indicated that graduates from the vocational training programs would be attractive in the job market since Nicaragua lacked skilled and semi-skilled labor due to the fact many had left the country during the Sandinista period. There was no reason to doubt the objectives set by the Salesian Mission Project at the time. The Mission and the Salesian Mission now recognize that some of the original objectives were "unrealistic". Worried about this situation, the Salesian Mission conducted a study to examine the job market for the training graduates. The study states that it was not impossible to have a 60 percent placement. The project is making adjustments based on the recommendations of this study.

Page 55 and 56 and other sections of the draft Report state that the Mission places low priority on evaluating the impact of its projects. This statement that "the A.I.D. Mission in Nicaragua placed low priority on evaluating the impact of its projects" is misleading in that it suggests that USAID/Nicaragua does not believe evaluation is important. The clear priorities in the start up of a new program were project design and implementation. Most projects had simply not reached a point where formal evaluation would play a meaningful role in decision making. In some cases, an evaluation would not have served a useful purpose because the Mission did not plan to continue funding for short-term immediate impact activities.



**Appendix II  
Comments From the Agency for International  
Development**

See comment 10.

The Mission does place a great deal of importance on the role of evaluation and has finalized the Evaluation Mission Order provided to the GAO team on their October visit when it was circulating for comment and clearance. A Mission Evaluation Agenda was submitted to AID/Washington along with the May 1991 Semi-Annual Reports, has been regularly updated, and was provided to the GAO team. Since September 30, 1991, three evaluations of Mission projects and programs have been completed, including an evaluation of the American Institute for Free Labor Development (AIFLD) project which will serve as the basis for mid-course corrections to the project. In addition, the Mission has participated in a number of internal evaluations undertaken by PVOs implementing projects supported by USAID funds.

See comment 10.

The draft Report questions whether the Mission should have evaluated the AIFLD Project prior to providing them with a second grant. The facts are that strengthening the independent labor movement is a positive factor in fostering a democratic society. Since AIFLD is a key actor in this area, there was no question that we would continue to work with AIFLD within the scope of the Strengthening Democratic Institutions (SDI) Project. An evaluation of the first AIFLD grant was contemplated and in fact conducted in an effort to re-focus the program activities in areas as needed and indicated by the evaluation. However, it was critical to avoid the interruption of activities at that time. The Mission decided to continue support to the labor activities through the SDI Project while an acceptable contractor was identified to conduct the evaluation and the scope of work was prepared. A consultant familiar with the labor issues and their role within the scope of the SDI project was identified and contracted during the first quarter of fiscal year 1992. The evaluation was performed during February 1992.

See comment 9.

An evaluation of the National Endowment for Democracy grant providing funding for the provision of equipment to Radio Corporacion did not seem appropriate since the actual installation of the equipment had been delayed due to a number of factors outside the control of the Project. The Project Officer made numerous visits to the Project site to verify that the equipment was there and the actual operation of the equipment did not take place until early May, 1992. The radio station is now on the air and we consider that it is unnecessary to conduct an evaluation of this Project. Periodic audits have been carried out by the A.I.D. Inspector General who has not reported any adverse findings about the Project.

Now on p. 34.

See comment 9.

On page 56, second paragraph, the Report indicates that Mission officials doubted information in AIFLD's report but did not verify the reported results. Mission officials were unable to verify the AIFLD report's contents because of staffing problems. In the future the Mission will place more priority on assuring that activity reports are realistic and accurate.

**Appendix II  
Comments From the Agency for International  
Development**

Now on p. 35  
See comment 11.

On page 57, second paragraph, the Report indicates that the GON may have difficulty in sustaining some of the projects and mentions the employment generation project as an example. This Project is not intended to be sustainable. It is a part of the social safety net (also quick impact) activities intended to carry Nicaraguans over the short-term problems caused by the economic structural adjustment.

Now on p. 43  
See comment 12.

On page 72, first paragraph, the Report states... "the A.I.D. Mission in Nicaragua assumed responsibility for monitoring the OAS program." This statement is not correct. The Program is officially monitored by USOAS who signed the Agreement with the OAS. A.I.D. agreed that \$100,000 of the programmed funds to support CIAV should be used to hire a monitor and employ part-time help to observe the accounting for the funds.

Now on p. 44  
See comment 12.

On page 74, third paragraph, the GAO suggests that similar resettlement programs should establish clear objectives and evaluation criteria. However, we agree this program was not an A.I.D. program and A.I.D. had no input on how the program was designed and implemented.

Now on p. 46  
See comment 9.

On page 76, second paragraph, revise the statement... "A.I.D. believes that encouraging mothers to space births will make mothers healthier and enable them to provide better care for their children", to read "studies and research indicate that encouraging mothers to space birth will"... since the position that A.I.D. has on family planning is based on evidence collected through various studies around the world.

Now on p. 46  
See comment 9.

On page 77, first paragraph, revise the first sentence to include the following: This project, jointly supported by A.I.D., the United Nations Children's Fund (UNICEF), the Pan American Health Organization and Rotary International, aims at increasing vaccination coverage for children in Nicaragua under 5 years, and coverage of women in fertile age against tetanus toxoid and improving Nicaragua's epidemiological research and surveillance system...vaccinating at least 90 percent of children under 5 years of age.

The following are GAO's comments on AID's letter dated June 23, 1992.

---

## GAO Comments

1. The Mission Evaluation Order was in draft at the time of our fieldwork and was approved in January 1992. However, as of that time, the mission had not developed an implementation schedule for project evaluations. We believe that the results of the mission's only interim evaluation demonstrates the necessity of early evaluation of projects. Our recommendation will be closed after the evaluations have been completed.

2. This matter is discussed in chapter 2. AID stated that the purpose of the cash grant program is to encourage Nicaragua to adopt economic policy reforms, and that funds should be transferred to the Government of Nicaragua as soon as the grant conditions have been met and the agreed upon reforms have been implemented. We agree with AID on this matter; however, we do not agree with AID that Nicaragua should be the recipient of interest earned on money borrowed by the U.S. government to provide to Nicaragua. We have, therefore, modified our recommendation to recognize that the principal amount may be transferred to the recipient government as policy reform conditions are met, but that the grant agreement should specify that any interest earned on the amounts transferred to Nicaragua will accrue to the benefit of the U.S. government.

3. This matter is discussed in chapter 2. We agree with AID that the U.S. government has increased its emphasis on resolving claims by U.S. citizens for expropriated property, and therefore, our proposed recommendation to place a higher priority on this matter is no longer applicable. The Department of State has acknowledged, however, that the actions of the Nicaraguan government to resolve these claims are insufficient. Nonetheless, it concluded that Nicaragua is in the process of resolving the claims and therefore, the prohibition in section 620(e) of the Foreign Assistance Act of 1961, as amended, does not apply. The Secretary of State has been delegated the authority to determine whether conditions require the suspension of aid; however, the act does not require that the factual basis for such a determination be provided to the Congress. Therefore, this final report suggests that the Congress may wish to consider amending section 620(e) to require the President to report to the Congress the factual basis for any conclusion that a foreign government has taken or is taking appropriate steps to resolve U.S. citizens' claims for expropriated property.

4. The United States provided \$500 million in economic support and development assistance funds. An additional \$52 million in food aid was also provided; however, as explained in chapter 1, we did not evaluate the food aid program during this review.

5. The Dire Emergency Supplemental Appropriations Act directed that \$30 million be used to support the demobilization, repatriation, and resettlement of the former Resistance and their dependents. Of this amount, \$2.5 million was disbursed to the United Nations for the U.N. High Commissioner for Refugees, and \$27.5 million was disbursed to OAS. Our analysis also indicates that \$1.3 million, not \$4.5 million, in pre-supplemental assistance was allocated to OAS. This report does not address the U.N. program.

6. This information was added to chapter 1.

7. As stated in the report, implementation of the projects has been slower than AID expected. We deleted the word "only" in the final report.

8. Our data were provided by OAS and U.S. officials from source documents.

9. Suggested change was made in the final report.

10. The mission's only interim evaluation shows the necessity of early evaluation of projects. AID was undertaking two evaluations of its cash grant programs in fall 1991. Since the mission has conducted three evaluations of program and project assistance since September 1991, this means that only one project evaluation, presumably of the American Institute for Free Labor Development, has been performed.

11. Discussion of the employment generation project as a project that is probably not sustainable has been deleted.

12. This matter is discussed in chapter 4. AID officials told us that the mission was charged with day-to-day monitoring and direction of the resettlement program because of their unique position in country. The sentence has been clarified to distinguish official monitoring responsibilities from informal operational responsibilities.

# Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State  
*Deputy Chief Financial Officer*  
Washington, D.C. 20522-1506

JUN 24 1992

Dear Mr. Conahan:

Thank you for the opportunity to comment on your draft report, "AID TO NICARAGUA: U.S. Assistance Supports Economic and Social Development" (GAO Job Code 472267). Comments are enclosed.

If you have any questions on this issue, please call Timothy Smith, ARA/CEN, on 647-2205.

Sincerely,

  
Barry J. Eisenhart

Enclosure:  
As stated.

Mr. Frank C. Conahan,  
Assistant Comptroller General,  
National Security and International Affairs,  
U.S. General Accounting Office,  
441 G Street, N.W.,  
Washington, D. C. 20548

Appendix III  
Comments From the Department of State

GAO Draft Report: "AID TO NICARAGUA: U.S. Assistance Supports Economic and Social Development" (GAO Job Code 472267)

United States Citizen Property Claims:

See comment 1

Over the past two years the State Department (and occasionally officials of other Executive Branch agencies) has accorded a very high priority to the resolution of United States citizen property claims against the Government of Nicaragua.

During its eleven year rule, the Sandinista government of Nicaragua confiscated property under a series of decrees and laws. On July 20, 1979, the Sandinista government issued Decrees Three and Thirty-eight, which legitimized the confiscation of property from Somoza, his family and individuals deemed to be somocistas. On July 19, 1981, the Sandinistas issued decree 760 (also called the Law of Absence) which disposed of property deemed to be abandoned (unoccupied for more than six months). The Sandinistas also nationalized the mining and banking industries. Finally, on March 25, 1990, just one month before relinquishing power, the Sandinista National Assembly passed Laws 85 and 86, which permit the sale or transfer of urban and rural properties from the state to individuals. Although many of the properties transferred under Laws 85 and 86 were never before formally confiscated, the laws contained a provision which legalized the confiscations at the time of transfer.

Distinct groups hold property claimed by United States citizens. Some property claimed by our citizens is in the hands of state corporations, while some is in the hands of private individuals or corporations, which include Sandinista luminaries, agricultural cooperatives and poor peasants alike. Some property no longer even exists due to some company mergers and bankruptcies. In at least one case, European donors have built donated facilities on property confiscated from United States citizens.

As a result, some U.S. citizen confiscation cases are relatively easy to resolve (i.e., the Government of Nicaragua could return properties claimed by U.S. citizens which are now in the hands of state corporations). Others cases would be more difficult and expensive to resolve. To resolve the second class of cases the GON will have to create a realistic, viable compensation mechanism.

**Appendix III**  
**Comments From the Department of State**

Shortly after taking office on April 25, 1990, President Chamorro issued Decree 11-90, which created a National Revision Commission to review property confiscations carried out by the Sandinistas during an eleven year reign. Over 5000 individuals and families filed claims with the National Revision Commission before the December 31, 1990 filing deadline. On May 21, 1991, the Supreme Court ruled that two clauses of Decree 11-90 (those permitting the GON to compel the return of properties improperly confiscated) were unconstitutional. In early June, 1991, the GON issued Decree 23-91, which limited government responsibility to returning properties which were still in the hands of the state. A short while later, the GON transferred property cases to the Ministry of the Presidency for entry into a computerized system. The cases have yet to be returned to the Attorney General's office. Meanwhile, in late 1991, National Assembly President Alfredo Cesar began to push legislation which would revise property transfers from the state to individuals which occurred during the Sandinista period. The legislation would also mandate compensation for claimants unable to regain their property.

During a January 1992 visit to Nicaragua Secretary of State James A. Baker III urged President Violeta Chamorro and Presidency Minister Antonio Lacayo to move quickly to resolve outstanding United States citizen property claims. Treasury Under Secretary for Monetary Affairs David Mulford also addressed the issue in a meeting with President Chamorro, Minister Lacayo and members of the economic cabinet during a February 1992 visit to Managua. In Washington, senior State Department officials including Secretary Baker, Assistant Secretary Bernard Aronson and others have raised repeatedly the property claims issue with visiting Government of Nicaragua officials.

Minister Lacayo led the Nicaraguan delegation to Washington during the week of March 23, 1992, to attend a meeting of the World Bank-chaired donor Consultative Group meeting. During that meeting representatives of 15 other nations and ten international organizations joined the United States in urging the quick and equitable resolution of outstanding property claims in Nicaragua. Minister Lacayo and the other members of the Nicaraguan delegation, including Daniel Ortega, heard first-hand the strong concerns for property rights held by the international donor community. Specific U.S. concerns regarding the property claims issue were communicated to Minister Lacayo and other Nicaraguan officials during bilateral discussions held during the course of the week.

Appendix III  
Comments From the Department of State

In Managua, the Charge and other Embassy officials maintain a constant dialogue with senior Government of Nicaragua officials on the property issue. On numerous occasions Embassy officers have raised specific claims cases with officials in the Ministry of the Presidency, the Ministry of Economy, the Attorney General's Office and CORNAP (the holding company for Nicaraguan state enterprises). In the past the Embassy dedicated one officer full time to help resolve U.S. citizen claims cases. It recently has developed a computerized property claims data base to improve U.S. Government effectiveness in pressing for resolution of claims. The Embassy is currently distributing an OMB-approved questionnaire to U.S. citizen claimants in order to gather specific information that, with the claimants' permission, can be shared with the Nicaraguan Government.

As of June 1992, about 155 United States citizens and corporations have registered property claims against the Government of Nicaragua with the United States Embassy in Managua. The claims arise from confiscations authorized by the various Sandinista decrees as well as "confiscations" which were never formally legalized. Several claims also arise from the Sandinista expropriation of the banking and mining industries.

Currently, U.S. citizen claimants continue to approach the Embassy to register cases at the rate of about two to three per week. Many Nicaraguan citizens became United States Citizens after fleeing Sandinista repression during the 1980's. As a result, there may be as many as several hundred U.S. citizen property claimants who have not yet approached the Embassy.

Although the bulk of cases remains unresolved, U.S. Embassy intervention has proven decisive in specific cases. In one case, Embassy efforts helped convince the Government of Nicaragua to return nearly one dozen houses to a particular U.S. citizen claimant (though this case remains unresolved in its entirety). In another case, Embassy intervention prevented CORNAP, in the course of its ongoing effort to privatize the state enterprises in its portfolio, from selling to a third party an agricultural holding that is the subject of an American citizen property claim.

As noted in the draft report, the Department of State believes the establishment by the Government of Nicaragua of a claims registration program, combined with assurances by Nicaraguan officials to officials of the United States Government that claims of U.S. citizens will be resolved on a



Appendix III  
Comments From the Department of State

priority basis, indicates that Nicaragua is in the process of taking appropriate steps to discharge its obligations under international law. Nevertheless, the State Department continues to work with the GON to ensure that as many cases as possible are resolved as quickly as possible.

The Nicaraguan Government announced in May that it will strengthen its claims program by creating a special Attorney/Advocate's office in the Attorney General's office, as well as a new and strengthened National Review Commission to process all outstanding claims regardless of claimants' nationality. To assist in obtaining results as soon as possible the United States is providing technical support with the objective of improving its effectiveness and responsiveness.

In addition to announcing the establishment of the special Attorney/Advocate's office and the new and strengthened National Review Commission, the Nicaraguan Government informed the Department on June 10 that it has instituted a plan to speed the resolution of U.S. claimants' cases, and said that the Foreign Ministry has opened files on 125 U.S. citizen cases. (Embassy officers provided an updated Embassy list of 155 cases.) In addition, Nicaraguan representatives stated that partial progress on a limited number of property claims of United States citizens has been made. We have also received reports from U.S. citizen claimants that a few cases may have been at least partially settled. While we seek to confirm such reports, a few ad hoc solutions are clearly not a sufficient response on the part of the GON. We continue to work to do everything possible, within our overall policy framework, to see that U.S. citizen property claims are treated justly and expeditiously.

Therefore, the Department has concluded that the prohibition in section 620(e) of the Foreign Assistance Act does not apply at this time. The Department maintains the view that it is premature and counterproductive to take action to suspend assistance to the Government of Nicaragua at this time over the issue of property confiscations by the previous Sandinista regime. Our assistance thus far has served the current interests of the United States by supporting economic stabilization and reform in Nicaragua.

Appendix III  
Comments From the Department of State

Suggested Clarifications of Technical Points

Now on p. 3

See comment 2.

Page 5:

Second complete paragraph, first sentence: Monetary policy reforms contributed to reducing inflation from 117 percent in the month of May 1990 to near zero in the last half of 1991 ...

Second complete paragraph, third sentence: These financial institutions, along with the International Monetary Fund, have since earmarked about \$450 million through fiscal year 1994, for balance of payments support and development assistance for Nicaragua.

Now on p. 4.

See comment 2.

Page 6:

The latest estimate of the number of American citizen property claims is approximately 150. (See comments section for more State Department comment on the property compensation issue.)

Now on p. 4.

See comment 3.

Page 8:

Line 2; the number of program beneficiaries was about 95,000 vice 117,500.

Now on p. 20.

See comment 2.

Page 33:

First paragraph, first sentence: Nicaragua has one of the largest debt-to-gross domestic product ratios in the world. According to the Inter-American Development Bank, its per capita debt of around \$2,700 compares with a 1990 per capita income of \$532 (in 1988 dollars).

List of Paris Club creditors: add Australia and Israel, based on their signature of the December 17, 1991 Agreed Minute rescheduling Nicaragua's Paris Club Debt. While Canada and Japan appear on the GAO list, neither country signed the Agreed Minute.

Now on p. 21.

See comment 2.

Page 34:

First complete paragraph, final sentence: Debt owed to the former Soviet Union, the former German Democratic Republic, other east European countries, Iran and Libya has been addressed in a preliminary fashion only; no agreements have been entered into.

**Appendix III  
Comments From the Department of State**

Suggested Clarifications of Technical Points (con't)

Now on p. 21.

See comment 2.

Page 35:

Top paragraph, final sentence: The fourth (vice final) option reschedules the debt without debt reduction.)

First complete paragraph: Strike the word "the" from the end of the first line;

First complete paragraph, fifth sentence: The United States, having already forgiven about 87 percent of the amount Nicaragua owed the United States, chose the fourth option of rescheduling the remaining \$42 million.

---

The following are GAO's comments on the Department of State's letter dated June 24, 1992.

---

**GAO Comments**

1. This matter is discussed in chapter 2.
2. Suggested changes were made in the final report.
3. Our data was provided by OAS from source documents.

---

# Major Contributors to This Report

---

**National Security and  
International Affairs  
Division, Washington,  
D.C.**

Donald L. Patton, Assistant Director  
Margaret E. Gaddy, Evaluator-in-Charge  
S. Sui-Ying Gantt, Evaluator

---

**Atlanta Regional Office**

Rod Worth, Regional Management Representative  
Daniel E. Ranta, Site Senior  
Maria R. Storts, Evaluator

---

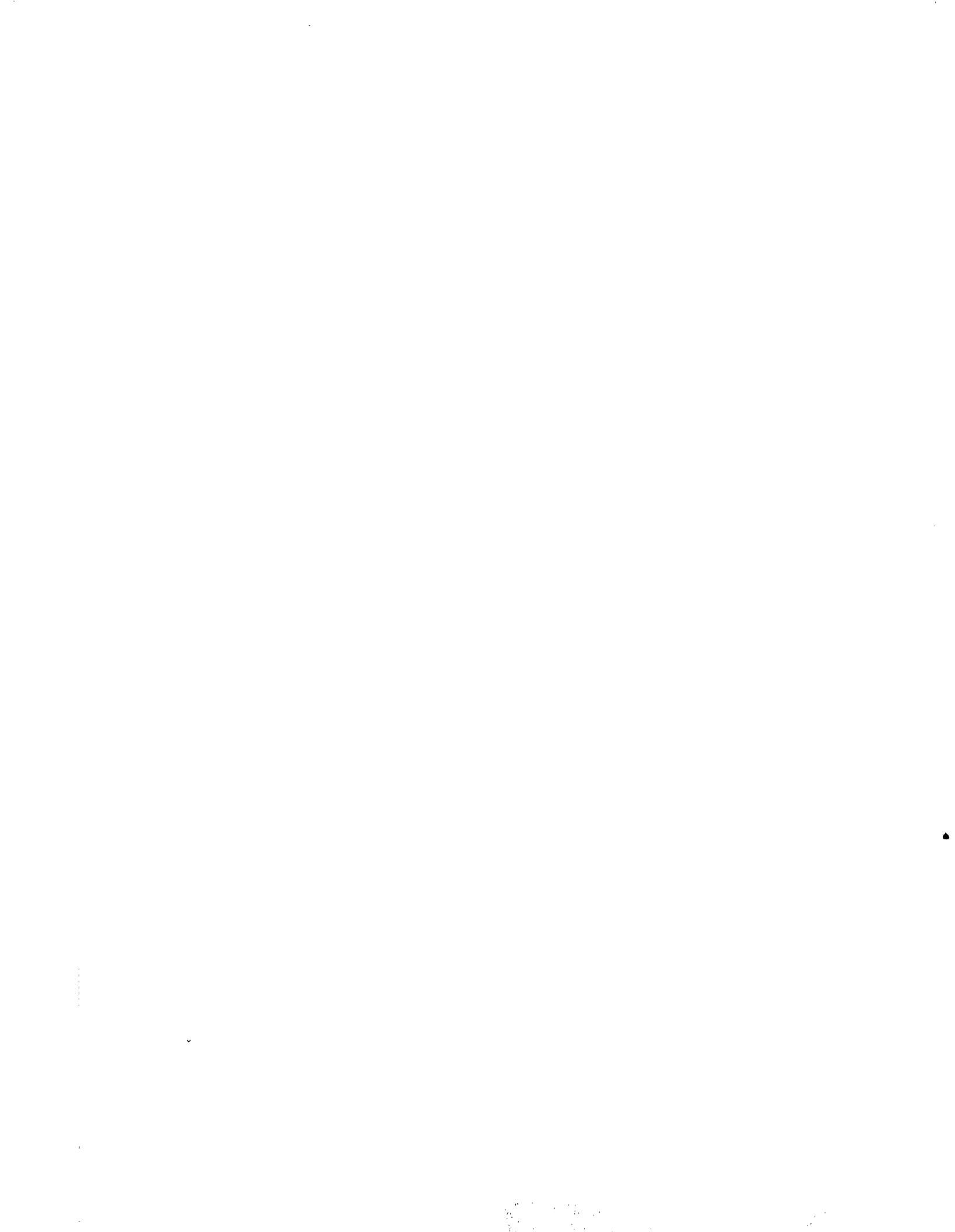
**Office of the Chief  
Economist,  
Washington, D.C.**

Daniel E. Coates, Economist

---

**Office of the General  
Counsel, Washington,  
D.C.**

Nina Fantl, Attorney



---

### **Ordering Information**

**The first copy of each GAO report is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.**

**U.S. General Accounting Office  
P.O. Box 6015  
Gaithersburg, MD 20877**

**Orders may also be placed by calling (202) 275-6241.**

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

Official Business  
Penalty for Private Use \$300

First-Class Mail  
Postage & Fees Paid  
GAO  
Permit No. G100