United States General Accounting Office

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Report to the Chairman, Subcommittee on Western Hemisphere Affairs, Committee on Foreign Affairs, House of Representatives

January 1994

EL SALVADOR

Implementation of Post-War Programs Slower Than Expected

GAO/NSIAD-94-10

GAO

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

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National Security and
International Affairs Division

B-255108

January 18, 1994

The Honorable Robert G. Torricelli
Chairman, Subcommittee on Western
Hemisphere Affairs
Committee on Foreign Affairs
House of Representatives

Dear Mr. Chairman:

Since the peace agreement was signed in January 1992, the government of El Salvador has worked to implement various programs mandated by the agreement that are intended to rebuild the social, economic, and political structures of the country. In response to your request, we obtained information on (1) the estimated cost to implement these programs; (2) the availability of funds to finance the estimated cost; and (3) the status of three mandated programs you asked us to review—the establishment of a new police force (the National Civilian Police), the transfer of land to ex-combatants and landless civilians, and the implementation of the National Reconstruction Plan.

Background

The U.N.-sponsored peace agreement between the government of El Salvador and the Farabundo Marti National Liberation Front (FMLN) represents both parties' intent to accomplish a wide range of political, social, and economic reforms. The reforms include the establishment of a new civilian police force, the strengthening of judicial and democratic institutions, the transfer of agricultural land to ex-combatants on both sides and to landless civilians, and the development of a National Reconstruction Plan as a framework to implement humanitarian and development programs for ex-combatants and civilians in the former conflictive areas. For some reforms, such as the establishment of the National Civilian Police, independent of the military, the agreement specifies what should be done and the time frame in which the activities should be accomplished. For other reforms, such as land transfers and the National Reconstruction Plan, expectations of what would be accomplished and when were left intentionally ambiguous. The sponsors of the agreement intended for the government and the FMLN to work out the details of these programs.

The National Reconstruction Plan comprises various humanitarian and development programs that are administered by the Salvadoran

government's Secretariat for National Reconstruction and implemented by central government agencies, municipal governments, and nongovernment organizations. The land transfer program, administered by the government's Land Bank, is a program within the National Reconstruction Plan. However, for the purposes of this report, we are addressing it as a separate program.

As an inducement to sign the peace agreement and end 12 years of civil war, the Salvadoran government and the FMLN were assured by a senior U.N. official that the international donor community would provide funding for the activities mandated under the peace agreement. The World Bank sponsored conferences with international donors in March 1992 and April 1993 to solicit financial support—support that would be provided in addition to the funding already provided by many donors, including the United States, for other programs in El Salvador.

The United States is a major contributor to the programs mandated by the peace agreement, having pledged over $300 million to be provided over a 5-year period through 1996. The Agency for International Development (AID) administers most U.S. nonmilitary assistance in El Salvador. The Department of Justice's International Criminal Investigation Training Assistance Program (ICITAP) administers U.S. assistance to support the National Civilian Police.

Results in Brief

In April 1993, the Salvadoran government estimated that about $1.83 billion would be needed through 1996 to finance the implementation of the remaining programs mandated by the peace agreement, but the government and international donors, including the United States, have committed about $1.15 billion so far. This will leave the government about $682 million short of its estimated funding needs, although the shortfall could be somewhat less if there are fewer beneficiaries for the land transfer program than the 47,500 originally estimated. Unless additional funding is forthcoming, the Salvadoran government expects that the programs will be implemented on a more modest scale than originally intended. An additional $197 million in assistance from donors has been pledged, but the agreements for this funding have not been finalized, and obtaining any additional donor pledges is unlikely. The Salvadoran government may be able to increase its own contributions, however, as better-than-anticipated economic growth is forecast over the next several years.

Officials of the U.S. and Salvadoran governments, the FMLN, the United Nations, and the international donor community generally agree that the three programs we reviewed are not being implemented as rapidly as expected.

The development of the National Civilian Police and its academy has been slow due to insufficient funding. While police recruits from the academy are being deployed, they are undertrained and poorly equipped. The United States has been the primary donor for police development efforts, providing almost 80 percent of all donor assistance for these efforts. Without U.S. support, little progress would have been made on the police academy or the National Civilian Police.

The initial implementation of the land transfers and the National Reconstruction Plan was delayed while the government and the FMLN negotiated to resolve differences over program elements. Administrative and technical problems have also hampered the implementation of these programs. As a result, only 12 percent of all planned recipients had received land as of June 30, 1993, and only about $32 million of the approximate $98 million available for National Reconstruction Plan programs had been disbursed. AID acknowledged that it underestimated the potential for administrative problems and technical difficulties associated with land transfers and National Reconstruction Plan programs because of competing demands on its time and resources. Recent actions by the agency have addressed some of these problems.

El Salvador Estimates $1.83 Billion Is Needed to Implement Peace Agreement Programs

In April 1993, the government of El Salvador estimated it would need about $1.83 billion to implement the remaining programs mandated by the peace agreement through 1996. U.S. and other international donor officials we interviewed confirmed that this estimate realistically reflected the amount of funding needed.

About $1.16 billion of this amount is intended for programs considered by the Salvadoran government to be a high priority. These programs are establishing the National Civilian Police and its academy, strengthening judicial and democratic institutions, transferring land, and implementing the National Reconstruction Plan programs to alleviate poverty and help ex-combatants reintegrate into civilian life. The remaining National Reconstruction Plan programs, including social and productive programs for civilians, infrastructure projects, and environmental projects, are considered to be a lower priority.

Our analysis indicates that as of November 1993, about $1.15 billion was available for peace agreement programs, with $304 million being provided by the United States, about $435 million by 19 other donors, and about $408 million by the government of El Salvador.[1] However, this amount is about $682 million, or 37 percent, short of the estimated funding required through 1996.

Not only is the overall effort underfunded, but the Salvadoran government's higher priority programs are underfunded to a greater extent than other programs due to donor restrictions. As shown in table 1, the projected funding shortfall for the higher priority programs is about $520 million, or 45 percent of the amount needed. On the other hand, the shortfall for the lower priority programs is about $162 million, or 24 percent of the funding required.

[1]These figures do not include funding already provided by the donors ($12.9 million from the United States and $9.3 million from other donors) for emergency assistance such as support for FMLN encampments, starter packages for ex-combatants, and support for the Ad Hoc and Truth Commissions. The United States is providing another $22.8 million for infrastructure feasibility studies, contingency funding for unspecified ex-combatant programs, program evaluation and audit, technical assistance, and program administration costs. This funding supports the implementation of mandated programs but was not included in the government's estimated required funding for programs, and thus it is not included in the $304 million U.S. contribution.

Table 1: Estimated Funding Needed and Expected for Programs

Dollars in millions

	Estimated funding needed	Expected funding: Government of El Salvador funding	Expected funding: U.S. funding	Expected funding: Other donor funding	Estimated funding shortfall
Higher priority programs					
National Civilian Police and academy	$277.7	$63.4	$25.8	$6.5	($182.0)
Judicial and democratic institutions[a]	256.6	169.3	19.0	1.7	(66.6)
Land transfer program	142.5	23.3	44.0	12.5	(62.7)[b]
National Reconstruction Plan					
Reintegration of ex-combatants[c]	174.3	3.3	35.0	20.9	(115.1)
Poverty alleviation programs[d]	310.2	57.2	106.1	53.2	(93.7)
Subtotal	**1,161.3**	**316.5**	**229.9**	**94.8**	**(520.1)**
Lower priority programs					
National Reconstruction Plan					
Social and productive sector programs[e]	120.0	10.9	44.1	79.6	14.6
Infrastructure programs[f]	530.2	78.4	30.0	260.8	(161.0)
Environmental sector programs[g]	17.5	1.9	0.0	0.2	(15.4)
Subtotal	**667.7**	**91.2**	**74.1**	**340.6**	**(161.8)**
Total	**$1,829.0**	**$407.7**	**$304.0**	**$435.4**	**($681.9)**

Note: Parentheses indicate a negative number.

[a]Programs to support the human rights ombudsman, justice system strengthening, National Judicial Council, judicial school, and the Supreme Electoral Tribunal.

[b]The shortfall was calculated based on the maximum 47,500 eligible beneficiaries. In November 1993, AID and the FMLN acknowledged that fewer beneficiaries may receive land, and the shortfall may be reduced. AID estimated a shortfall ranging from $15 million to $24 million, and the FMLN estimated a shortfall of about $43 million.

[c]Pensions for disabled persons, counseling and programs for housing, agricultural, and microenterprise credit.

[d]Programs for education, vocational training (ex-combatants and civilians), health, housing, microenterprise credit, and community-level infrastructure.

[e]Programs for civilian population, including education, health and vocational training, agricultural and microenterprise credit, support to displaced and repatriated persons, and scholarships for ex-combatants.

[f]Rehabilitation and expansion of energy generation system, water system, telephone system, rural roads and bridges, hospitals, and public services.

[g]Reforestation, soil conservation, and flood control.

Source: GAO analysis of data provided by U.S., Salvadoran, and donor country governments.

The Salvadoran and U.S. governments have targeted most of their assistance to meeting higher priority program needs, as shown in table 1. The Salvadoran government has directed almost $317 million, or 78 percent, of its almost $408 million contribution toward higher priority programs, with the remaining resources primarily supporting ongoing infrastructure repair projects. Similarly, the United States has targeted about $230 million, or 76 percent, of its $304 million contribution to higher priority programs, with the remainder directed toward lower priority economic and social programs for the civilian population affected by the war, and ongoing education and public service restoration projects.

Other donors, however, have targeted only 22 percent of their funding toward programs that the Salvadoran government considered higher priority—about $95 million of the approximate $435 million total contribution. The remaining 78 percent of funding from other donors is targeted to lower priority programs, and the Salvadoran government cannot redirect these funds toward higher priority programs because of restrictions specified by donors. For example, we were told that some donors are specifically prohibited by their own regulations and policies from funding programs such as land transfers and the National Civilian Police.

El Salvador Has Few Options to Close Funding Gap

Salvadoran government officials told us that they have few options to reduce the funding shortfall and may have to scale back programs to a more modest level, even though this may adversely affect program execution and sustainability. To avoid this, the government must obtain more funding, either from the donor community or by increasing its own contribution. We found that donors are unlikely to provide sufficient additional funding, but that the government may be in a position to increase its contribution.

Prospects for Additional External Financing Are Limited

As of July 1993, agreements for about $197 million in additional donor pledges had not yet been signed.[2] Salvadoran officials could not estimate when the agreements making those funds available would be signed. According to these officials, the donors' internal approval processes can be lengthy, delaying the signing of the assistance agreement and the provision of funds. Of the $197 million, about $52 million was pledged at the first donor conference in March 1992.

[2]The funding donors pledged at the donor meetings is not provided until an assistance agreement is signed between the donor and the government of El Salvador, according to a Salvadoran official.

The prospect of obtaining more funding from current donors beyond the $197 million or pledges from new donors is unlikely. Representatives of major donors in El Salvador told us that they do not anticipate increasing their support to peace agreement programs, although the European Community may provide some additional funding to support land transfers. AID officials told us the United States does not expect to increase its funding beyond the current level. Additionally, Salvadoran government officials told us they do not expect any new donors to provide funding because no new donors pledged assistance at the April 1993 donor conference.

Factors Affecting El Salvador's Ability to Increase Its Contribution

Salvadoran officials told us that their government lacks additional funds to meet the unfinanced needs of programs mandated by the peace agreement despite additional tax revenues and lower debt payments. When determining its planned contribution, the government considered anticipated revenues generated from the 10-percent value-added tax enacted in September 1992. The government also considered an annual reduction in debt expenses resulting from the U.S. decision in December 1992 to forgive $464 million in loans.[3] However, better-than-anticipated economic growth, improved tax revenue collection, and proceeds from two unrestricted loans may provide the government with additional resources that could be directed toward these programs.

The prospect for economic growth necessary to increase revenues beyond expectations appears positive for El Salvador. For the first 6 months of 1993, El Salvador's economy grew at an annual rate of 5 percent, and continued economic improvement is forecast. According to officials of three international financial institutions, this rate of growth is higher than these institutions expected. The officials told us that El Salvador's economic position is also improving rapidly due to increased exports, with total exports expected to increase by 18 percent in 1993—also greater than anticipated. Furthermore, tax revenues are now expected to be greater than originally expected due in part to a joint AID and Inter-American Development Bank project to improve tax collections.

In addition, the government has wide discretion in using local currency generated from loans obtained from the World Bank and the Inter-American Development Bank. These loan commitments total

[3]AID estimates that this debt forgiveness will reduce El Salvador's debt expenses by $19.3 million in 1993, $13.7 million in 1994, and $14.8 million in 1995.

$165 million through 1994 and were not included in the government's estimate of its planned contribution to peace agreement-mandated programs, according to a Salvadoran official. The loans will provide dollar funds to support import activities in El Salvador, with importers using local currency to buy the dollars from the government. According to bank officials, neither bank restricts the use of the local currency. A Salvadoran official told us that the government has historically used the loan proceeds to support basic government programs such as health, education, and public works. Future installments of these loans could be used by the government to support peace agreement programs.

In addition, about 1 million Salvadorans, or 20 percent of the population, live outside the country, with most residing in the United States. An international financial institution estimated that remittances from these Salvadorans back to El Salvador will average more than $900 million annually between 1993 and 1996.

One major constraint on the availability of government funds for programs required by the peace agreement is that the government is sustaining two police forces simultaneously, even though members of the new National Civilian Police were expected to replace the existing National Police incrementally as they were deployed. As of September 1993, the expected reduction in the National Police had not occurred, and the government still employed about 7,600 National Police despite the deployment of nearly 1,300 of the new police. Salvadoran officials said that the National Police cannot be reduced because they are needed to contain crime that has increased throughout the country since the end of the war. In fact, in July 1993, the government dispatched 3,000 members of the armed forces to supplement the National Police in high crime areas. U.S. and U.N. officials have criticized this decision because they believe involving the armed forces in police functions undermines the competent and nonmilitary image that the new National Civilian Police is attempting to assert. In November 1993, an ICITAP official told us that the reduction in the National Police had begun in October 1993, at a rate of 300 police members demobilized per month. In commenting on this report, AID stated that the National Police is expected to be fully demobilized by October 1994. However, in November 1993, members of the armed forces were still supplementing the new National Civilian Police in high crime areas.

Implementation of Three Crucial Programs Slower Than Expected

The National Civilian Police

Under the peace agreement, the police academy was to begin training the first class of the new National Civilian Police in May 1992, with the mandated 5,940 police personnel trained, equipped, and deployed within 21 months. As discussed earlier, the existing National Police are to be gradually phased out as the new police are deployed.

The first class of the police academy began 3 months late, and ICITAP and Salvadoran police officials do not expect the mandated number of police to be graduated and deployed until September 1994. These officials do not view this 7-month delay as alarming in that the mandated dates in the agreement are considered extremely optimistic.

However, ICITAP and Salvadoran police officials expressed concern about the lack of funding to sustain the academy. Because of funding shortages—currently estimated at about $60 million through 1996—recruits are graduating with insufficient training. For instance, the recruits are not receiving adequate firearms training because of the lack of weapons and ammunition. Also, according to a Salvadoran police official, $8 million intended for academy construction was used instead to cover day-to-day operating expenses.

ICITAP and Salvadoran police officials are also concerned about the lack of funds to support the police once they graduate and are deployed. Because of the funding limitations, police are often on duty without a sufficient number of weapons, radios, and vehicles. For example, ICITAP and Salvadoran police officials told us that the 410 police deployed to the Chalatenango region by May 1993 were provided only 9 of the 56 required vehicles, two telephones, and a few hand-held radios. According to U.N. officials, the police in Chalatenango depend heavily on the United Nations Observer Mission to El Salvador (ONUSAL) for about 80 percent of their logistical support. These officials told us that ONUSAL shares its vehicles and radios with the police and provides remote police posts with water, medical supplies, and food.

Until recently, weapon shortages had been a problem. In May 1993, the police chief in Chalatenango told us there were only enough handguns to equip two-thirds of the force. At that time, Salvadoran military officers had 676 pistols that had been provided by the United States to be used by public security forces.

According to an ICITAP official, in August 1993, the Salvadoran military turned over 436 of the handguns to the National Civilian Police, with the remainder to be turned over by October 1993. These weapons, along with another 999 handguns delivered to the police in August 1993, have alleviated the immediate shortage problem, according to the officials. More weapons, however, will be needed as new police continue to be deployed.

Land Transfers and the National Reconstruction Plan

Transferring land and implementing National Reconstruction Plan programs have been delayed for reasons other than funding, although funding shortages could become a problem in the future. Implementation of these programs so far has been impeded by prolonged political negotiations on the content and execution of programs and by administrative and technical factors.

Political Negotiations

Negotiations between the government and the FMLN to resolve ambiguities of the peace agreement and develop program strategies slowed land transfers and the implementation of the National Reconstruction Plan. For instance, it took about 6 months to develop an ex-combatant assistance program that was acceptable to both parties and AID. Similarly, differences between the government and the FMLN on the design and implementation of the mandated land transfer program were not reconciled until the United Nations brokered a land agreement in October 1992, 9 months after the peace agreement was signed.

Land Transfers Delayed Because of Administrative and Technical Problems

The program to transfer land to 47,500 recipients is behind schedule. The U.N.-brokered agreement called for land to be transferred to approximately 19,400 recipients by April 30, 1993, with transfers in process for the remaining 28,100 recipients. However, as of June 30, 1993, only 5,672 recipients had received land—486 armed forces ex-combatants, 2,129 FMLN ex-combatants, and 3,057 landless civilians, known as tenedores.

A major cause of the land transfer delays has been the FMLN's inability to identify eligible recipients. The FMLN is responsible for identifying its

ex-combatant recipients and the eligible tenedores. The other eligible recipients, the ex-combatants of the Salvadoran armed forces, are to identify themselves if they wish to receive land. FMLN officials acknowledged they had problems compiling and verifying lists of eligible recipients, and said they needed two vehicles and funds to pay five technical experts to assist their efforts. In July 1993, the United Nations Development Programme provided the FMLN with vehicles and technical assistance.

In September 1993, the government, in agreement with the FMLN, also began a nationwide campaign to verify eligible recipients. According to AID officials, the names of the tenedores who are potential land recipients were published in newspapers in early September. Individuals on the list were instructed to indicate their desire to receive land at 1 of 42 regional land transfer offices. AID officials also said that without a list of recipients ready to purchase land, the Land Bank has had little incentive to begin preparatory processes to transfer land, such as measuring and appraising available property.

In cases where eligible beneficiaries are identified, technical and procedural problems have delayed the transfer process. One problem is that the Land Bank was manually measuring the land instead of using available satellite technology. According to an official of the European Community, which is also implementing a land transfer program in El Salvador, such technology can measure land four times faster and more accurately than the manual method. According to AID officials, the Land Bank began using the satellite technology to measure land in June 1993.

Land transfers have also been delayed by the Land Bank Board of Directors. The Board can reject the sale of the property if it considers the selling price too high, forcing the parties to meet again to negotiate a new selling price, which in turn is subject to the Board's approval. As of June 30, 1993, the Board had rejected the sale of 45 of the 325 properties with a negotiated selling price.

After reviewing Land Bank procedures, an accounting firm under contract to AID recommended in July 1993 that the Board of Directors approve all land sales unless the selling price exceeds the appraised value by a specified percentage to be established by the Land Bank. The firm also recommended that the Board notify sellers within 3 days after rejecting the sale and to schedule a second meeting as soon as possible. As of September 1993, the Land Bank had implemented the first

recommendation, but the other recommendation had not been adopted, according to an AID official. In commenting on this report, AID stated that it has "no reason to believe the Bank is not implementing the recommendations," but AID offered no evidence that the recommendations were adopted.

Administrative Problems Have Slowed the Disbursement of National Reconstruction Plan Funds

The first programs under the National Reconstruction Plan were funded by the Secretariat for National Reconstruction using local currency funds generated from AID cash grants provided in fiscal year 1991.[4] According to AID, using local currency allowed the government to begin projects quickly because the government had administered local currency over past years and the administrative procedures and processes were already established. The Secretariat approved about $23 million in project proposals between February and December 1992 and disbursed about $21 million for these projects through June 30, 1993. AID and Salvadoran officials have praised the progress made under this phase of the plan.

In September 1992, National Reconstruction Plan programs began to be funded with U.S. dollars, which are administered under different rules and procedures than the local currency. According to Salvadoran and U.S. officials, this slowed program implementation. Through June 30, 1993, the first 10 months of this phase, the Secretariat for National Reconstruction had planned to disburse about $18 million of the $75 million available but had disbursed only about $11 million.

The implementation of the initial programs to be funded with U.S. dollars was delayed because AID was unable to disburse funds to the Salvadoran government until the government met certain administrative requirements. These requirements were not met until September 1992, 8 months after the peace agreement was signed. Even after the requirements were met, additional delays occurred. Administrative processes within the Salvadoran government delayed the first two AID disbursements from reaching the Secretariat for National Reconstruction by 2 months. AID officials explained that Salvadoran procedures require several government agencies to review and approve the transfer of funds among government organizations.

Organizations receiving funds are required to report on how funds are spent before receiving additional funds, with the Salvadoran government's audit agency reviewing and approving the report. However, the audit

[4]Local currency is generated when the Salvadoran government sells dollars provided by the United States to importers in El Salvador, who buy the dollars with colones, the local currency.

agency can disallow the entire report if any one expenditure is questioned, returning the report to the submitting organization for resolution and thereby delaying further disbursements for the organization's project, according to AID officials. For example, an AID official said that the Salvadoran audit agency had rejected approximately $1.7 million in expenditure reports submitted by three nongovernmental organizations administering projects under the National Reconstruction Plan even though only a small portion of each report was being questioned. As a result, additional funding for the organizations' activities was delayed for several months.

Misunderstandings about AID regulations and processes also contributed to disbursement delays. In May 1993, the Secretariat for National Reconstruction told us that under AID rules her office cannot submit expenditure reports to AID until at least 70 percent of the funds already received have been spent. In fact, AID rules do not prescribe a percentage of expenditures that must be reported but encourage monthly reports of expenditures to facilitate fund disbursement, regardless of the percentage of funds that has been spent. In another case, the Secretariat for National Reconstruction told a nongovernmental organization that its project proposal could not be approved because all available funds had been committed to other proposals, according to the director of the organization. However, an AID official told us that the Secretariat for National Reconstruction had funding to approve the proposal.

AID Assistance to Reduce Administrative Problems

AID has taken some action to address problems that impede program implementation. According to AID officials, its staff has worked with the Salvadoran government to improve administrative processes and clear up misunderstandings of AID rules. For example, an AID official told us that the third transfer of AID funds in April 1993 was reviewed by Salvadoran government agencies and passed to the Secretariat for National Reconstruction in 13 days. In a June 8, 1993, letter to the Secretariat for National Reconstruction, AID modified and amplified the procedures to disburse funds and report expenditures and required the Secretariat to process expenditure reports within 15 days so that the repayment of expenses are not delayed. Since June 1993, AID has been working to improve the expenditure report review process, according to an AID official.

While AID officials acknowledge that they underestimated the potential for administrative problems and technical difficulties that ultimately impeded

the implementation of the National Reconstruction Plan and land transfer program, they cited competing demands for their time and resources as the biggest reason they could not respond immediately when problems surfaced. According to AID officials, for the first year following the signing of the peace agreement, much of AID's efforts were directed toward resolving immediate crises and contentious issues arising from the ambiguities of the peace agreement. Furthermore, establishing new organizational structures within AID and the government of El Salvador to support the programs, as well as reviewing, approving, and monitoring initial projects funded with local currency, required considerable time and resources.

About $10 million of AID's funding for the National Reconstruction Plan is intended for audit and technical assistance. As of September 30, 1993, only about $726,000 of these funds had been used for this purpose, primarily to assist the Secretariat for National Reconstruction and the Land Bank in meeting internal control and financial management standards. According to AID officials, technical assistance will continue to be provided to various governmental organizations.

Agency Comments

AID generally agreed with our report but stated that the estimated shortfall of $62.7 million for the land transfer program was too high because the number of beneficiaries would likely be closer to 15,000 or 20,000 rather than the originally estimated 47,500. An AID official subsequently told us that the FMLN and the Salvadoran government have agreed to provide land to about 17,000 beneficiaries—about 6,000 being ex-combatants. However, the FMLN believes that an additional 2,000 to 8,000 tenedores should be included in the program because their names were not available at the time the verification of beneficiaries took place. The AID official stated that while the Salvadoran government does not dispute this, the government is concerned about the availability of funds. The Salvadoran government has proposed to the FMLN that the 17,000 beneficiaries be taken care of first, and the others be satisfied as funds become available. Based on this, AID estimates the shortfall for the land transfer program to be in the $15-million range. AID's comments are reprinted in appendix I along with our evaluation.

Scope and Methodology

To perform our review, we interviewed and obtained documentation from officials of the U.S. Embassy, the AID mission, and ICITAP in El Salvador; the Salvadoran Secretariat for National Reconstruction, the Ministry of

Planning, the Technical Secretariat for External Finances, the Land Bank, and the National Civilian Police and Police Academy; the FMLN; ONUSAL; and the United Nations Development Programme in El Salvador. We also interviewed and, in most cases, obtained documents from representatives of Canada, France, Spain, Germany, and Japan, which have provided bilateral assistance to El Salvador; and representatives of the Inter-American Development Bank, the World Bank, and the European Community, which have provided multilateral assistance. To determine the external funding available for El Salvador's peace agreement-mandated programs, we analyzed data obtained from the Salvadoran government, the United Nations, AID, and other donors.

We conducted our review from April to September 1993 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from its issue date. At that time, we will send copies to the Chairmen, Senate and House Committees on Appropriations, Senate Committee on Foreign Relations, and House Committee on Foreign Affairs; the Secretary of State, the Administrator, AID; and the Director, Office of Management and Budget. We will also make copies available to others on request.

Please contact me on (202) 512-4128 if you or your staff have any questions concerning this report. Major contributors to this report were Donald L. Patton, Assistant Director; Roderic W. Worth, Regional Assignment Manager; Nancy T. Toolan, Evaluator-in-Charge; and Daniel E. Ranta, Evaluator.

Sincerely yours,

Harold J. Johnson
Director, International
Affairs Issues

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

NOV 29 1993

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

Dear Mr. Conahan:

In response to the November 9, 1993 meeting between our staff and the General Accounting Office's draft report, "El Salvador: Implementation of Post-War Programs Slower than Expected," submitted to the U.S. Agency for International Development (USAID) in October, enclosed please find the Mission's response to the report as well as clarification of items raised during the aforementioned meeting.

Please feel free to call on USAID for any further assistance.

We look forward to continuing to work with you.

Sincerely,

Larry Byrne
Assistant Administrator
Bureau for Management

Enclosure: a/s

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

MEMORANDUM

TO: *Maureen Dugan*

FROM: *Charles E. Costello, DIR/USAID*

DATE: *20 October 1993*

SUBJ: *GAO Draft Report: "El Salvador, Implementation of Post-War Programs Slower than Expected"*

I. *SUMMARY*

See comment 1.

In general terms, this report gives an accurate picture of the state of certain post-war programs as of July and August of 1993. However, the report looked at just a few of the many post-war reconstruction activities, and the delays in the chosen programs are not necessarily representative of the entire program. Also, as of October 1993, many corrective actions have been taken by the GOES and the US Government which could not be reflected in this report. Beyond this, there are some inaccuracies in the description of the problems of the land distribution program and some others as noted below.

II. *GENERAL COMMENTS:*

A. *Funding Shortfall for Land Transfer Program*

The draft GAO Report estimates a $62.7 million funding shortfall to complete the entire Land Transfer Program. This estimate is essentially correct IF one assumes that the original beneficiary calculation of 7,500 ex-combatants of FMLN, 15,000 ex-combatants from ESAF and 26,000 tenedores is accurate. It now seems very likely that the actual number of beneficiaries under the Land Transfer Program will be far less than the estimated 47,500 probably totalling not more than 15-20,000.

As of October 18, 1993, only approximately 10,000 people have requested land. This number could actually decrease as the names are verified and compared with lists. The GOES has agreed to extend the final entry date until 10/31/93 which might bring the number up again.

See comment 2.

Thus, although there is not yet a final and definite list of Land Transfer Program beneficiaries, it will certainly be far less than the original estimate. If there is a shortfall, it is likely to be in the $15-24 million range.

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B. *Attribution of Comments to Unidentified AID Officials*

Unidentified AID officials are quoted throughout the document and, unfortunately, many of the comments attributed to AID are inaccurate. The inaccuracies will be pointed out in the following paragraphs.

III. SPECIFIC COMMENTS

Now on p. 3.

A. *Page 5; paragraph 1*

"Administrative and technical problems have also hampered the implementation of these [land transfers and National Reconstruction Plan] programs. As a result, only 12 percent of all planned recipients had received land as of June 30, 1993, and only about $32 million of the approximate $98 million available for National Reconstruction Plan programs has been disbursed. AID underestimated the potential problems associated with land transfers and National Reconstruction Plan programs, but recent actions by the agency have addressed some of the technical and administrative problems."

LAND TRANSFERS: We recognized from the beginning that the land program would be extremely difficult and complicated and have been working since day one with all parties (FMLN, GOES, ONUSAL) to develop a strategy that would overcome the most serious complications. We were instrumental in developing the famous ONUSAL "October 1992" proposal which was accepted by both the GOES and FMLN.

The Peace Accords set the timetable for completing the land transfer program, and USAID was very aware that the timetable was wildly unrealistic. The Accords, and the subsequent land agreements called for the transfer of 237,500 mzs. of land to 47,500 beneficiaries in a six month period. The entire agrarian reform, which consumed the decade of the 1980's and absorbed over $ 300 million of AID funds transferred 280,000 mzs. to 80,000 beneficiaries. We knew the complexities and difficulties associated with a massive land transfer program. We were, and continue to be, committed to assisting the GOES implement the program in as efficient, equitable and transparent manner possible.

3

See comment 2.

LAND TRANSFERS: As of October 18, 1993, only approximately 10,000 people have requested land. This number could actually decrease as the names are verified and compared with lists. The GOES has agreed to extend the final entry date to 10/31/93, which might bring the number up again. To date, 3329 FMLN, 1392 ESAF and 6521 tenedores have made claims for land. This represents 23 percent of all planned recipients, given the original beneficiary calculation of 7,500 ex-combatants of FMLN, 15,000 ex-combatants from ESAF and 25,000 tenedores. It is very likely that the actual number of beneficiaries under the Land Transfer Program will be not more than 15-20,000.

NATIONAL RECONSTRUCTION PLAN: The Mission clearly understood, as early as November 1991, that the negotiation process leading up the cease fire was only the beginning. When USAID presented its original Project concept in Washington the Mission was requesting $300 million. Washington reduced that budget. The Mission went back to Washington in January 1992, with a proposed budget of $250 million which was accepted for the Peace and National Recovery Project. (The Project authorized funding level subsequently was increased to $300 million in March 1993.)

Now on p. 4.

B. Page 8, Table 1: Estimated Funding Needed and Expected for Program

Higher Priority Programs:

See comment 3.

- *National Civilian Police and academy: Under the U.S. funding column, there are $20.0 million listed; however, the actual total is made up of the original $20.0 million, plus $5.75 million from DTF resources for procuring equipment for the PNC,*

See comment 4.

- *$5.0 million from the A.I.D. Administration of Justice program for the SIU activity for a total of $30.75 million.*
- *Judicial and democratic institutions.*
- *Land Transfer: $44 million is correct.*

4

Under the National Reconstruction Plan:

See comment 5.

Reintegration of Ex-combatants: It is difficult to understand how this figure was developed. A.I.D. has programmed $70 million in Demobilization and Transition Funds (DTF), $10 million in ESF and $10 million equivalent in Host Country Owned Local Currency to address ex-combatant activities. Without the timely and extensive assistance we made available, the demobilization certainly would have been delayed further and the whole peace process jeopardized.

See comment 5.

Poverty Alleviation Programs (high and lower priority): A.I.D. has a total of $132.0 million programmed for civilian programs.

See comment 5.

Infrastructure (lower priority): A.I.D. has $37 million programmed for water systems, rural roads, rural electrification, feasibility studies, technical assistance and other minor infrastructure activities.

Now on p. 8.

C. Page 14, paragraph 1, suggest that the following be added:

See comment 2.

In October 1993, the Cristiani Administration announced that the administration would start demobilizing in October 1993, at the rate of 300 active duty PN per month. This will continue until May 1994 and will reduce the PN size by 2,400 agents by the time that the new government assumes office in June 1994. The PN is expected to be fully demobilized by October 1994. In addition, the PN academy CETIPOL began its last class on September 5, 1993, and its installations will close down by December 31, 1993.

Now on p. 11.
See comment 2.

D. Page 18; paragraph 3

The names that were published in the paper as part of a nation-wide campaign to verify eligible beneficiaries of land transfers DID NOT INCLUDE FMLN EX-COMBATANTS. The list was made up of only TENEDORES, and did not include the names of any ex-combatants of the FMLN. The only known list of ex-combatants is held by ONUSAL and it is not easily accessible.

5

Now on p. 11.

E. *Page 19; paragraph 2*

AID/El Salvador informed the GAO in a 7/24/93 fax, pg. 8, response b to question no. 13 pertaining to the land measurement issue, of the following:

> *"AID and LB are considering the Geographical Positioning System (GPS) as one possible supplemental technique for measuring land. The EEC has financed a pilot land measuring activity using the GPS; AID will be looking at the results of this pilot program closely to determine its utility for the LB program."*

See comment 2.

Nobody in AID ever told the GAO that AID "purchased the satellite technology for the Land Bank" or that AID "now requires all land to be measured with this technology." The Bank does now utilize the GPS satellite technology, but it has been purchased with EEC funds. The EEC has also trained Bank personnel in its use.

USAID does require that land be measured prior to purchase, and has informed the Bank that for USAID liquidation to take place the land must be measured and that it should draw upon all appropriate forms of land measurement, including, if the LB chooses, the GPS satellite system.

Now on p. 11.

F. *Page 19; paragraph 3*

As far as we know, no USAID official has accused the Land Bank of delaying notifying the land owner of the Board's rejection of the negotiated purchase price.

See comment 2.

Now on p. 11.

G. *Page 20, paragraph 1*

The GAO report is correct that the firm of Price Waterhouse has made specific recommendations to facilitate the land transfer process. We have no reason to believe the Bank is not implementing the recommendations.

Now on p. 12.

H. *Page 21, paragraph 1*

As of June 30, 1993, the Secretariat for National Reconstruction had disbursed $20.6 million as reported by the USAID Controller, not $11 million as stated in the report.

See comment 6.

6

Now on p. 13.

I. *Page 22, paragraph 2*

Since the Program started, USAID has been working closely with the SRN and SETEFE to improve disbursement/expenditures reporting procedures and be responsible to the financial requirement of the program.

As a result of this process, USAID and GOES (SETEFE and SRN) have agreed on a set of procedures for the provision of cash needs and liquidation of incurred expenditures. These procedures have been established in Project Implementation Letters and are being implemented by all parties. As a support mechanism for this process, in July of 1993, USAID, SETEFE and SRN agreed on creating a special Task Force. The Task Force's mandate is to assist the implementing entities in presenting their cash flow requirements and expenditure reports to the SRN and USAID on a timely basis. The Task Force consists of representatives from SETEFE, SRN and USAID.

In order to encourage timely presentation of expenditure reports, the SRN has adopted the internal procedure of requiring the implementing entities to liquidate at least 70% of funds previously advanced to them before they can have access to additional funds. While this is not a requirement established by USAID, we believe it is a good policy if applied flexibly, taking into account the circumstances of each individual case. Since the SRN has the capability to disburse funds to the implementing entities on an immediate basis, we believe applying the 70% rule by SRN is consistent with our cash management requirements.

Project implementation letters require SRN to submit to USAID monthly liquidation reports regardless of amount of previous advances already spent. Therefore, we concur with the statement on page 22, second paragraph, regarding misunderstanding by the person interviewed by GAO auditors about AID regulations.

Now on p. 13.

J. *Page 22, paragraph 2*

The report indicates that the SRN told an NGO that there were no [A.I.D.] funds available for their activity because they had all been committed to other proposals. As of the end of September 1993, there was a balance of $35 million available to be committed to NRP activities.

7

Now on p. 14.

See comment 2.

K. Page 24, paragraph 2

The reports states that A.I.D. has $13 million intended for audit and technical assistance activities. The Mission had sent an answer to that inquiry to the GAO indicating that $8 million are programmed for technical assistance (management and evaluation) and $2 million is reserved for audit activities. The remaining $3 million are for budget support to the SRN.

As of September 30, 1993, the A.I.D. Controller reports that $523,739 and $201,993 respectively as disbursements for management and evaluation and for audit activities.

The following are GAO's comments on the Agency for International Development's (AID) letter dated November 29, 1993.

GAO Comments

1. We were specifically asked to evaluate the three programs discussed in this report.

2. The report text has been modified to incorporate this information.

3. In table 1 we increased the amount associated with the National Civilian Police to $25.8 million. Since the $5.75 million added to the National Civilian Police was previously included in the $49.9 million for social and productive sector programs, this amount was deducted from the social and productive sector programs figure. The total of $304 million therefore remains unchanged.

4. The $5 million is not part of National Reconstruction Plan funding and therefore should not be included in this table.

5. The program categories in table 1 represent how the Salvadoran government views the elements of its reconstruction program. AID's categorization of program elements, such as ex-combatant reintegration, poverty alleviation, and infrastructure programs, does not necessarily coincide with that of the Salvadoran government, and therefore dollar amounts are not always consistent. Table notes provide information on what specifically is included in each program category, and other funding provided by the United States is accounted for in footnote 1.

6. AID agreed during subsequent discussions that $11 million is the correct figure.

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