UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

EL SALVADOR: INSTITUTO SALVADORENO DE FOMENTO INDUSTRIAL

(INSAFI)

AID-DLC/P-749

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-749
June 16, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: El Salvador: Instituto Salvadoreno de Fomento Industrial (INSAFI)

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $4,800,000 to the Instituto Salvadoreno de Fomento Industrial (INSAFI) to assist in financing subloans by INSAFI for the creation and expansion of productive enterprise in El Salvador.

Please advise us as early as possible but in no event later than close of business on Monday, June 23, 1969, if you have a basic policy issue arising out of this proposal.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:
- Summary and Recommendations
- Project Analysis
- ANNEXES A-E

UNCLASSIFIED

UNCLASSIFIED
AID-DLC/P-749
June 16, 1969

EL SALVADOR

INDUSTRIAL DEVELOPMENT - INSAFI II

Table of Contents

UNCLASSIFIED

ANNEXES

A. Checklist of Statutory Criteria including Mission Director's Certification

B. INSAFI Organization and Personnel Chart

C. Economic Data

D. Financial Data

1. Statement of Operations 1962-68
2. Projected Statement of Operations 1968-77
3. Comparative Balance Sheets 1962-68
4. Use of Internal and External Credits 1961-67
5. Projected Cash Flow 1968-77
6. Investment Plans 1968-72
7. Benefits of Two-Step Option to INSAFI

E. Loan Authorization (Draft)

UNCLASSIFIED
AID-DLC/P-749

June 16, 1969

EL SALVADOR
INSTITUTO SALVADOREÑO DE FOMENTO INDUSTRIAL
(INSAFI)

SECOND LOAN
SUMMARY AND RECOMMENDATIONS

1. BORROWER: Instituto Salvadoreño de Fomento Industrial (INSAFI), an autonomous industrial development corporation of the Government of El Salvador (GOES), located in San Salvador, El Salvador, C. A.

2. GUARANTOR: The Government of El Salvador or the Central Reserve Bank of El Salvador.

3. AMOUNT: Not to exceed $4, 8 million. To be used over a three-year period for procurement of U. S. source/origin goods and services except as provided in Covenant 6 of the Summary. Not less than $4. 5 million will be used for sub-loans. Not to exceed $300, 000 will be used for procurement of technical services.

4. PURPOSES: To enable an existing government-sponsored development bank to continue its program of making loans to various private sector projects for the creation, expansion, and effective operation of private industrial enterprise in El Salvador to encourage export-oriented industries, and to finance technical assistance related to the improvement of INSAFI and private enterprise operations, and the appraisal of sub-loans by INSAFI's staff.

5. BACKGROUND: In early 1963 the GOES, with the assistance of the Nathan Group, presented an application to A. I. D. for a loan of $4. 5 million, which provided for the use of $4. 3 million for the extension of short, medium, and long-term credit for the creation and expansion of productive enterprise and $200, 000 for the financing of the costs of technical assistance to be provided by U. S. experts who would assist INSAFI in improving its loan appraisal and operational capabilities. After intensive review of this application, a $4. 5 million loan to INSAFI was authorized in June 1963 and signed in September 1963. On the basis of its satisfactory performance in implementing this loan (519-L-005) and the need for additional capital to continue and expand the program, INSAFI is applying for a second loan of $5. 6 million.

6. DESCRIPTION OF THE PROJECT: The loan project will help to achieve the purposes of the project by enabling INSAFI, over the next ten to twenty years, adequately to fund its developmental and promotional activities, including the funding of new high-risk private industrial (including agro-industrial) enterprises, and, at the same time, to build its capital assets to a point where INSAFI can ultimately continue such activities without benefit of concessional lending or government subsidy. The loan project will cause INSAFI to extend a line of credit, from its own resources to finance a Supervised Small Industry Credit Program.

7. SOURCES OF FINANCING: The AID loan will form part of an overall buildup of the industrial development capability of INSAFI. The following table shows the sources and amounts of capital inputs for loan and equity financing for the period 1969-71.

Sources of Funds	Millions of US$ or equivalent	% of Total
Internal Sources	18.8	73.5
INSAFI (1)	10.4	40.6
GOES Subsidies	0.4	1.6
Other (2)	8.0	31.3
External Sources	6.8	26.5
Second AID Loan	4.8	18.7
Proposed Second IDB Loan(s)	0.9	3.5
Proposed Second CABEI Loan(s)	1.1	4.3
	25.6	100.0

(1) Includes roll over of INSAFI's and other funds.
(2) Includes GOES Economic Development Fund and re-discount facilities of the Central Reserve Bank, short-term loans from First National City Bank, and the emission of bonds by INSAFI.

8. ALTERNATIVE SOURCES OF FINANCING: The IDB and IBRD have expressed no interest in making this loan. The Export-Import Bank has expressed an interest in making a loan but its terms are unsuitable to INSAFI. Other

international lending agencies have not expressed an interest in this loan at satisfactory terms and conditions. (See Section I-E).

9. VIEWS OF THE COUNTRY TEAM: The Country Team and the GOES assign a high priority to this project and recommend that the loan be made.

10. STATUTORY CRITERIA: All statutory criteria have been met. (See Annex A)

11. ISSUES: Issues raised in LA/DR staff review and CAEC meeting in May of 1968 have considered in this Capital Assistance Paper.

a) Alternative Sources of Financing -(See Section I-E)

b) Description of Mineral Deposits Activity and Lending to Small Business: See Section II-B-1 and Section II-B-3.

c) Self-Help Aspects: See Section II-B-3 and Section III. Also, GOES has agreed to additionality benefits to U. S. exporters in the recent AID Loan 519-L-012 to the National Housing Finance Agency.

d) "Last Resort" Lending: INSAFI will extend a line of credit, from its own resources, to finance a Supervised Small Industry Credit Program (See item 6 above).

e) Relationship to Private Development Bank: FDI, the private development entity is negotiating additional funding from Eximbank. The Mission believes that the INSAFI project proposed in this Capital Assistance Paper will be the last development loan funding required directly from A. I. D. for industrial development in El Salvador.

f) Local Cost Financing: No local cost financing is included in this project except as provided in Covenant 6, of this Summary.

12. RECOMMENDATIONS: Authorization of a loan to INSAFI in an amount not to exceed U. S. $4, 800, 000 subject to the following terms and conditions:

A. Interest and Terms of Repayment

(1) The Borrower shall repay the loan to A. I. D. in United States dollars within twenty-five (25) years including a grace period of not to exceed seven (7) years. The Borrower shall pay to A. I. D. in United States dollars on the disbursed balance of the loan interest of five percent (5%) per annum.

(2) The GOES, at its option, may elect the two-step repayment procedure. If the two-step procedure is elected, the GOES will accept payments in Colones from the Borrower and will make payments in dollars to A. I. D. under the following terms:

(i) Principal within forty (40) years including a grace period of not to exceed ten (10) years;

(ii) Interest at two percent (2%) per annum during the grace period and three percent (3%) thereafter.

B. Major Covenants and Conditions

(1) Earnings on the interest spread between the rate charged in the A. I. D. loan and that charged on subloans of INSAFI shall remain in the industrial program of INSAFI.

(2) A. I. D. funds shall not be used for financing working capital needs of INSAFI's sub-borrowers unless A. I. D. shall otherwise agree in writing, and it can be demonstrated that such use of A. I. D. funds will add significantly to production, jobs created, or total production of the enterprise, and

where such financing is matched by increased equity of the owners. The total amount of such funds shall not exceed $1.0 million.

(3) No equity investments shall be made in whole or in part from the A. I. D. loan.

(4) The GOES shall, within one year from the date of signing of the loan agreement, present to A. I. D. satisfactory evidence that steps have been taken to assure that any profits realized by INSAFI for 20 years from the effective date of this agreement will not revert to the GOES, except as A. I. D. may otherwise agree in writing.

(5) Prior to financing technical assistance required by INSAFI, A. I. D. shall approve the contracts and the contractors.

(6) Borrower sub-loans shall be made under standards and procedures satisfactory to A. I. D. and shall include a requirement that sub-loans not be made when other satisfactory sources of financing are available for the sub-project.

(7) Prior to and disbursement of the loan, other than for technical assistance, Borrower shall have established from its own resources a Supervised Small Industry Credit Program satisfactory to A. I. D.

(Inasmuch as the originally proposed amount of the loan was reduced and the originally proposed interest rate was increased during 1968 CAEC review, the narrative part of this paper has been revised to reflect the resultant changes. Annex D, Exhibit 2, 5 and 7 will subsequently be adjusted to these changes)

13. PROJECT COMMITTEE

Development Resources Officer	- Theodore T. Foley, USAID/ES
Private Enterprise Dev. Officer	- Joseph Pincus, USAID/ES
Program Officer	- Ronald A. Witherell, USAID/ES
Legal Counsel	- Kent Knowles, ROCAP

Drafted by: Theodore T. Foley/Joseph Pincus

UNCLASSIFIED
AID-DLC/P-749

June 16, 1969

SECTION 1 - HISTORY AND BACKGROUND

A. THE BORROWER

1. Description

The Salvadoran Industrial Development Institute (Instituto Salvadoreño de Fomento Industrial -- INSAFI) is an autonomous industrial development agency of the Government of El Salvador, established in its present form on December 26, 1961. Its primary mission is to accelerate the industrial development of El Salvador. The loan will be guaranteed by the GOES, or the Central Reserve Bank.

In 1955, the GOES established an Instituto Salvadoreño De Fomento de la Producción -- INSAFOP, charged with "increasing, diversifying and rationalizing agropecuarial, fishing, mining, industrial and any other kind of production in the country, to meet domestic needs as well as for export". Experience acquired in the six years of INSAFOP's operations demonstrated that its scope of activities was too great for the amount of technical and financial resources at its disposal. It therefore was spread too thin to function effectively.

In 1961, in accordance with recommendations made by Robert Nathan Associates, Inc., INSAFOP was reorganized and converted into INSAFI by Executive Decree No. 497. From that time on, INSAFI's activities have been confined to the industrial sector. The results of the foregoing reorganization were substantial. The volume of loans increased from $1, 48 million in 1962 to a peak of $5. 84 million in 1965; declines occurred during 1966-68 for reasons given elsewhere in this paper. Nevertheless, in 1968, loans made amounted to $4. 27 million (equivalent).

Since its transformation into INSAFI, the Institute, which during the preceding six years had suffered chronic sizeable operating deficits, has been producing only modest operating deficits as discussed elsewhere in this paper.

INSAFI's principal means of developing industry is to offer short-, medium-, and long-term credit along lines laid out in its annual implementation plans, and in accordance with the technical and economic feasibility of the projects and their contribution to the national economy. The guaranties accepted by INSAFI are such as are not accepted normally by the Salvadoran banking system.

INSAFI from time to time also makes direct investments in projects of national interest for which insufficient private capital is available. However, such direct investments are meant to be of a temporary nature as INSAFI, by its statute, is required to sell off its interest to private investors when the enterprises involved are earning reasonable profits.

The basic criterion applied by INSAFI in project financing is that the projects contribute to the industrial development of El Salvador, taking into account (1) effects on the balance of payments; (2) strengthening the CACM; (3) utilization of national or Central American raw materials; (4) increased employment; (5) basic needs of the population; (6) value added in the productive process; and (7) the forward and backward linkage effects.

To carry out its activities, INSAFI divides its financial resources into two funds:

a) The Circulating Capital Fund, comprised of the former circulating capital of INSAFOP; loans obtained domestically, rediscounts with the Central Reserve Bank, and proceeds of bond issues; external credits; a minimum of 80% of the GOES annual subsidy; and recoveries of capital from its loans and investments. These funds are used for its lending and investment program and for whatever other purpose that assures reasonable recovery of the invested capital.

b) The Service Fund, composed of the former service fund of INSAFOP; interest and dividends from loans and investments; income from services rendered; and 20% (maximum) of the annual GOES subsidy, prior to 1968, when the subsidy was discontinued. This fund is utilized to cover INSAFI's operating expenses and other activities having no - or no immediate - financial return.

INSAFI's operations are governed by its Law of Establishment which provides that the Institute should:

a) Develop, increase, diversify, and rationalize industrial production, in the country, for domestic consumption as well as for export;

b) Improve existing national distribution systems, so that the benefits of the country's industrial production are made available to the largest number of inhabitants; and

c) Promote related activities designed to strengthen the national economy and provide permanent and remunerative employment to the Salvadoran labor force.

Within the purview of its Law of Establishment, the specific activities of INSAFI are effected by means of annual implementation plans prepared by its Governing Board and approved by the Ministries of Finance and Economy. These annual plans contain an enumeration of the projects to be financed during the year, their costs, and the resources and work programs to be applied to each activity.

The activities of INSAFI are directed by a 7-man Governing Board consisting of (a) a Director, serving as President, appointed by the President of the Republic; (b) three Directors appointed by the Executive Power representing the Ministries of Economy, Agriculture and Livestock, and Labor and Social Welfare; (c) a Director representing the Central Reserve Bank, appointed by the CRB's Board of Directors; (d) a Director representing the banking sector (except the CRB), elected by the banks and other financial institutions in the country; and (e) a Director representing the industrial sector, elected by the industrial associations in the country.

The Governing Board appoints the Manager of INSAFI, as well as its Sub-Director (s), Chiefs of Departments, and the Internal Auditor. It may also appoint other personnel or delegate this authority to the President or Manager.

INSAFI's organization is being restructured and streamlined. The organization chart after phase one of its reorganization, as of March 28, 1969, is shown in Annex B. Besides the president, manager, and external auditor, there is a sub-manager in charge of credit activities; a Department of Industrial Development; a secretary-general in charge of personnel and administration; a Promotion Department; and a Technical Assistance Department.

The Financial Sub-Manager is responsible for managing the financial resources of INSAFI: The control of disbursements, supervision of the use of funds, recovery of loans, and analysis of loan applications. He also is responsible for taking those actions necessary to obtain resources for INSAFI in accordance with its statute.

The Department of Industrial Development has been divided into three sections: Industrial and Financial Statistics; Project Preparation and Evaluation; and Financial Analysis (newly created). This department is charged with making the studies necessary to determine industrial needs and to propose measures for the industrial development of El Salvador.

The Promotion Department is charged with attracting investors to participate in the industrial development of the country, advising them on investment opportunities, arranging mixed ventures, and informing investors of the technical and financial services available through INSAFI.

A Technical Assistance Department is being organized to provide special assistance to small and artisan production activities, covering production, marketing, distribution, quality control, etc., as needed to make these producers competitive.

B. INSAFI's PERFORMANCE (1962-1968) -- The Salvadorean Industrial Development Institute completed six years of operation in December 1967. As shown in Table 1, INSAFI's lending activities rose nearly 300% between 1962 and 1965. However, a shortage of external funds in 1966, combined with a general slowdown in economic activities in El Salvador during 1966-1967, reduced INSAFI's lending program [illegible] 1965 to 1968). Loans to medium-sized [illegible] only 33% or less of the total number of INSAFI's loans during the period, nevertheless accounted for [illegible] of the amounts lent in these years. Loans to small [illegible] assets do not exceed [illegible] of the total value of INSAFI's loans between 1962 and 1968, [illegible]

Table 1

Credits Granted by INSAFI [illegible]

[illegible]

	Total Credits Granted		[illegible]				[illegible]				
Year	No.	[illegible]	No.	[illegible]	[illegible]	[illegible]	No.	[illegible]	[illegible]	[illegible]	[illegible]
1962	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1963	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1964	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1965	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1966	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1967	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1968	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Annual Reports of INSAFI.

1/ 1962 was the first year in which INSAFI devoted its full efforts to industrial development.

2/ Those with assets not exceeding $40, 000.

3/ Those with assets exceeding $40, 000.

The overall sharp rise in INSAFI's lending activities since 1962 has been made possible by an inflow of foreign credits, as shown in Table 2. Thus, whereas 92% of its funds was derived from domestic sources during its first year of operation, only 30% came from local sources in 1968.

TABLE 2

INSAFI: Origin of Funds for Sublending

1962 - 1968

(In Millions of US dollars)

Year	Total	From Domestic Sources	%	From Foreign Sources	%
1962	1. 5	1. 4	92	0. 1	8
1963	3. 3	1. 3	39	2. 0	61
1964	4. 5	1. 6	35	3. 0	65
1965	5. 8	2. 1	36	3. 7	64
1966	4. 7	2. 1	44	2. 6	56
1967	4. 4	1. 5	35	2. 8	65
1968	4. 3	1. 3	30	3. 0	70

Although INSAFI's lending operations declined in 1966, its direct investments increased $440, 000 to a total of $1. 2 million. In addition, its guarantees (avales) of industrial loans rose $640, 000 or more than 50%, over the 1965 level, reaching $1. 64 million in 1966. New direct investments made by INSAFI in 1968 and plans for 1969 are discussed on page 42.

As shown in Table 3, the major loans by INSAFI in 1967 went for the construction of transportation equipment; basic metal products; textile products; and food products (except beverages). This pattern of lending represents a departure from prior years in that the two principal categories of loans are in non-traditional fields. The new fields of prospective investment by INSAFI in the proximate future, as mentioned above, indicate that it is strongly interested in new product development and industrial diversification.

INSAFI's loans are classified as short-, medium-, and long-term. According to its statute, these designations refer to loans made for periods up to 2 years, up to 6 years, and more than 6 years, respectively. As shown in Table 4, the most notable trend during the period 1962-1968 has been the predominant absolute and relative position of medium-term loans and the erratic movements of short-and long-term loans in INSAFI's portfolio. The total amount of lending has been declining annually since 1965, although at decreasing rates each year.

TABLE 3

INSAFI: Credits Granted to Small and Medium Enterprises, 1967

(In thousands of US dollar equivalents)

Activity Category	Small Enterprises	Medium Enterprises	Total
1. Aviculture	21	30	51
2. Shoes, clothing, and other articles made of textile products	73	58	131
3. Food products (except beverages)	25	364	389
4. Beverages	--	--	--
5. Textile products	9	679	688
6. Wood and cork products, except furniture	25	36	61
7. Furniture and accesories	11	158	169
8. Paper and paper products	--	264	264
9. Printing & Publishing	40	64	104
10. Tanning and leather products (except shoes and clothing)	8	23	31

Table 3 (continued)

Activity Category	Small Enterprises	Medium Enterprises	Total
11. Rubber products	0.8	83	84
12. Chemicals and chemical products	--	9	9
13. Nonmetallic mineral products (except those derived from coal and petroleum)	24	225	249
14. Basic metal products	17	686	703
15. Metal products (except machinery and transportation equip't.)	-	249	249
16. Construction machinery (except electrical machinery)	17	221	238
17. Construction of electrical machinery, apparati, and accessories	--	24	24
18. Construction of transportation equipment	--	816	816
19. Miscellaneous manufactures	0.1	59	60
20. Personal services	---	49	49
TOTAL	273	4,088	4,361

TABLE 4

INSAFI: Terms of Loans, 1962-1968

Term	1962	1963	1964	1965	1966	1967	1968
			Number of Loans				
Short	53	100	97	124	94	120	71
Medium	63	102	140	143	100	118	151
Long	5	12	23	27	15	21	22
TOTAL	121	214	260	294	109	259	244

TABLE 4 (continued)

PERCENT

	1962	1963	1964	1965	1966	1967	1968
Short	44	44	37	42	45	46	29
Medium	52	48	54	49	48	46	62
Long	4	5	5	9	7	8	9
	100	100	100	100	100	100	100

Value of loans ($1000)

Term	1962	1963	1964	1965	1966	1967	1968
Short	60	84	130	208	652	343	577
Medium	1, 165	2, 256	1, 564	2, 694	2, 398	2, 186	2, 554
Long	254	931	2, 827	2, 938	1, 670	1, 832	1, 139
TOTAL	1, 479	3, 271	4, 521	5, 840	4, 720	4, 361	4, 270

PERCENT

	1962	1963	1964	1965	1966	1967	1968
Short	4	3	2	4	14	8	13
Medium	79	69	35	46	51	50	60
Long	17	28	63	50	35	42	27
TOTAL	100	100	100	100	100	100	100

The end uses of INSAFI's loans during 1962-1968, have been (1) the purchase of machinery and equipment, (2) operating capital, and (3) financing plant construction and expansion, and (4) refinancing operations (see table 5). The drop in lending for machinery purchases and for construction arose out of a shortage of foreign credits and constituted an important factor in reducing the level of economic activity in El Salvador during 1966-1968 (see Section III - ECONOMIC ANALYSIS). The accompanying tightening of credit to the industrial sector by the very conservative commercial banking system, combined with and growth in construction and expansion activities, , probably occasioned the increased resort to INSAFI for working capital loans on the part of its clients.

TABLE 5

INSAFI: End Use of Credits Granted.

1962 - 1968

End Use	1962	1963	1964	1965	1966	1967	1968
	(In millions of US dollars)						
Construction and Expansion	0.3	0.4	0.7	1.1	0.7	0.6	0.8
Industrial refinancing		0.2	0.2	0.3	0.2	...	0.5
Machinery & Equipment	0.4	1.8	3.0	3.2	1.9	1.9	1.3
Operating capital	0.4	0.9	0.6	1.3	1.9	1.9	1.7
TOTAL	1.5	3.3	4.5	5.8	4.7	4.4	4.3
	(In percent of total)						
Construction and Expansion	21	13	16	19	15	13	18
Industrial refinancing	22	6	4	5	5	..	12
Machinery & Equipment	27	54	66	54	39	44	29
Operating capital	30	27	13	22	41	43	47
TOTAL	100	100	100	100	100	100	100

In recent years, INSAFI has attempted to become more selective in its lending activities. It has concentrated on carefully selected medium-sized projects and on those small-sized enterprises susceptible of sustained orderly growth. Its success in selecting the latter type of project has been limited, and it is anticipated that the proposed supervised Small Industry Credit program will contribute materially toward achieving this objective. INSAFI perhaps has been overly concerned with making sound loans, but certainly it has not attempted to earn large profits. The profit and loss statement of INSAFI for the years 1962 - 1968 (see Annex Table 1) shows modest operating losses through 1967, and a small surplus in 1968 (equivalent to $132, 307).

Until 1961, all GOES contributions for administrative costs and operating capital were capitalized. From 1962 on, however, only the subsidies for operating capital were capitalized, and the subsidies for administrative costs were used for those purposes. The GOES subsidies to INSAFI during the years 1961-1967 have been as shown in Table 6; the subsidies were discontinued in 1968.

TABLE 6

GOES Subsidies to INSAFI 1961 - 1968

(In 000's of U. S. dollar equivalents)

Year	For Administrative Costs	For Operating Capital	Total
1961	$ 251.2	$ 2,422.8	$ 2,674.0
1962	126.7	506.9	633.6
1963	168.0	632.0	800.0
1964	120.0	600.0	720.0
1965	160.0	640.0	800.0
1966	160.0	320.0	480.0
1967	76.1	731.9	808.0
1968	-.-	- 0-	-0-
Total	$1,062.0	$ 5,853.6	$ 6,915.6

In spite of a slowing down of its loan activities during the past few years, INSAFI's loans and investments outstanding at the close of 1968 amounted to $17.2 million, or 3.8 times the level of 1962. During the same period, INSAFI's indebtedness rose from $1.84 million to $10.3 million, and its capital and reserves increased from $3.2 million to $6.4 million. Comparative data for the years 1962-1968 are given in Table 7. The rising indebtedness is a reflection of INSAFI's increasing reliance upon foreign credits for financing its lending operations.

TABLE 7

INSAFI: Outstanding Loans and Investments Debts, and Capital and Reserves, 1962- 1968

End of Year	Outstanding Loans and Investments	Debts	Capital and Reserves
	(In millions of US dollars)		
1962	4.5	1.8	3.2
1963	5.1	1.8	3.8
1964	7.7	3.6	4.4
1965	10.0	5.1	5.0
1966	13.0	7.8	5.4
1967	15.4	8.8	6.1
1968	17.2	10.3	6.4 1/

1/ Capital $6.3 million; reserves $0.1 million.

1. INSAFI's System of Project Analysis

All loan requests submitted to INSAFI are made on special forms prepared for this purpose. These forms are designed according to the needs of the applicant, and sufficient information concerning the enterprise and its plans is required to permit an evaluation of the project.

Evaluation of loan applications is carried out by the Credit Section of the Financial Sub-Manager (see Organization Chart of INSAFI), composed of 10 financial analysts who are all graduates of the Faculty of Economics of the National University. Many of them have received additional training abroad in project evaluation and related fields.

The applications are reviewed for technical, economic, and financial feasibility, and for the contribution of the enterprise to the national economy (employment generated; value added; savings or earnings of foreign exchange; etc.); plant capacity; market for output; profitability; ability to repay the loan; and any other pertinent factors. Emphasis is given to projects that conform with the objectives of the Second Five Year Plan (1968-1972) of the GOES.

After the project analyst has completed his review, the findings are discussed with the section chief and the Financial Sub-Manager. Upon their approval the application is submitted to the Governing Board of INSAFI for final approval, including approval of the section's recommendations concerning the project.

Supervision and collection of sub-loans authorized by INSAFI are the responsibility of its Section of Supervision and Collections which also comes under the Financial Sub-Manager. Supervision is performed during the construction and installation phase of the project, and disbursements are made according to the recommendations of the supervisor. Further supervision is provided to assure the proper implementation of the project. This same section also controls the guaranties offered for the sub-loan by the borrower.

In accordance with the credit agreement between INSAFI and its client, the borrower is obliged to make amortization payments at the main office of INSAFI. This mechanism has worked well in the past and no change is contemplated in the foreseeable future.

C. PREVIOUS A. I. D. ASSISTANCE TO INSAFI -- In June, 1963, A. I. D. authorized a loan (519-L-005) not to exceed $4. 5 million to the Central Reserve Bank of El Salvador, which assumed the exchange rate risk and reloaned the funds to INSAFI for sub-lending. INSAFI, as the executing agency, made short-, medium-, and long-term loans and equity investments for the creation and expansion of productive enterprises in El Salvador, and provided studies and services to Salvadoran industries with the assistance of consulting firms contracted in the United States. Such technical assistance also served to improve INSAFI's own operations and to support it in carrying out certain specific appraisals of sub-loans. The terms of this loan provided for some rollover use of the A. I. D. funds.

In the submission and approval of A. I. D. Loan 519-L-005 the following factors were taken into consideration: (1) That El Salvador, although the smallest country in Central America and the least endowed with natural resources, appears to have the most skilled entrepreneurial group in the region and the best potential labor force; and (2) the country is land poor, being densely populated and having virtually all of its arable land under cultivation. Consequently, an intensive industrialization program was deemed of very high priority by the GOES and its advisors, Robert R. Nathan Associates. Hence, to provide credit on adequate terms for industry, thereby giving significant impetus to the development of this sector, the abovementioned loan was presented to A. I. D. in March, 1963, and signed on September 18, 1963.

The basic argumentation is valid for the second loan. (See Section III, B, below.)

D. EVALUATION OF A. I. D. LOAN 519-L-005 -- A. I. D. Audit Report No. 68-1182 of November 6, 1967, includes the inspection and review of records and official data from the inception of the program through May 31, 1967. A full review was made of compliance with all covenants of the loan agreement; and end-use checks were made on twelve of the thirty-six A. I. D. financed sub-loans. The contribution of the GOES to the project was verified. The Auditors found the project operating in a satisfactory manner, with the exception of a few administrative and operating items which have since been corrected. Preliminary review of the ongoing INSAFI lending and investment program further confirms that INSAFI is technically sound, well administered, contributes to GOES and Mission objectives, and will continue to make maximum effective use of its resources by virtue of coordinating its loan and investment policies with the Ministries of Economy and Finance, the Central Reserve Bank, and the National Planning Council. All audit recommendations have been reasonably met.

As of December 31, 1967, INSAFI's assets totalled $16.1 million equivalent, against liabilities of $10.0 million and capital, surplus, and reserves of $6.1 million. Loans and discounts amounted to $14.2 million and equities held in private enterprise projects aggregated $1.2 million. Accumulated reserves totalled $0.3 million as compared with a paid-in capital of $5.9 million. Comparative balances for the period 1962-1968 are shown in Annex Table 2.

INSAFI has committed all of A. I. D. loan 519-L-005. The first commitment of the $4,500,000 A. I. D. loan was made in June, 1964, and a total of $4,490,505 had been committed as of December 31, 1967. The small unutilized balance was deobligated in February-March, 1969. INSAFI's commitments of A. I. D. funds have been made for financing, through 41 sub-loans, the acquisition of machinery and equipment; building and facility construction; working capital and technical services. As of December 31, 1968, the distribution of such commitments by purpose, was as follows:

Purpose	Amount ($1,000)	Percent of total
Acquisition of machinery and equipment	2,456	55
Building and facility construction	967	22
Working Capital	876	19
Technical Services	192	4
TOTAL	4,491	100

In the 41 projects financed with these funds, the size of loans ranged from $5,683 to $620,011. A distribution of these sub-loans by size is shown below.

Distribution of INSAFI's 41 Sub-Loans Under AID Loan 519-L-005

By Size of Sub-Loan

Size of Sub-Loan	No. of Sub-Loans	%	Value ($1,000)	%
Less than $20,000	13	31	167	4
From $20,000 to $50,000	6	15	171	4
Over $50,000 to $100,000	12	29	885	21
Over $100,000 to $500,000	7	17	1,440	33
Over $500,000	3	8	1,636	38
TOTAL	41	100	4,299	100

Industrial activities financed with the first A.I.D. loan have been as follows:

Industrial Activity	Amount ($1,000)	% of total
Food products (except beverages)	165	4
Textiles	895	21
Shoes and clothing	717	17
Paper and paper products	797	19
Printing and publishing	325	8
Non-metallic mineral products	263	6
Metal products	183	4
Electrical articles and accessories	596	13
Transportation equipment	86	2
Miscellaneous	271	6
TOTAL	4,299	100

A list of the projects is contained in the previous table. The list shows 41 loans to 36 industrial enterprises. Some 59% of the total value of these loans went to new enterprises and 41% for expansion purposes. Credits granted for periods longer than 6 years represented 65% of the total, and credits from 2 to 6 years, 35%, in terms of value.

Data available on the 36 enterprises financed with A. I. D. funds show that, in their first year of operation, they produced a value added of $7.0 million, exports of $5.8 million, savings in foreign exchange of $5.9 million, and jobs for 1,017 persons.

E. <u>ALTERNATIVE SOURCES OF FINANCING</u>-- As shown in Annex D-2, INSAFI has obtained some $7.0 million in loans from other public and private foreign and domestic lending institutions. About $3.4 million of such loans was outstanding at the end of 1967. Creditors include the GOES Central Reserve Bank, Eximbank, IDB, CABEI, and First National City Bank of New York.

INSAFI, as a member of the banking system, has also resorted to financing from the Central Reserve Bank in the form of rediscounts on a small scale, and direct loans for the purpose of financing short-term credits. In September, 1963, a loan of $4.5 million from A. I. D. was placed at the disposition of INSAFI. In December, 1966, INSAFI borrower $1.0 million from CABEI and, in January, 1967, $3.0 million from the IDB. Both of these loans were negotiated directly by INSAFI. In addition, INSAFI floated $800,000 (equivalent) of 7% bonds in June, 1967; the issue was taken up within the month by CABEI and Salvadoran investors. A further $1,200,000 (equivalent) of bonds may be issued under the initial authorization according to INSAFI's needs for these funds as counterpart to foreign loans.

In spite of the foregoing recourse to numerous sources of financing, both internal and external, funds to be available during the period 1969-1972 will still be inadequate to meet INSAFI's expected requirements unless the A. I. D. loan is forthcoming.

IBRD has advised A.I.D. that it is not interested in financing this project.

Other financial institutions in the United States (including EXIMBANK) and Europe have been investigated, but the terms of the loans which these entities could offer - use, interest, amortization time, etc. -- have not been satisfactory for development purposes. Substantiation of these borrowing efforts, in the form of photocopies of correspondence with potential lenders, is provided in the loan request. In summary, the results have been as follows:

	Institution	Terms & Conditions Offered
A.	Continental Bank International (New York)	90- to 180-day terms.
B.	Baring Brothers & Co. Ltd. (London)	Only interested in financing very large projects and complete plant installations where U.K. source procurement component would be a minimum of $[illegible] million equivalent. No plant of this size is foreseen in El Salvador.
C.	Camer International (Madrid)	6% interest, tied to Spanish exports.
D.	Union Bank of Switzerland (Zurich)	90- to 180-day terms for importation of Swiss merchandise, [illegible] to 5 years for imports of Swiss capital goods.
E.	Banque National de Paris (Paris)	For imports of French goods: [illegible]% cash, [illegible] 60% in [illegible] semiannual installments.
F.	Deutsch-Amerikanische Bank (Hamburg)	Up to 10 years at [illegible] interest rates, tied to German exports.
G.	Efibanca (Banca Nazionale del Lavoro) (Rome)	Terms of [illegible] 5 years, [illegible] interest [illegible]%, tied to imports of Italian goods.

According to [illegible] cash flow projections, the current 6% interest loan from the ordinary capital for worldwide procurement will be drawn down by the end of CY-[illegible]. Because INSAFI still has certain IDB funds uncommitted, and the IDB is about to make several large loans to the GOES, INSAFI feels that it could not obtain a new loan from the IDB prior to CY-1970, when it plans to request $1.2 million from that organization. IDB has indicated it has no interest in financing the project proposed by this paper. IDB has indicated that, as soon as 2/3 of the present loan is committed and 50% disbursed, it would be willing to consider another loan from its ordinary capital funds, allowing worldwide procurement, and that the interest rate on such a loan would be about 7-3/4%. As of March [illegible] $1.[illegible] million of the loan had been committed and $1.0 million disbursed. INSAFI considers A. I. D. to be the lender of last resort at this time, for obtaining the credit solicited for U. S. procurement at conditions of interest, terms of amortization, and use of funds for U. S. procurement satisfactory to allow it to continue to strengthen its contribution to the development of the Salvadoran economy.

Inasmuch as, with the exception provided in Covenant 6 of Summary and Recommendations, all of the proposed A. I. D. loan funds would be used to finance the procurement of U. S. source/origin goods and services, the INSAFI application, during Intensive Review, was submitted to the Eximbank to determine that entity's interest in financing all or part of the U. S. procurement contemplated. The terms of the ensuing Eximbank offer, in the light of INSAFI's development lending needs, was not acceptable to INSAFI; the repayment period was too short and the interest rate too high.

In view of the use of the proposed A. I. D. loan to obtain self-help commitments from INSAFI (see Section III), and the probable submission of a second loan request by the private development institution in El Salvador, the Financiera de Desarrollo e Inversión, S. A. Eximbank prefers to consider financing the latter project ($3.0 million), leaving the INSAFI loan to A. I. D. as indicated in its communication of June, [illegible].

[illegible]

a. [illegible]

b. [illegible]

c. [illegible]

d. [illegible]

e. [illegible]

f. [illegible]

All sub-loans exceeding $100, 000 financed in whole or in part from the A. I. D. loan will be subject to prior approval of A. I. D. for technical feasibility and economic justification.

B. <u>DETAILED DESCRIPTION OF THE PROJECT</u> -- This project is described in terms of (1) its proposed areas of sub-lending, (2) the technical assistance to be provided to sub-borrowers, (3) the self-help commitments on the part of INSAFI, and (4) the GOES participation in the project.

(1) <u>Areas of sub-lending</u>

The proposed second A.I.D. loan is to finance the procurement of U.S. source/origin goods and services relating to INSAFI's sub-lending activities. These sub-lending activities include a continuation of activities financed under A.I.D. Loan 519-L-005, plus sub-lending to new industries processing mineral deposits. A list of illustrative projects that may be financed under this loan is shown in Table 8. INSAFI has classified these projects into three categories: chemical products, textiles, and mineral products and construction materials. There are 22 projects shown, requiring an aggregate investment of over $36.0 million and employment of nearly 1,200 persons.

During the past year there has been renewed interest on the part of the GOES and private investors in the mineral resources of El Salvador. The United Nations is financing a project to investigate the geothermal resources available for electric power generation, and another project to identify and evaluate new mineral deposits in the country. Possibilities that are being explored include gold, silver, copper, kaolin, and clay.

TABLE 8

List of Illustrative Projects

Type of Project	Total Investment	Employment
I. Chemical Products	($1, 000)	(Number)
1. Polyvinnyl chloride (1st phase)	2, 504	43
2. Castor Oil	281	19
3. Barbasco steroids	220	30
4. Menthol	130	30
5. Ethylene	2, 975	n. a.
6. Polyethylene & compounds	7, 200	n. a.
7. Canned pineapple	478	19
8. Soybean oil and cake	546	18
Sub-total	14, 334	159 +
II. Textile Products		
9. Poplins and stamped goods	4, 599	403
10. Women's clothing	296	35
11. Sheets and tablecloths	1, 561	200
12. Handkerchiefs	894	70
13. Kenaf	96	28
Sub-total	7, 447	736
III. Gases, Metal Products, and Construction Materials		
14. Gases*	14	7
15. Iron and steel tubes, wire, laminates, etc.	305	266
16. Wire screens	278	16
17. Flashlights and batteries	153	63
18. Ceramic sanitaryware	1, 804	183
19. Hydrated lime	330	42
20. Bagasse board	1, 750	65
21. Steel laminates	7, 000	37
22. Shipbuilding and repairing	2, 600	200
Sub-total	14, 233	879
TOTAL	36, 014	1, 174 +

* Expansion of existing plant.

The Project Committee recommends that an amount of $4. 8 million be made available for these purposes, including up to $4. 5 million for procurement of goods in the United States and $0.3 million for contracting technical services from the United States.

This proposed A. I. D. loan is to be repaid over 25 years, including a 7-year grace period on repayments of principal. The loan is to carry an interest rate of 5% a year during the grace period and during the remaining period of amortization. INSAFI loans to individual sub-borrowers under this loan may not exceed $100, 000 without prior A. I. D. permission. It is expected that, for larger projects, A. I. D. funds will be combined with those of CABEI (for projects of regional significance) and other lenders. Minimum amortization periods for sub-loans financed with the A. I. D. loan will be three years, and they will bear interest rates no greater than 9½% a year. The 7-year grace period is related to the average term of sub-loans made with A.I.D. funds, permitting one completed cycle of sub-loans to strengthen further the INSAFI financial structure before amortization would begin. USAID's review of several second tranche loans to Intermediate Credit Institutions (ICI's) has shown this length of grace period to be typical.

Refinancing operations of U. S. equipment purchases are to be allowed in rare and exceptional cases and will require prior A. I. D. approval. Such refinancing conceivable might be required in a package sub-loan for expansion and/or modernization of existing facilities to improve the competitive position of a particular sub-borrower. Debt incurred for procurement outside the United States and the Central American Common Market (CACM) countries in no case may be refinanced with A. I. D. funds.

While INSAFI will be given a relatively large-degree of flexibility in utilizing the A. I. D. loan funds, it will be prohibited specifically from financing projects which (1) clearly would contribute to the increased production of agricultural products in world surplus, and (2) would be in violation of A. I. D.'s statutory criteria (see Annex A).

Although the funds of the proposed A. I. D. loan will not be used by INSAFI for equity investments, that organization presumably will utilize its other financial resources for such purposes as it deems desireable. INSAFI's equity portfolio at the end of CY-1968 consisted of loans valued at nearly $1. 4 million (equivalent). The profitability of these enterprises is demonstrated by the fact that INSAFI earned dividends equal to $200, 000 from its private sector shares in 1968. It is INSAFI's stated policy to dispose of equity holdings as soon as possible. In no case may INSAFI hold more than 30% of the equity in any enterprise.

(2) Technical Assistance Operations -- The proposed loan provides $300,000 for financing U. S. technical assistance to complement that available directly from INSAFI. In the case of the Supervised Small Industry Credit Program, no sub-loan will be made without its embodying some such assistance. The degree and kind of assistance will vary with the enterprise; however, the following kinds are expected to be required for the program as a whole; feasibility studies; organization and management; plant layout and design; quality control; cost accounting; product design and packaging; marketing (domestic and export); financial management; and product promotion.

INSAFI itself will require advisory assistance in establishing and operating its self-financed Supervised Small Industry Credit Program and in training a staff to provide technical assistance to sub-borrowers. Such assistance will be contracted for with U. S. firms and/or individuals for the time covering the disbursement period of the loan.

(3) Self-help Commitments by INSAFI

a) As a condition of receiving the proposed second loan from A. I. D., INSAFI has committed itself to allocate the equivalent of $0.7 million of its own resources to finance a Supervised Small Industry Credit Program and approximately US$300,000 for an input-output study of the country's industrial sector and related statistics. It is estimated that, of this amount, about $0.2 million (equivalent) will be in the form of technical services (development of production plans; project supervision) to be provided by INSAFI and/or other knowledgeable sources, domestic or foreign.

INSAFI is working with the National Planning Council (CONAPLAN) and other GOES agencies toward establishing a system of credit guaranties for small enterprises. This system is to be aimed at resolving effectively and simply the problem common to small enterprises of having insufficient collateral for obtaining bank credits.

The guaranties system is to comprise (1) a Guaranty Fund with an initial capital of some $200,000 equivalent, to be administered by an autonomous institution (perhaps INSAFI); (2) credit insurance; (3) a Savings Cooperative, that will obtain deposits from its members and will feed the Guaranty Fund*; (4) lending institutions, that will extend credits to small enterprises that have received a prior guaranty from the Savings Cooperative; and the enterprises themselves that will associate with the Cooperative. In brief the system is to operate as follows:

1. The borrower must be a member of the Savings Cooperative and be current in his monthly payments;

2. The borrower must request a loan from a bank, and, at the same time, request qualification by the Cooperative for that part of the loan to be guarantied;

3. The Cooperative acts on the borrower's request;

4. The Bank acts on the credit application;

5. The borrower receives the credit and pays the Cooperative a commission for the guaranty. He must continue making his monthly membership contributions to the Cooperative;

6. The Cooperative, in turn, contributes a percentage of its funds to the Guaranty Fund;

7. The Bank insures the credit under a Credit Insurance Program**. This insurance serves to compensate the Bank for any default in repayment of the credit, when the borrower's own collateral -- when liquidated -- is less than the amount of the loan that has been guarantied under this program. The Credit Insurance Agency makes up the difference in such cases.

Details concerning the size of the Guaranty Fund, how it will be administered, how much of a loan will be guaranteed, etc., have yet to be worked out. If the guaranties system is operated swiftly and efficiently, it should help materially in promoting small industry and in assisting existing firms to develop into sound enterprises.

* It is possible that the recently created Cooperativa de Ahorro y Crédito de Empresarios Salvadoreños (CACES) will serve as the Savings Cooperative.

** It has not yet been decided whether the Credit Insurance Agency will be a part of the Guaranty Fund or a separate autonomous entity.

1) <u>Supervised Credit to Small Enterprise</u> -- "Small enterprise" is defined for credit and incentive benefit purposes as an enterprise whose assets do not exceed $40,000 (equivalent) and for census purposes as an enterprise having less than five persons employed. The census classification represents artisan and household production, as contrasted to factory production.

No global data are available for small enterprises according to the credit definition. However, INSAFI reports its lending activities in a manner that permits identification of the role of small enterprises in the economy; INSAFI undoubtedly accounts for the bulk of this type of lending in El Salvador. The importance of INSAFI's credit transactions with small enterprises during 1962-1967 was analyzed in Section I, B, above.

According to the census definition of small enterprise, this segment accounted for over $40 million (equivalent) or some 30% of the value of total industrial output in 1964, the latest year for which such data are available. As would be expected, the vast majority of small enterprises are operated by individual owners and members of their families (see Table 9, below), the latter usually receiving no monetary remuneration. Consequently, the access to normal credit sources by such enterprises is virtually nil. The activities of small enterprises were largely concentrated (75%) in the traditional industries producing consumer goods (food, clothing, shoes, leather items, furniture, wood products, etc.) Productivity in these enterprises is low, probably less than half that in factory production, and substantial underemployment exists in artisan industries. The industrial census of 1961 (see table 10) showed that small enterprises accounted for 85.5% of the total number of establishments enumerated, but generated only 11.5% of the value of industrial product and 14.4% of the industrial value added.

In A.I.D. Loan 519-L-006 to the private Financiera de Desarrollo E Inversión, S. A. (FDI), a sum of $200,000 was identified for the establishment of a Pequeña Financiera within the FDI. All these funds have been utilized, usually for loans to persons or entities known to the FDI Board of Directors. It is doubtful that the FDI will continue this type of lending from its own resources, as overhead costs of such loans are high and the risks are much higher than those preferred by the private financiera. For lack of education or lack of knowledge as to sources, technical assistance also is not forthcoming for these numerous but unsophisticated businessmen.

TABLE 9

El Salvador; Structure of the Industrial Labor Force, Industrial Census, 1961

Class of employee	Enterprises with 5 or more persons	Enterprises with Less than 5 persons	Total
Owners who work	2,608	14,360	16,968
Unpaid family workers	2,366	3,382	10,748
Workers & apprentices	46,037	8,322	54,359
White collar workers 1/	4,350	.....	4,350
Total	55,361	31,064	86,425

1/ Administrative, technical, etc.

INSAFI, with GOES approval, is committed to a program of offering financial and technical assistance to small industries and artisan activities. Executive Decree No. 2 of January 10, 1968, which approved INSAFI's budget for CY 1968, also approved its plan of action for the year which translates as follows:

"1. Objectives of the plan

"2. The Salvadoran Industrial Development Institute shall direct its activities toward achieving the following objectives:

"a) - To increase industrial production and productivity, giving preference to those industries which:

"I. utilize raw materials and intermediate products produced locally, especially those of agriculture and livestock, fisheries, and the subsoil;

"II. employ the greatest amount of local labor; and

"III. substitute for imports and increase exports.

"b) - Facilitate the establishment of industries in tax-fee zones, that may utilize Salvadoran labor and that may be oriented toward the total exportation of their output;

"c) - Attain the expansion and diversification of exports of manufactured products;

"d) - Promote industries dedicated to the production of intermediate and capital goods;

"e) - Increase the level of investment in the industrial sector; and

"f) - Attain a greater development of small industries and artisan activities, offering them technical, financial, and marketing assistance.

INSAFI is to pay special attention to the small industry segment of the industrial sector through studies to identify new projects; searches for resources suitable for industrialization; establishment of new artisan centers; expanding technical, financial, and marketing assistance to new areas of the country; creating better market conditions in El Salvador, the CACM, and abroad for locally made goods; and collaborating in the formation of small industry and artisan associations as deemed necessary.

Thus this self-help commitment in return for the proposed loan is designed specifically to assist INSAFI in carrying out its mandate from the GOES. Probably for the first time in El Salvador, medium- and long-term credit and technical assistance will be combined in contractual arrangements and made available to small industrialists on liberal terms regarding collateral and interest (in the CACM context).

It is difficult to ascertain the size of this new program as, in the past, virtually no attempt was made to seek out and develop small industry projects suitable for financing. Moreover, INSAFI has not been geared to providing extensive technical assistance to small enterprises. This capability will have to be developed in INSAFI with U. S. technical backstopping. However, the program should result in a substantially increased level of employment and income in the interior of the country; in the development of better quality products at lower prices for consumption within El Salvador; in the development of distinctive products for export; and, through providing specialized products, in the encouragement of larger-scale industries utilizing such intermediate goods.

(a) Eligibility of the Sub-Borrower

To be eligible for a supervised small business sub-loan, the sub-borrowers are to be members of a Salvadoran Businessmens' Savings and Loan Cooperative. Additional requirements are proposed to be as follows:

(1) For Small Industries: Enterprises with from 5 to 15 employees producing goods under the direction of owner-managers and whose total assets do not exceed $40,000 equivalent;

(2) Artisans: Entrepreneurs themselves engaged in the production of goods and employing no more than 4 persons in addition to unpaid family members; and

(3) Other cooperatives: Those legally established as such by either of the above types of eligible sub-borrowers and affiliated with FEDECACES.

(b) Types of Sub-Loans

(1) Production Loans -- For the acquisition of capital goods related to initiating, expanding, or improving production.

(2) Working Capital Loans - To purchase raw materials, establish appropriate inventories of merchandise, pay salary and operating costs, engage in promotional efforts, and, in the case of artisans, to finance family living expenses during the time elapsing between the production and sale of the output.

(3) Refinancing Loans -- As part of a package arrangement, a single refinancing operations may be permitted to any sub-borrower that can demonstrate the essentiality of such refinancing in making the project more viable.

(c) A second commitment by INSAFI in return for the second tranche from A. I. D. is to finance, with its own funds, an input-output study of the industrial sector and other statistical studies related to industrial development in El Salvador. Such studies may require an outlay of some $300,000 (equivalent) and may involve small payments for technical services obtained in the United States. The investigations will be carried out in cooperation with the National Planning Council and the Central Reserve Bank.

TABLE 10

SUMMARY OF THE INDUSTRIAL CENSUS OF 1961

	With 5 or more persons			With less than 5 persons	
	Total	Value	%	Value	%
Number of establishments	18, 699*	2, 714*	14. 5	15, 985*	85. 5
Persons employed	86, 425	55, 361	64. 1	31, 064	35. 9
Remuneration paid	53, 505	47, 998	89. 7	5, 507	10. 3
Raw materials used	416, 740	376, 326	90. 3	40, 415	9. 7
Fuels and lubricants	7, 543	5, 537	73. 4	2, 006	26. 6
Packaging materials	12, 874	12, 652	98. 3	222	1. 7
Electric energy bought**	5, 320	4, 956	93. 2	364	6. 8
Payments to 3rd parties	14, 275	1, 378	9. 7	12, 897	90. 3
Value of Product	701, 512	621, 048	88. 5	80, 463	11. 5
Value added	259, 378	221, 922	85. 6	37, 456	14. 4

* Number of units

** In terms of quantity, the data were as follows:

1, 000 KWH

Consumed	83, 609
Self-generated	12, 596
Purchased	70, 653 (Valued at ¢5, 320, 012)

SECTION III. ECONOMIC ANALYSIS

A. Place of Industry in the Salvadoran Economy

The industrial sector has been the major dynamic force in the Salvadoran econmy since 1950. From 1950 to 1958, the value added in manufacturing increased from $54. 0 million (equivalent) to $75. 4 million, for a compound annual growth rate of 4. 3%. During the ensuing decade, this rate of growth rose to 9. 7% a year, and manufacturing activities increased in importance from 13. 5% of the Gross Domestic Product (GDP) in 1958 to 19. 6% in 1967. GDP grew at a rate of 5. 4% a year during this period. * The growth of Salvadoran manufacturing during this decade was the highest in the Central American Common Market. Maintaining an industrial growth rate of at least 10% a year is essential if El Salvador is to recover its 6% growth in GDP enjoyed during 1962 - 1964.

Manufacturing ranks third in importance in El Salvador's GDP, as shown in Table 11; only Agriculture (including livestock) and Commerce still exceed it in importance.

Mining and quarrying activities have been limited largely to the production of construction materials, ceramic clays, and salt. As previously indicated, new developments are expected to increase the importance of this sector and to provide the basis for new processing enterprises as well.

The growth of the industrial sector also is illustrated by the increase in exports of manufactured and "other products" from 7. 6% of total Salvadoran exports in 1961 to about 22% in 1967. These products are exported principally to the other countries of the CACM.

---

* Basic data in this discussion are in current market prices.

TABLE 11

Sectoral Contributions to the Gross Domestic Product, 1967 1/
In Millions of U. S. dollar equivalents,
(at current market prices)

Activity	Value Added 2/	Percent of GDP
Agriculture and Livestock	235.4	26.4
Commerce	216.4	24.3
Manufacturing	174.1	19.6
Public Administration	66.4	7.5
Personal Services	66.0	7.4
Transportation, warehousing and communications	38.1	4.3
Housing rentals	34.2	3.8
Construction (public and private)	28.6	3.2
Finance	16.8	1.9
Electricity, water, and sanitation	13.2	1.5
Mining and quarrying	1.2	0.1
Total	890.4	100.0

Source: Central Reserve Bank, Revista Mensual, March, 1968, p. 177.

Industrial development in El Salvador thus far has proceeded, in the main, along sound lines. This is demonstrated by the sizeable growth in the country's industrial exports to the CACM and, recently, by initial to U. S. and European markets; the increasing inflows of foreign private capital; and the small rate of business failures in the manufacturing sector in recent years. El Salvador has sought to establish assembly industries to a lesser extent than any other member of the CACM. Its thrust has been in the direction of increasing manufactures, especially those that have a high value-added characteristic and/or utilize substantial local raw materials and/or labor. While the country has not avoided the competition for "status" industries, the external economies that El Salvador has to offer probably are more numerous and better developed than elsewhere in the CACM. In short, El Salvador appears to come close to meeting the favorable criteria discussed in the industrial strategy paper for Central America than any other country in the area. There is no reason to anticipate any marked departure from this pattern of industrialization.

B. GOES Priority of Industry

The industrial sector is regarded by the GOES as the leading development sector, to provide increasing markets for agricultural products, electric power, and services, and thereby generating substantial new employment opportunities. Import substitution has been an important consideration in El Salvador's industrialization thus far, but its importance is being reduced by a growing attention to export-oriented industries -- those that can sell not only to CACM markets but to those outside the Central American area as well.

The GOES is actively pursuing the economic integration of Central America. It also has enacted various incentive laws to promote industrialization and tourism. INSAFI and its predecessor agency (INSAFOP) have been promoting industrial development through technical and financial assistance to investors since 1955.

Since September, 1967, restrictions on foreign exchange utilization have been effective in reducing luxury goods imports, so that available exchange has been used more efficiently than in the past for the importation of capital goods and raw materials. The GOES has signed an Investment Guaranty Agreement with the USG, providing for the granting of specific risk (expropriation and convertibility) guarantees to qualified U.S. investors. Negotiations are in progress to expand the agreement to include war and extended risks.

C. Relationship to U.S. Assistance Strategy

The US Assistance Strategy in El Salvador stresses the need for a continued high level of industrial growth through private investment, to diversify the Salvadoran economy, increase the middle class, provide new employment opportunities, and utilize efficiently the country's limited land and resources. The high capital: labor ratio in El Salvador favors the development of more complex industries in this country. The first A. I. D. loan available to INSAFI, as well as this proposed second tranche, grew out of the recognition of the urgency of industrializing this land-poor country whose population has been growing at a rate exceeding 3.5 % a year.

B. [illegible]

1. [illegible]

[illegible]

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible]

2. [illegible]

[illegible]

than threefold during 1961-1965, rising from $16.1 million to a peak of $[illegible] million. Thereafter, the decline in world prices of its traditional exports, coupled with a sharp drop in cotton production and, in 1967, an imminent change in the Administration, export growth was reduced substantially (see Table 13). Nevertheless, previous high levels of public investment, financed importantly by foreign capital inflows, caused imports to continue to rise in spite of reduced foreign exchange earnings in 1966-1967. In order to maintain external balance and, at the same time, secure the resources to finance national development, the GOES introduced (in September, 1967) a relatively stringent program of selective credit controls affecting all imports and modified the exchange control system by requiring 100% advance deposits in the case of imported luxury goods. The GOES also negotiated an IMF Standby Agreement on December 5, 1967, for $10 million and drew half that amount in the same month.

Net international reserves as of December 31, 1967, amounted to $[illegible] million, a decline of $2.7 million from the previous year, as shown in Table 15. However, the 1967 year-end reserves showed a marked improvement over Central Reserve Bank expectations (a decline of $5 million in 1967), almost entirely due to limitations on the growth of imports resulting from the restrictive import measures and tighter commercial credit policy of the Central Reserve Bank. These policies were successful in bringing about an increase in net exchange reserves to $42.2 million by the end of 1968*.

The Salvadoran economy, as measured by its Gross Domestic Product (GDP) in constant market prices, grew at an annual compound rate of [illegible]% during 1950-57, 4.9% during 1958-62, and 6.0% during 1963-67. The National Planning Council, in its second 5-year plan covering the years 1968-72, projects a continuation of the 6.0% annual growth rate. To continue this rate of growth, the industrial sector is projected to increase (value added) at a compound rate of 9.8% a year, rising from $174.1 million in 1967 to a projected $277.9 million in 1972. Emphasis in the industrialization process is to be placed on the manufacture of high-value-added commodities, especially agro-industries utilizing domestic raw materials, and activities that can benefit from external economies and improve their competitive position with respect to foreign goods. Mining and

* Representing about 2½ months of imports.

fishing activities also are to receive greater attention. Increases in industrial productivity and in the quality of local manufactures are considered indispensable, especially for the purpose of increasing exports to markets outside the CACM.

TABLE 13

External Debt Service Payments and Relation To Export Levels, 1963-1968
(In Millions of U. S. dollar equivalent)

Year	External Debt Service			Exports of Goods and Services	Ratio of Debt Service to Export of Goods and Services
	Principal	Interest	Total		
1963	2.9	1.4	4.3	165.5	2.6%
1964	3.1	1.8	4.9	192.8	2.5%
1965	3.9	2.1	6.0	214.4	2.8%
1966	4.0	2.3	6.3	211.8	3.0%
1967	2.4	2.5	4.9	230.7	2.1%

Sources: Ministry of Finance (for debt service payments); Central Reserve Bank (for exports of goods and services.)

TABLE 14

El Salvador; Gross Domestic Product, 1958-1968
(In Current and Constant Market Prices)

	In Current Market Prices			In 1962 Market Prices		
Year	₡1,000,000	$1,000,000	% Change	₡1,000,000	$1,000,000	% Change
1958	1,389	556	---	1,272	509	---
1959	1,350	540	-2.8	1,329	532	4.5
1960	1,420	568	5.2	1,383	553	4.1
1961	1,444	578	1.7	1,431	572	3.5
1962	1,603	641	11.0	1,603	641	12.0
1963	1,694	678	5.7	1,672	669	4.3
1964	1,867	747	10.2	1,827	731	9.3
1965	1,992	797	6.7	1,926	770	5.4
1966	2,110	844	5.9	2,064	826	7.2
1967(p)	2,226	890	5.5	n.a.	n.a.	n.a.
1968(E)	2,326	930	4.5	n.a.	n.a.	n.a.

Source: Central Reserve Bank of El Salvador, Revista Mensual, December, 1968, pp. 956-960, and unpublished data for 1968.

(p) Preliminary.
(E) Estimated by Central Reserve Bank.

TABLE 15

El Salvador's Net Foreign Exchange Reserves and their Relation to Imports of Goods and Services, End years 1961 - 1968

(In Millions of U. S. Dollars)

Year	Net Foreign Reserves	Imports of Goods and Services	Ratio of Reserves to Imports of Goods and Services
1961	16.1	133.5	12.1%
1962	22.5	152.8	14.7%
1963	37.4	182.8	20.5%
1964	40.4	224.9	18.0%
1965	51.0	240.5	21.2%
1966	39.6	262.3	15.1%
1967	36.9	266.0	13.9%
1968	42.2	317.2	13.3%

Source: Central Reserve Bank, Revista Mensual, March, 1968, p. 140, and similar reports in previous years.

3. Debt Repayment Capacity

Public foreign debt payments of interest and principal on loans generally rose in recent years, reaching a peak of 3% of export earnings in 1966 (see Table 13). However, completion of amortization payments on a loan to the World Bank in that year reduced service payments in 1967 to only some 2% of export earnings. Thus, foreign debt service has not been a serious burden on the country's balance of payments.

The trend toward sharply increased public external indebtedness has been characterized by the contracting of long-term loans at concessional or conventional rates of interest, with liberal grace periods. Short- and medium-term high interest supplier credits largely has been avoided up to the present; however, there are signs of a new willingness to contract supplier credit-type debt. If exports rise as projected and new additional debt continues to be contracted on average terms no more onerous than the past 1962 average, it is obvious that additional debt burden can be assumed without exceeding reasonable prudent debt servicing limits.

The development goals outlined in the 1965-1969 and 1968-1972 development plans of the GOES are quite modest in relation to needs, though ambitious in terms of financial and managerial resources likely to be available. The minimum investment required cannot be met by domestic revenues, which at best only increase arithmetically, while capital input requirements and increased operating expenses associated with rapid development increase geometrically. Thus, El Salvador has no choice but to assume greatly increased foreign indebtedness if development goals are to be achieved to any significant extent. The favorable side of this picture is that the prudent fiscal and monetary management of the past and present permits the assumption of increased debt without violating the canons accepted by foreign lenders.

E. Justification of Local Currency Financing

Inasmuch as this loan is to go for the procurement of U. S. goods and services, except as provided in Covenant 6 of Summary, no local currency financing is involved.

F. CIAP Evaluation (CIAP/185, 8 December 1967)

In its recent review of the Salvadoran economy, the CIAP expressed special concern over the deteriorating fiscal and balance of payments situations. It stressed the need for fiscal reforms, export diversification, and import controls. The CIAP called upon the international financial community to increase its role in Salvadoran development in order to reduce further drain on the country's international reserves. First priority was given by CIAP to increasing tax revenues and improving the allocation of public sector funds. Next to this, CIAP emphasized the need to regain previous levels of cotton production and exportation, and the diversification of agricultural and industrial production to develop new export products for shipment to the CACM and world markets.

The CIAP pointed out that, given the unfavorable prospects in the immediate future for El Salvador's traditional exports, economic growth depends upon agricultural and industrial development and the accompanying diversification of exports. These, in turn, depend upon a continuing inflow and improved utilization of external loans.

In its estimates of El Salvador's external capital requirements for the years 1968-1970, CIAP arrived at the figures shown in Table 16, i. e. $58. 6 million for 1968; $59. 1 million for 1969; and $55. 3 million for 1970.

TABLE 16

Required Capital Inflows in El Salvador's Balance of Payments, 1968-1970
(In Millions of U. S. Dollar equivalents)

	1968	1969	1970
Net private capital	16.0	18.4	20.8
Official loans negotiated as of June 30, 1967	10.0	8.0	3.0
Foreign grants	4.4	4.8	4.8
	30.4	31.2	28.6
New capital requirements*	28.2	27.9	26.7
Total capital requirement	58.6	59.1	55.3

*To be negotiated.

Source: CIAP/185, Conclusiones y Recomendaciones del Subcomité del CIAP Sobre El Salvador, December 4-8, 1967, p. 13.

G. Impact on the U. S. Economy

Inasmuch as this loan is to be virtually 100% for procurement of U. S. goods and services, its effect on the U. S. balance of payment is favorable. Not only will interest be earned on the loan, but a market for U. S. machinery and equipment, spare parts, and services will be established widely as a result of this loan. Moreover, inasmuch as the establishment of a Supervised Small Industry Credit Program is a condition of this loan, one may expect an increased demand for U. S. products as the beneficiaries of this program increase in size and importance.

The greatest part of the loan will be for U. S. goods and services additional to those that would have been exported to El Salvador in its absence. A major reason is the fact that under import control procedures in effect (including the recently agreed upon additionality incentives), Salvadoran importers are not permitted to receive U. S. suppliers credits in excess of 18 months for the purchase of machinery and component and 12 months to import raw materials and semi-finished products.

SECTION IV - FINANCIAL ANALYSIS

A. INSAFI's Financial Situation

1. Since its establishment, INSAFI has shown small operating losses (See Annex D-1), as might be expected of a government development institution. These operating losses have been more than offset by GOES subsidies to INSAFI's Services Fund. During 1962-1964, INSAFI's operational expenses represented, on the average, 96% of its income. As INSAFI gained experience and benefitted by the technical services financed under the first A. I. D. loan, this ratio turned sharply downward, being 78% in 1965, 76% in 1966, and 63% in 1967. INSAFI, in 1968, no longer required a GOES subsidy to cover administrative costs. The cumulative net loss during 1962-1967 amounted to $560,742 or only 2.2% on a volume of loans and equities aggregating to $25.4 million (equivalent). In 1968, an operating surplus equivalent to $132,100 was obtained.

From 1968 on, INSAFI expects to produce operating profits in spite of substantially expanded activities, as shown in Annex D-2. Modest increases in operational expenses, repayments of interest on foreign borrowings, payments of and dividends on bonds issued, will be more than offset by its income from interest on loans, dividends on equity holdings, interest on bank deposits, and service charges. Thus, net profits are projected to rise from $39,800 in 1968 to $1,041,000 by 1977. Interest payments on the proposed A. I. D. loan will be covered easily by INSAFI's projected earnings.

2. Comparative Balances 1962-1967 -- INSAFI began operations on December 26, 1961, as successor to a previous GOES agency, INSAFOP. As of December 31, 1968, INSAFI's assets totalled $18.0 million (equivalent), against liabilities of $11.6 million and capital and reserves of $6.4 million (of which paid-in capital was $6.3 million). Loans outstanding amounted to $15.8 million, and equities held in various enterprises, $1.4 million. The doubling of capital and reserves that occurred between 1962 and 1967 resulted largely from the capitalization of the GOES working capital subsidies during these years.

Comparative balances sheets for the period 1962-1968 are shown in Annex D-3.

INSAFI has made six equity investments to date, aggregating the equivalent of $1,386,830. These investments are as follows:

Name of Enterprise	Amount Invested In U. S. Dollar Equivalents
Industrias Intéticas, S. A. (INSINCA)	449,800
Industrias Plásticas, S. A. (IPSA)	96,000
Distribuidora de Fábricas, S. A. (DIFASA)	400
Implementos Agrícolas de Centro América, S. A. (IMACASA)	40,000
Phelps Dodge de Centro América, S. A.	799,910
ANTEL (6 bonds)	720
Total	1,386,830

The only equity investment made since 1966 has been an increase in INSAFI's participation in Phelps Dodge of $200,000 equivalent. However, during 1969, the following changes are contemplated by INSAFI in its equity portfolio:

1) A sale of 30,000 shares of Phelps Dodge stock to Siemens Aktiemgeselschaft, thereby reducing INSAFI's holding to $499,910 equivalent;

2) An additional investment equivalent to $300,000 will be made to increase the capital of INSINCA, raising INSAFI's participation to $749,800 equivalent; and

3) A participation equivalent to $675,000 in a polivynil chloride plant to be established with the B. F. Goodrich Co. (Química B. F. Goodrich de Centro América, S. A.)

The 1969 year-end equity portfolio of INSAFI therefore is expected to be as follows:

		U. S. $ equivalent
1.	INSINCA	749,800
2.	IPSA	96,000
3.	DIFASA	400
4.	IMACASA	40,000
5.	Phelps Dodge	499,910
6.	ANTEL	720
7.	Química B. F. Goodrich	675,000
		2,061,830

On the liability side, INSAFI's local currency indebtedness appears to have reached a peak in 1966 and then declined in 1967. In view of IMF-imposed restrictions on Central Reserve Bank Credit Activities, it is expected that INSAFI borrowings in the next few years will be chiefly from external sources and, to a small extent, from bond issues.

Throughout its past seven years of operations, INSAFI has maintained a satisfactory working capital ration and its cash position has been satisfactory. The amount of available working capital more than quadrupled between 1962 and 1968, as shown in Table 17.

TABLE 17

INSAFI's Working Capital ("Current") Ratio, 1962-1968
(Amounts in $1,000 equivalents)

Year	Current Assets	Current Liabilities	Working Capital Ratio*	Net Working Capital
1962	5,013	1,875	2.7	3,138
1963	5,658	1,833	3.1	3,825
1964	8,034	3,436	2.3	4,598
1965	10,222	4,775	2.1	5,447
1966	13,349	5,850	2.3	7,499
1967	15,872	5,794	2.7	10,078
1968	17,631	4,916	3.6	12,715

*Ratio of current assets to current liabilities.

Source: Based on data in Annex D-3

The ratio of INSAFI's net worth to its total liabilities has declined sharply over the past seven years as that institution has matured and expanded its activities; it fell from 167% in 1962 to 55.5% in 1968, as shown in Table 18. This ratio reflects INSAFI's capital risk as compared with that of outsiders. Thus even at the 1968 ratio, INSAFI is in a favorable position to acquire additional indebtedness.

TABLE 18

Ratio of INSAFI's Net Worth to Its Total Liabilities, 1962 - 1968
(Amounts in $1,000 equivalent)

Year	Net Worth	Total Liabilities	Ratio of Net Worth To Total Liabilities
1962	3,181	1,900	1,674
1963	3,813	1,935	1,970
1964	4,413	3,727	1,184
1965	5,053	5,323	0.949
1966	5,373	8,123	0.661
1967	6,105	10,007	0.610
1968	6,410	11,553	0.555

3. Loans Made by INSAFI, 1962-1967 and 1968-1977 -- During 1962-1967, INSAFI made 1,354 loans aggregating $24,193,600 (equivalent). By function, these loans were distributed as follows:

Function	Amount ($1,000 Equivalent)	Percent
Machinery and equipment purchases	12,095	50.0%
Working capital	7,006	28.9%
Building and facility construction	3,838	15.9%
Refinancing	1,254	5.2%
Other uses	1	%
Total	24,194	100.0%

Disbursement on the first A. I. D. loan began in June, 1964. As of the end of 1967, disbursement had been made of $4,299,073 and an additional $191,432 had been committed, for a total of $4,490,505. Of the funds earmarked for sub-lending, the functional distribution was as follows:

Building and facility construction	$ 967,200 (23%)
Machinery and equipment purchases	2,456,000 (57%)
Working capital	876,000 (20%)
	$ 4,299,200 (100%)

The A.I.D. audit performed on INSAFI at the end of 1967 did not reveal any arrears or delinquencies in INSAFI sub-lending made with A.I.D. funds. INSAFI is currently (and has maintained itself) up to date on interest payments to A.I.D.

An informal Mission examination of INSAFI's accounts in May 1969 indicated that (probably due to INSAFI's relatively conservative lending policies) INSAFI's loss experience (delinquencies) on sub-loans made from other than A.I.D. funds was less than one percent. INSAFI's small reserves for bad debts appear to be adequate for at least the short-term future.

The projected small enterprise lending program, caused by the A.I.D. loan, but funded by INSAFI local currency sources, will undoubtedly be subject to a higher delinquency rate than is INSAFI's normal development sub-lending. It is anticipated that adequate reserves for this contingency will be established by INSAFI as a result of the recommendations which will be made by the loan funded U.S. technicians who will assist INSAFI in setting up the operational procedures of this small business window.

INSAFI's lending activities increased from an annual average of $951,600 during 1957 - 1962 to $4,542,960 during 1963-1967, as a result of increased borrowings from the Central Reserve Bank and the availability of the first A.I.D. loan for industrial development. Between 1961 and the end of 1967, INSAFI obtained almost $9.0 million (equivalent) of credits from domestic and foreign sources (see Annex D-4) to carry out its financing operations. The projected cash flow for the period 1968-1977 (see Annex D-5) shows that average annual lending activities of INSAFI will rise to $6.7 million during 1968-1972, and to $7.1 million during 1973-1977. The proposed second A.I.D. loan will finance 27.4% of INSAFI's lending activities during the 3-year disbursement period, 1969-1971. Illustrative investment projects contemplated for the period 1968-1972, totalling more than $37.0 million, are shown in Annex D-6.

4. GOES Contribution to INSAFI's Capital and Operations - The GOES has made substantial annual contributions to the administrative and working capital funds of INSAFI and its predecessor agency, as shown in Table 17. Prior to 1962, the entire GOES subsidy was capitalized by the development institution. From 1962 on, however, only the circulating capital subsidy has been integrated into INSAFI's capital and reserves.

TABLE 18

GOES Subsidies to INSAFI and Predecessor Agency, Through 1967*

(In $1,000 equivalents)

Year	Services Fund	Circulating Capital Fund	Total Subsidy
Prior to 1962	251	2,423	2,674
1962	127	507	634
1963	168	632	800
1964	120	600	720
1965	160	640	800
1966	160	320	480
1967	76	732	808
Total	1,062	5,854	6,916

* Subsidies discontinued in 1968.

The $6.1 million of capital and reserves reported by INSAFI at the close of 1967 were formed entirely by the integration of the GOES' circulating capital subsidy, and the services fund subsidy prior to 1962. As previously discussed, the subsidies for administrative costs and for operating funds were discontinued in 1968. However, the implementation of Covenant 4 of the Summary will assist INSAFI in obtaining the local resources necessary for stimulating industrial development in the country.

5. Bond Issue -- In June, 1967, INSAFI was authorized to issue $2,000,000 (equivalent) of 7% bonds to finance urgent working capital and other needs of its clients. INSAFI issued only $800,000 worth of bonds, and these were subscribed completely within the month by CABEI (chiefly) and by Salvadoran institutional and private subscribers. The balance of the authorized issue ($1.2 million) may be offered for sale in accordance with INSAFI's need for additional cash. If the initial experience is an indication, there appears to be a ready market for INSAFI's securities, and future issuances are projected in the cash flow statement for the years 1968 - 1977.

B. Financial Plan

Estimated total costs of the project over the 3-year disbursement period indicated in the loan application are equivalent to $25.6 million, as shown in the financial plan in Table 19. The proposed sources of financing include INSAFI's own resources, subsidies from the GOES, and external borrowings from the A.I.D. and other international lending agencies.

TABLE 19

INSAFI's Financial Plan, 3-Year Disbursement Period (Amounts in $1,000,000 equivalents)

Sources of Funds	U.S. Dollar Costs		Local Currency Costs		Total Costs	
	Amount	%	Amount	%	Amount	%
A. Internal						
INSAFI Resources	3.8 1/	36.5	6.6	63.5	10.4	40.6
GOES Subsidies	-.-	.-	0.4	100.0	0.4	1.6
Other 2/	4.0	50.0	4.0	50.0	8.0	31.3
Sub-total	7.8	41.5	11.0	58.5	18.8	73.5

UNCLASSIFIED

Sources of Funds	U.S. Savings Amount	[illegible] %	[illegible]	%	Total Amount	%
B. External						
2nd A.I.D. Loan	[illegible]	[illegible]			[illegible]	[illegible]
IDB Loan(s)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CABEI Loan(s)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sub-Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1/ The $[illegible] million of [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] foreign exchange for such [illegible].

2/ "Other" sources of financing [illegible] [illegible] [illegible] Development Fund and [illegible] [illegible] [illegible] Reserve Fund, [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

As seen from the foregoing table, [illegible] [illegible] [illegible] to account for [illegible] [illegible] [illegible] disbursement period. [illegible] [illegible] second A.I.D. loan, and the remaining [illegible] [illegible] [illegible] sources.

C. Terms of the Loan

The [illegible].

D. [illegible] of Loan Terms

The [illegible]

UNCLASSIFIED

(P. & L. comparative balance sheets, and projected cash flows) indicates that INSAFI will be solvent financially and easily will be able to assume the additional amount of funds being requested. The loan also will make an important contribution to achieving a satisfactory investment level in El Salvador as well as serve to strengthen the country's balance of payments position.

E. Availability of Alternative Sources of Funds

The Loan Committee, after considering the numerous efforts of INSAFI to obtain credit from other foreign lenders, is convinced that A. I. D. is the lender of last resort at this time (see Section I. E).

F. Guaranty

In its transmittal of INSAFI's loan application on March 21, 1968, the National Planning Council stated that the proposed loan will be guaranteed either by endorsement of the Government of El Salvador or by the state-owned Central Reserve Bank. Obligations of the guarantor will be incorporated into the Loan Agreement.

G. Two-Step Option

The two-step procedure is to be offered, as described in Subsection C, above. It is designed to assure an accelerated capitalization of INSAFI during the years 1969-1972, so that its net worth position will be sound when the GOES subsidy ends at the end of 1972. In order to maintain INSAFI's financial capability to negotiate new loans in the future (after 1972), seek to reach an agreement that the GOES give back benefits of the two-step procedure during the first ten years of the loan's operation. The benefits to the GOES of the two-step procedure are shown in Annex [illegible].

H. Prospects of Repayment

The projected cash flows, plus general familiarity with INSAFI on the part of the members of the Loan Committee, lead to the conclusion that this institution can and will meet its repayment obligations to A.I.D. INSAFI's debt previous service record is very good. Moreover, the GOES or the Central Reserve Bank will guarantee the loan and assume the foreign exchange risk.

SECTION V.

CAPABILITY FOR MAINTAINING AND UTILIZING THE PROJECT

INSAFI, as such, has existed since December 26, 1961, when under new management and revised organization -- it replaced the Instituto Salvadoreño de Fomento de la Producción (INSAFOP). The new institution has carried out an effective lending program of small - and medium-scale industrial development loans. It has developed technical skill in processing loans and has benefitted from the contracted technical services of Sanderson and Porter, Inc., a well know U. S. engineering firm, in the preparation of feasibility studies and in the provision of technical backstopping to INSAFI's lending activities. INSAFI has indicated its intention to continue to utilize the services of this consulting firm. Additional trained staff probably will be required to deal with the development of mineral processing industries and the supervised small industry credit program.

INSAFI's record of accomplishments during the years 1962-1966 was reported to AID/W in TOAID A-209 of November 15, 1967. The Regional Auditor's report (No. 68-11-S2 of November 6, 1967) on the operations of INSAFI found no violations of the Loan Agreement that would constitute default. Improvements in reporting and in publicity to A. I. D. financed projects were required.

1. Policy Problems of the Borrower -- INSAFI has tended to follow a rather conservative lending policy in spite of its position as a government development institution. It provides only 60% of project financing as a rule, and requires that its loans be guaranteed by collateral worth 1.67 times the amount of the loan. These practices are required by INSAFI's statute and have prevented that institution from being an effective source of financial assistance to small industrialists. For this reason, a condition of this loan is to be that INSAFI develop a special system for sub-lending to small industrialists and craftsmen.

2. Relationship to Private Development Bank -- The Mission expects that the Financiera de Desarrollo e Inversion, S. A. (FDI), the private Salvadoran development institution, will have exhausted its $5.2 million A. I. D. loan (519-L-006) by the end of CY 1968. This loan was authorized in April, 1964. The

FDI has just increased its capital and has made an informal request to A. I. D. for a second loan in an amount of $3.0 million. During the USAID's discussions of the informal request with FDI officials, the latter indicated that Eximbank financing would be satisfactory to them. The funds would be used entirely for financing the importation of U. S. goods. Accordingly, the formal application received from the FDI, has been submitted to the Eximbank for financing.

The Mission believes that the INSAFI project proposed in the IRR will be the last A. I. D. loan required for the industrial development of El Salvador. Viable and self-sustaining intermediate credit institutions for dealing with the technical and financial needs of small-, medium, and large-sized borrowers will have been created. These institutions will continue to require credits for the importation of U. S. machinery and equipment, at a level of perhaps $3.0 to $4.0 million a year, after the disbursement of the proposed A. I. D. loan to INSAFI and a possible Eximbank loan to the FDI. This funding would be obtained most suitably from the Eximbank, IDB, and/or private lending institutions. A. I. D.'s participation in this later funding would be confined appropriately to granting investment guaranties to U. S. private institutions making loans to Salvadoran industrial development entities.

SECTION VI. COVENANTS AND CONDITIONS

In addition to the usual covenants and conditions, the Loan Committee recommends that the Loan Agreement contain the following requirements:

1. The repayment of principal and interest on the loan shall be guaranteed by the Government of El Salvador or by the Central Reserve Bank of El Salvador.

2. The Dollar costs of the project shall be financed through the regular A. I. D. Letter of Commitment procedure for procurement in the United States. (Except as noted in item B (6) page v)

3. Any goods and services procured under the loan by INSAFI or its sub-borrowers for the Project shall have their source and origin in the United States.

4. The GOES, at its option, may elect the two-step repayment procedure. If the two-step procedure is elected, the GOES will accept payments in colones from the Borrower and will make payments in dollars to A. I. D. under the following terms:

(A) Interest in United States Dollars on the disbursed balance of the loan at the rate of two percent (2%) per annum during a grace period not to exceed ten (10) years ("Government Grace Period"), and three percent (3%) per annum thereafter;

(B) The principal, in the United States Dollars, within forty (40) years, including the Government Grace period.

5. If GOES elects the two-step option, USAID/ES will explore reaching an agreement with GOES that any payment made by the Borrower to the Government under the terms of this loan and the two-step procedure, which is in excess of the GOES' payment obligation to A. I. D. under this loan during the first ten (10) years shall be returned to INSAFI to increase its capitalization.

6. The GOES shall, within one year from the date of signing of the Loan Agreement, present to A. I. D. satisfactory

evidence that steps have been taken to assure that any profits realized by INSAFI for 20 years from the effective date of this agreement will not revert to the GOES, except as A. I. D. may otherwise agree in writing.

7. Earnings on the interest spread between the rate charged in the A. I. D. loan and that charged on sub-loans of INSAFI shall remain in the industrial program of INSAFI.

8. A. I. D. funds shall not be used for financing working capital needs of INSAFI's sub-borrowers unless A. I. D. shall otherwise agree in writing, and it can be demonstrated that such use of A. I. D. funds will add significantly to production, jobs created or total production of the enterprise, and where such financing is matched by increased equity of the owners. The total amount of such financing from loan funds shall not exceed $1. 0 million.

9. No equity investments shall be made in whole or in part from the A. I. D. Loan.

10. No sub-loans shall be made in whole or in part for refinancing, from loan proceeds, without prior A. I. D. approval in writing.

11. No contractual commitment for professional services financed under this loan shall be made by INSAFI until A. I. D. shall have given its approval of the contractor and the contract.

12. Sub-loans of A. I. D. funds to eligible borrowers from INSAFI shall be made for varying periods to be determined by INSAFI but in no case for less than three (3) years nor for more than fifteen (15) years, including varying grace periods whose duration shall be determined by INSAFI; however, loans of longer duration may be allowed in exceptional cases with prior A. I. D. approval.

13. Prior A. I. D. approval shall be obtained with respect to the technical and economic feasibility of any project financed under this loan in an amount exceeding one hundred thousand dollars ($100, 000).

14. It is understood and agreed that of the Four Million Eight hundred thousand dollars ($4, 800, 000) loaned to INSAFI by A. I. D., not less than four million five hundred thousand

($4,500,000) are to be used for the procurement of goods, and not to exceed three hundred thousand dollars ($300,000) for the procurement of technical services, both goods and services being of United States origin.

15. No sub-loans shall be made directly by INSAFI which would cause the ratio of its sub-borrower's outstanding debts to the sum of its unimpaired capital, free reserves, and surpluses, determined in accordance with generally accepted accounting principles, to be greater than seventy to thirty (70 : 30) without prior written approval of A. I. D.

16. It is understood and agreed that, prior to the disbursement of more than $2. 0 million of A. I. D. loan fund, INSAFI or GOES shall extend a line of credit, from its own resources, an amount up to seven hundred thousand dollars ($700, 000) equivalent, to finance a Supervised Small Industry Credit Program. Of this amount, $200, 000 equivalent shall be earmarked to pay for technical services to this Program, such services to be provided by INSAFI, other Salvadoran or Central American agencies and firms, or United States sources. The technical assistance and credit arrangements between such lending institutions and sub-borrowers, for implementing this program shall require the prior approval of A. I. D. INSAFI shall also finance from its own resources an input-output study of the country's industrial sector (costing approximately U. S. $300, 000 equivalent). In addition to the standard reporting requirements under the loan, INSAFI will make reports, satisfactory to A. I. D., on its self-financed Supervised Small Industry Credit Program.

SECTION VII. IMPLEMENTATION PLAN

The Salvadoran Industrial Development Institute (INSAFI) will have the primary responsibility for implementation of the Loan. The Loan will be guaranteed either by the Government of El Salvador or by the Central Reserve Bank of El Salvador. The primary responsibility for fulfilling A. I. D.'s part of the implementation function rests with USAID/El Salvador, assisted by ROCAP, and AID/W personnel as appropriate.

The Loan Agreement and basic Implementation Letter No. 1 will state the conditions which must be fulfilled by the Borrower prior to any disbursement of A. I. D. funds. USAID/El Salvador, assisted by ROCAP, AID/W, and contract personnel, as may be required will ensure that the loan procedures considered acceptable as conditions precedent and the covenants contained in the Loan Agreement are in fact being followed, and that both INSAFI'S sub-loans and the Supervised Small Industry Credit Program are operating satisfactorily.

On the assumption that the Loan Agreement will be guaranteed by the Central Reserve Bank and signed by September 30, 1969, the following schedule of implementation appears realistic:

FY 1969

June '69	Agreement Authorized

FY 1970

July '69	Draft Agreement and IL No. 1 Submitted to GOES
August '69	Ministries of Justice and Finance and National Planning Counsel review drafts.
November '69	Borrower, Guarantor and A. I. D. execute agreement.

January '70	C[illegible]ions Precedent to D[illegible]rsement met; INSAFI [illegible]gements for line of [illegible]t and to Supervised S[illegible]ll Industry Credit Program completed.
February '70	Commitments begin and First disbursement made.
<u>FY 1970</u>	
January '71	$1. 8 million disbursed.
<u>FY 1971</u>	
January '72	Additional $2. 0 million disbursed.
April '72	Loan fully committed.
<u>FY 1972</u>	
April 1973	Loan fully disbursed.

The Loan Committee sees no problem in implementing this loan. INSAFI has fully committed and disbursed virtually all of the first A. I. D. loan; suitable technical services have been obtained from the U. S. engineering firm of Sanderson and Porter, Inc., and it is expected that this contractual arrangement will be continued under the new loan; and the Mission has obtained INSAFI's agreement to the establishment of the Supervised Small Industry Credit Program and the financing of certain industrial investigations in the manner described earlier in this CAP. All standard A. I. D. procedures for procurement will apply.

INSAFI II

June 16, 1969

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer, or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1968.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1969.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. *FAA S.208; S.251(b).*

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

1. A.(1) El Salvador is making appropriate efforts through its Supervised Agricultural Credit, Livestock Improvement Agencies, Agricultural price Stabilization Institute, and the Agrarian Reform Program implemented through its Rural Colonization Institute.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

1.A.(2) El Salvador is creating such climate by 1. common market efforts, 2. investment protection laws, 3. investment guarantees, 4. free exchange, 5. tax incentives to new industries.

(3) Increasing the public's role in the developmental process.	1A.(3) The public's role in the developmental process in El Salvador is increasing through the Savings and Loan Associations, Rural Credit Cooperatives, the Demographic Society, private industrial development bank, and other private institutions.
(4) (a) Allocating available budgetary resources to development.	1.A(4)(a) El Salvador is allocating substantial budgetary resources to development.
(b) Diverting such resources for unnecessary military expenditure (See also Item No. 18.) and intervention in affairs of other free and independent nations. (See also Item No. 17.)	1.A.(4)(b) El Salvador is not diverting such resources for unnecessary military expenditures and is not intervening in other free countries' affairs.
(5) Willing to contribute funds to the project or program.	1.A.(5) GOES and INSAFI will contribute substantial funds to the project amounting to over $18.8 million.

AID 1240-2 (1-69)

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

1. A. (6) El Salvador is making efforts to accomplish these reforms. Progress is being made in recognition of the importance of individual freedom, initiative, and private enterprise, and freedom of expression of the press exists.

(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

1. A. (7) El Salvador is adhering to the principles of the Act of Bogotá and Charter of Punta del Este.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

1. A. (8) El Salvador has consistently followed policies that encourage the repatriation of capital invested in other countries by its citizens.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

1. A. (9) El Salvador is responding to these concerns and demonstrating a clear determination to take effective self-help measures as shown by its recent increase in real property taxes, and contributions from its own resources toward agricultural and educational reform, and other development projects.

B. Are above factors taken into account in the furnishing of the subject assistance?

1. B. - The above factors have been taken into account in the furnishing of subject assistance.

AID 1240-2 (1-69)

Treatment of U.S. Citizens

2. *FAA §.620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*

2. According to the best information available, no such indebtedness is owed to U. S. citizens.

3. *FAA §.620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*

3. El Salvador has not taken any of the actions proscribed herein.

4. *App. §.106. If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U.S. citizens generally, what steps (will be) (have been) taken during loan negotiations to influence elimination of such distinctions?*

4. It appears to be reasonably certain that GOES will not attempt to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U. S. citizens generally. GOES does not now so discriminate.

AID 1240-2 (1-69)

5. *FAA S.620(o); Fishermen's Protective Act. S.5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*	5. According to the best information available, no seizure of U. S. fishing vessels or imposure of sanctions or penalties against them have been made by El Salvador.
a. has any deduction required by Fishermen's Protective Act been made?	5. a. N/A
b. has complete denial of assistance been considered by A.I.D. Administrator?	5. b. N/A

Relations with U.S. Government and Other Nations

6. *FAA S.620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?*	6. Assistance planned under this loan is for infrastructure and not for a productive enterprise which could compete with U. S. enterprise.
7. *FAA S.620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?*	7. Such actions have not been permitted and adequate measures have been taken to prevent them.

AID 1240-2 (1-68)

8. FAA §.620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?

8. A bilateral agreement between the United States and El Salvador, relating to the guaranty of private investments, was signed at San Salvador January [illegible], 19[illegible], and entered into force April [illegible], 19[illegible].

9. FAA §.620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?

9. El Salvador is not in default of any principal or interest on any loan made to it under the Act.

10. FAA §.620(t). Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

10. El Salvador has consistently maintained diplomatic relations with the United States.

11. FAA §.620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?

11. El Salvador is not known to be delinquent on any of its U.N. obligations.

12. FAA §.620(a); App. §.107(a) and (b). Does recipient country furnish assistance to Cuba, sell strategic material to Cuba, or permit ships or aircraft under its flag to carry cargoes to or from Cuba?

12. According to the best information available, El Salvador complies fully with these prohibitions against trade with or assisting Cuba and with permitting ships or aircraft under its registry to carry proscribed items to Cuba.

AID 1240-2 (1-69)

13. *FAA S.620(b). If assistance is to a government, has Secretary of State determined that it is not controlled by the international Communist movement.*

13. The Secretary of State has determined that El Salvador is not controlled by the Communist movement.

14. *FAA S.620(f), App.S.109. Does recipient country have a communist government*

14. El Salvador does not have a Communist Government.

15. *FAA S.620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression.*

15. El Salvador is not in any way so involved.

16. *FAA S.620(n); App. 107(b) and 116. Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?*

16. According to the best information available, no El Salvador ships or aircraft traffic with North Vietnam.

Military Expenditures

17. *FAA S.620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? Is U.S. P.L. 480 or development assistance used for military purposes? Are country's resources devoted to unnecessary military expenditures to a degree which materially interferes with*

17. GOES' 1969 military budget represents an estimated 7.9% of its national budget or 0.9% of GNP. Foreign exchange resources of approximately US$200,000 are anticipated to be spent in 1969 on U.S. equipment and spare parts. No U.S. PL480 funds are used in El Salvador for military purposes. The GOES is not devoting to military purposes a percentage of its resources which materially interferes with its development.

AID 1240-2 (1-69)

its development? (Consideration of these points to be coordinated with PPC/MAS.)

18. *<u>FAA S.620(s). App. S.119.</u> How much spent by country during current U.S. fiscal year for sophisticated military equipment purchased since January 1, 1966? Has corresponding amount been deducted from current OYB, or is the weapons purchase determined by the President to be important to U.S. national security? (Responses to these questions to be coordinated with PPC/MAS.)*

18. GOES has not purchased and does not intend to purchase sophisticated military equipment.

<u>CONDITIONS OF THE LOAN</u>

<u>General Soundness</u>

19. *<u>FAA S.201(d)</u>. Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.*

19. Loan terms are consistent with United States and El Salvador laws. The lending and relending terms are considered reasonable in comparison with other sources of financing available.

20. *<u>FAA S.201(b)(2); S.251(b)</u>. Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner.*

20. The activity is concluded to be economically and technically sound. An application has been received for this loan which gives sufficient information and assurance that the funds will be used in an economically and technically sound manner.

AID 1240-2 (1-69)

21. *FAA S.251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.*

21. It appears to be reasonably certain that El Salvador will be willing to, and has excellent prospects of being able to repay the loan.

22. *FAA S.611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?*

22. A reasonably firm estimate of the cost to the United States has been prepared, along with satisfactory financial plans.

23. *FAA S.611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?*

23. No legislative action will be required for accomplishment of the purposes of the loan. Normal legislative approval of the loan agreement will be required.

24. *FAA S.611(e). If loan is for capital assistance, and all U.S. assistance to project now exceeds $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?*

24. The Mission Director has certified this compliance.

25. *FAA S.251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.*

25. Other Free World sources of financing are not interested in financing this project at satisfactory terms and conditions.

Loan's Relationship to Achievement of Country and Regional Goals

26. *FAA §.207; §.251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.*

26. (a) The assistance will contribute towards these developments by providing credit at reasonable terms and conditions to private industry.

26. (b) This loan will have a direct effect on meeting the country's food needs through sub-loans to agro-industry.

26. (c) The assistance will improve this availability by providing more jobs with on-the job training for industrial workers.

26. (d) This loan will have little direct effect on meeting the country's health needs.

26. (e) The assistance will contribute toward achievement of the country and regional goals to develop private industry by helping to encourage new industrial expansion and improving planning capability.

27. *FAA §.209. Is project susceptible of execution as part of regional project? If so why is project not so executed?*

27. The project is not susceptible of execution as a part of regional project.

28. *FAA §.251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.*

28. The activity is consistent with the objectives of the Country Assistance program - Development of Banking and Industry. By strengthening the financial resources of INSAFI, it will contribute to realizeable long-range objectives and stimulate small, medium, and large industry.

29. FAA §.251(b)(7). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*

29. The project will make a substantial contribution to self-sustained growth through its technical and financial assistance to industrial growth and development in El Salvador.

30. FAA §.281(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private and local governmental institutions.*

30. The activity has a basic relationship to eventual development and encouragement of democratic private and local governmental institutions, and will represent a strong contribution to the objective of assuring maximum participation by the people in the economic development of El Salvador.

31. FAA §.281(b). *Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.*

31. The program supports these needs, desires, and capacities, and is supportive of institutional development.

32. *FAA S.201(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.*

32. The loan will make a definite and substantial contribution to improve technical efficiency of industry, agriculture, and commerce through increasing private enterprise and hence private institutions and competition.

33. *FAA S.619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?*

33. El Salvador is not a newly independent country.

34. *FAA S.251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.*

34. An Inter-American Committee on the Alliance for Progress subcommittee review of El Salvador's development efforts, held in Washington in December 1968, singled out five specific initiatives as especially important, including "the establishment of new incentives for industrial production."

35. *FAA S.251(a). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.*

35. This loan is not directly related to the development of cooperatives.

36. *FAA §.209; §.251(b)(8).* *Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.*

36. Through INSAFI's collaboration with CABEI and liaison with other development banks in the CACM, this assistance will contribute to these objectives.

Loan's Effect on U.S. and A.I.D Program

37. *FAA §.251(b)(4); §.102.* *Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.*

37. The loan will have no adverse effect on the U. S. economy. U. S. commodities and assistance will be procured by loan funds so as to aid the U. S. balance of payments.

38. *FAA §.[illegible](b).* *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

38. Income resulting from newly created, expanded, and modernized industrial enterprises will create a demand for additional U. S. imports to El Salvador and encourage the use of private trade channels and the services of U. S. private enterprise.

AID 1240-2 (1-69)

39. *FAA §.601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*

39. Up to $300,000 of loan funds will be used to procure engineering and professional services of U.S. firms.

40. *FAA §.602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.*

40. No direct procurement of goods is contemplated by Borrower under the loan. Technical services will be financed as noted in item 39. Recipients of sub-loans will be required to comply with U.S. small business requirements.

41. *FAA §.620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?*

41. This Section will be complied with. The loan agreement will preclude such use of this assistance.

42. *FAA §.621. If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*

42. Technical assistance will be contracted from U.S. private individual and firms.

43. *<u>FAA §.252(a).</u> Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.*

43. This loan is being made directly to an intermediate credit institution for sub-loans to the private sector and for technical services to Borrower from U.S. private sector.

<u>Loan's Compliance with Specific Requirements</u>

44. *<u>FAA §.201(d).</u> Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?*

44. Yes.

45. *<u>FAA §.608(a).</u> Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.*

45. The loan agreement will require consideration of such utilization.

46. *<u>FAA §.604(a); App. §.108.</u> Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?*

46. Equipment financed under the loan shall have its source and origin in and be procured in the United States, materials and services financed under the loan shall have their source and origin in and be procured from the United States or Central American Common Market countries.

47. *<u>FAA S.604(b)</u>. What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?*

47. No bulk commodity purchases are contemplated.

48. *<u>FAA S.604(d)</u>. If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?*

48. GOES will comply. The loan agreement will so provide.

49. *<u>FAA S.604(e)</u>. If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?*

49. No such procurement will be made under this loan.

50. *<u>FAA S.611(b); App. S.101</u>. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?*

50. This project is not a water or water-related land resource construction project.

51. *<u>FAA S.611(c)</u>. If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?*

51. No construction contracts will be financed under this loan.

AID 1240-2 (1-69)

52. *FAA S.620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?*

52. No loan funds will be used for these purposes. The loan agreement will preclude such use of loan funds.

53. *FAA S.612(b); S.636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.*

53. GOES will contribute substantially all of the local costs of the project. There are no U. S. owned foreign currencies available for the project.

54. *App. S.104. Will any loan funds be used to pay pensions, etc., for military personnel?*

54. No such payments will be made under this loan.

55. *App. S.111. Compliance with requirements for security clearance of U.S. citizen contract personnel.*

55. To the extent that they may be applicable, these requirements will be met.

AID 1240-2 (1-69)

56. *App. 8.112. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?*

56. All Borrower-contractors and the terms of the contracts will be approved by USAID.

57. *App. 8.114. Will any loan funds be used to pay U.N. assessments?*

57. The loan agreement will preclude such use of funds.

58. *App. 8.115. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).*

58. The loan agreement will reflect this requirement.

59. *FAA 3.630(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?*

59. Loan funds will not be used to finance non-U.S. manufactured motor vehicles. The loan agreement will preclude such use of loan funds.

60. *App. 8.401. Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?*

60. Loan funds will not be used for publicity or propaganda purposes within the United States.

AID 1240-2 (1-69)

61. FAA S. 620 (k). If construction of productive enterprise, will aggregate value of assistance to be furnished by U. S. exceed $100 million?

61. Aggregate value of assistance to be furnished by United States will not exceed $100 million.

CERTIFICATION PURSUANT TO SECTION 611(e)
OF THE FOREIGN ASSISTANCE ACT OF 1961,
AS AMENDED

I, L. Paul Oechsli, Director of the United States Agency for International Development Mission to El Salvador, having taken into account, among other things, the maintenance and utilization of projects in El Salvador previously financed or assisted by the United States, do hereby certify that in my judgment El Salvador has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project, "Instituto Salvadoreño de Fomento Industrial (INSAFI) - Second Tranche".

The capital assistance paper [illegible] criteria as applied to El Salvador have been met. Discussion in the capital assistance paper, [illegible] in other respects, clearly has demonstrated the capability of El Salvador and the Borrower effectively to maintain and utilize the project. Basically, El Salvador has shown adequate effectiveness in maintaining and utilizing projects previously financed or assisted by the United States.

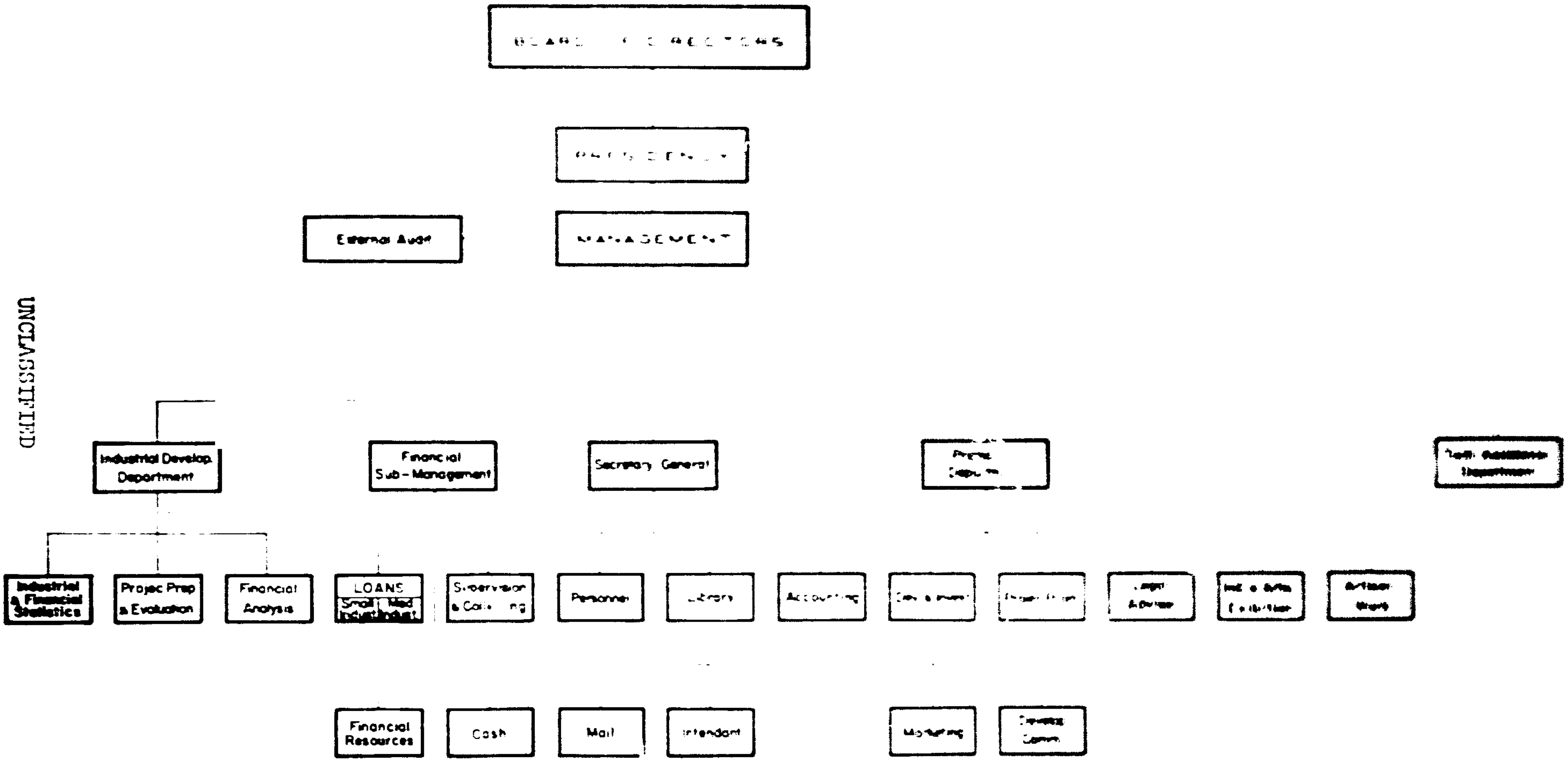
L. Paul Oechsli

L. Paul Oechsli, Director

Date May 7, 1969

INSAFI ORGANIZATION CHART 1968 69

UNCLASSIFIED



**BIODATA: ING. GABRIEL PONS
PRESIDENT, INSAFI**

1. Date of birth: August 21, 1922

2. Place of birth: San Miguel, El Salvador

3. Civil Status: Married

4. Nationality: El Salvadoran

5. Acdemic Background:

a) Secondary: Catholic Institute of the East, Bachelor in Science and Letters (1934-39)

b) University: University of El Salvador, Doctor in Civil Engineering (1940-44)

Colombia University, New York, Master of Science in Planning and Housing, School of Architecture (1950-52)

Birmingham University, U. K., School of Industrial Engineering, Operations Management (1963)

c) Special Studies: Alexander Hamilton Institute, Business Administration (1948-49) International Labor Office, Courses in Personnel, Modern Administration Techniques, Programming.

d) Travel Studies:

England, France, Norway, Sweden, Denmark, West Germany, Holland. Studies of post-war housing problems (1951)

Puerto Rico and Nicaragua. Observation of self-help housing projects (1960)

Spain, France, Belgium, England. Study of official policies of productivity promotion (1961)

Switzerland, Denmark, Holland, and Scotland. Study of methods to promote small business and industry (1965)

6. Languages: Spanish
English
French

7. Technical and Administrative Positions:

- President of INSAFI (1969)

- Chief, Infrastructure Department, Central American Economic Integration Secretariat General, Guatemala, (1965-68)

- Member of Division for Development for Management Personnel, International Labor Office, Geneva, Switzerland. (1962-65)

- Director, GOES Productivity Center, (1960-61)

- Technical Consultant to the Presidency of El Salvador (1958-60)

- Chief of Urban Development Department, Deputy Director and Director of Urban Development Division, Ministry of Public Works, GOES (1954-58)

- Municipal Engineer, City of San Miguel (1952-54)

- Bridge Design Engineer, Department of Public Roads, Ministry of Public Works (1947)

- Maintenance Engineer, International Railways of Central America (1946)

8. Advisory Positions:

- Member of Board of Governors, University of El Salvador (1951-52)
- Member of Board, Institute of Urban Housing (1954-58)
- Member of Board, Rural Colonization Institute (1958-61)

9. Acedemic Positions:

- Professor of Physics, School of Engineering, University of El Salvador (1948-50)

El Salvador's Balance of Payments, 1962-1967
(In millions of U. S. Dollar equivalents)

		1961	1962	1963	1964	1965	1966	1967
A.	Balance of Goods and Services	- 2.6	- 1.7	- 17.3	- 32.1	- 26.0	- 48.4	- 35.3
1. a.	Exports, f. o. b.	118.8	138.9	150.2	175.5	190.0	189.8	207.9
b.	Imports, f. o. b.	- 98.1	-113.4	-137.6	-173.7	-183.8	-200.9	204.9
	Trade Balance	20.7	25.5	12.6	1.8	+ 6.2	- 11.1	3.0
2.	Nonmonetary gold	- 0.8	- 0.1	- 0.5	- 0.7	- 0.6	- 0.5	- 0.6
3.	Freight and insurance	- 10.6	- 11.4	- 14.2	- 17.4	- 18.0	- 19.0	- 19.0
4.	Other transportation	- 1.0	- 1.5	- 0.6	- 0.5	- 1.4	- 1.6	- 2.1
5.	Travel	- 4.9	- 6.0	- 6.5	- 7.2	- 8.2	- 8.6	- 5.8
6.	Investment income	- 4.1	- 5.1	- 5.8	- 6.3	- 7.7	- 7.6	- 8.5
7.	Government, n. i. e.	- 1.2	- 1.4	- 1.3	- 1.8	- 1.1	- 1.2	- 0.0
8.	Other services	+ 0.3	- 0.2	+ 0.8	+ 1.5	+ 4.8	+ 1.2	- 1.4
	Net Services	- 22.3	- 25.7	- 32.6	- 32.4	- 32.2	- 37.3	- 38.3
B.	Transfer Payments	2.2	4.2	7.2	8.8	13.3	10.5	11.8
9.	Private	0.6	1.7	3.7	4.6	9.7	7.3	n. a.
10.	Official (Central Government)	1.6	2.5	3.5	4.2	3.6	3.2	n. a.
C.	Capital and Monetary Gold (Net)	11.2	8.1	24.6	31.9	23.4	28.6	27.8
11.	Private direct investment	3.6	7.2	6.5	10.7	9.1	18.4	18.5
12.	Other private long-term							
13.	Other private short-term	7.9	0.3	9.7	14.1	2.8	- 3.3	- 0.6
14.	Official long-term	- 0.3	0.6	8.4	7.1	11.5	13.5	9.2
15.	Official short-term							- 0.6
D.	Errors and Omissions (Net)	17.5	- 4.9	- 0.6	- 4.5	- 1.2	+ 1.4	- 4.3
		6.6	5.7	14.1	4.1	9.5	- 10.6	- 1.8
E.	Charges in International Reserves (Net)	- 0.9	- 6.5	- 14.9	- 3.0	- 10.6	+ 11.4	+ 2.7
F.	Other Foreign Balances (Net)	+ 7.5	+ 0.8	+ 0.3	- 1.1	- 1.1	- 0.8	- 0.9

INSAFI
STATEMENT OF OPERATIONS, 1962-1968
(IN U.S. DOLLAR EQUIVALENTS)

	1962	1963	1964	1965	1966	1967	1968
INCOME							
Interest on loans	251	299	428	624	790	973	1,175
Interest on bank deposits	32	18	10	2	4	4	9
Dividends from equity holdings	7	-	-	-	-	10	200
Loan processing fees	12	23	47	54	25	52	32
Other income	3	2	8	8	11	18	33
Total Income	305	342	493	688	830	1,057	1,449
EXPENDITURES							
Operating expenses	300	347	445	536	629	671	723
Depreciation	7	10	11	12	13	16	20
Interest on bonds	--	--	--	--	-	31	56
Interest on borrowings	12	102	153	246	320	383	506
Other expenditures	--	--	--	--	--	32	12
Total Expenditures	319	459	609	794	962	1,133	1,317
NET OPERATING PROFIT OR LOSS (1)	(14)	(117)	(116)	(106)	(132)	(76)	(132)

(1) Net operating losses have been offset by GOES subsidies for administrative expenses during 1962-1967. (See Annex D-4.)

INSAFI

PROJECTED STATEMENT OF OPERATIONS, 1969-1977

(In 000's of U. S. Dollar Equivalents)

Income	1969	1970	1971	1972	1973	1974	1975	1976	1977
Interest on loans	1492.8	1698.0	1887.6	2056.8	2215.6	2379.2	2572.0	2684.8	2816.0
Interest on Bank Deposits	15.0	15.0	15.0	15.0	18.0	18.0	18.0	18.0	18.0
Dividends from equity holdings	85.0	85.0	85.0	85.0	102.0	102.0	102.0	102.0	102.0
Other Income	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	60.0
Total Income	1632.8	1838.0	2027.6	2196.8	2375.6	2539.2	2732.0	2844.8	2996.0
Expenditures									
Operational Expenses	860.0	920.0	9600.0	960.0	980.0	984.0	984.0	984.0	987.2
Depreciation	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Interest on Borrowings:									
Interest on Bonds	56.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	100.0
Interest paid to Central Bank									
Central Bank Development Fund	2.4	3.2	3.2	3.6	4.0	4.0	4.0	4.0	4.0
IDB Loans	169.2	130.0	126.4	122.8	118.4	114.8	200.0	280.0	340.0
First National City Bank Loans	192.0	192.0	188.0	184.0	172.0	172.0	168.0	164.0	184.0
Eximbank Loans	0.6	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Interest Paid to Foreign Agencies									
AID Loan 519-L-005	135.0	135.0	135.0	135.0	135.0	126.7	113.8	101.0	88.1
CABEI Loan	3.7	4.8	4.0	3.3	2.6	1.9	1.2	0.4	-.-
Proposed AID Loan	72.0	120.0	120.0	120.0	120.0	120.0	120.0	162.1	195.4
Other Expenditures (1)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Total Expenditures	1546.8	1641.8	1673.1	1665.0	1668.0	1659.7	1727.0	1831.8	1955.0
Net Operating Profit	85.9	196.5	354.5	531.7	707.2	879.5	1004.7	1013.2	1041.0

NOTE: (1) Other expenditures includes technical assistance to artisans and other technical activities.

INSTITUTO SALVADOREÑO DE FOMENTO INDUSTRIAL (INSAFI)

Comparative Balance Sheets, 1962-1968
(In 1,000 U.S. Dollar Equivalents)

ASSETS	1962	1963	1964	1965	1966	1967	1968
1. Cash and bank deposits	398	449	234	57	155	290	299
2. Loans receivable	4,220	4,811	7,090	9,284	11,845	14,207	15,804
3. Investments (equity)	306	316	606	737	1,187	1,187	1,387
4. Interest receivable	88	82	104	144	163	188	142
5. Furniture and fixtures	60	69	78	80	90	103	101
6. Other assets	6	3	1	51	21	30	160
7. Deferred assets	3	18	27	22	35	107	70
Total Assets	5,081	5,748	8,140	10,376	13,496	16,112	17,963
LIABILITIES							
1. Interest Payable	49	43	43	45	104	138	164
2. Debts in national currency	1,825	1,790	3,393	4,730	5,764	4,856	3,952
3. Debts in foreign currency:							
a) A.I.D. Loan 519-L-005	--	--	167	366	2,025	3,177	4,424
b) Other foreign debts	--	--	--	--	--	784	1,942
4. Bonds outstanding	--	--	--	--	--	800	800
5. Other liabilities	26	101	124	182	229	252	271
Total Liabilities	1,900	1,934	3,727	5,323	8,123	10,007	11,553
6. Capital and reserves	3,181	3,813	4,413	5,053	5,373	6,105	6,410
Total Liabilities and Capital	5,081	5,747	8,140	10,376	13,496	16,112	17,963

USE OF EXTERNAL AND INTERNAL CREDITS BY INSAFI, 1961-1967

(In $1,000 Equivalents)

SOURCES OF CREDIT	1961	1962	1963	1964	1965	1966	1967	TOTAL
EXIMBANK								
Credit granted	2,000	120	140	--	--	--	-	2,260
Drawings	2,000	-	225	30	--	--	-	2,255
Repayments	--	174	383	439	463	488	285	2,233
Balances outstanding	2,000	1,826	1,668	1,258	795	307	22	22
IDB (Global line of Credit)								
Credits granted	--	--	783	738	515	78	138	2,252
Drawings	--	--	122	529	973	473	313	2,410
Repayments	--	--	-	36	152	253	434	876
Balances outstanding	--	--	122	616	1,436	1,656	1,534	1,534
A. I. D.								
Credits granted	--	--	--	1,203	2,046	918	133	4,300 1/
Drawings	--	--	--	167	598	1,371	2,141	4,277
Repayments	--	--	--	-	--	-	-	-
Balances outstanding	--	--	--	167	766	2,136	4,277	4,277
IDB (Direct lines of Credit)								
Credits granted	--	--	--	--	--	-	1,288	1,288
Drawings	--	--	--	--	--	-	652	652
Repayments	--	--	--	--	--	-	-	-
Balances outstanding	--	--	--	--	--	-	652	652
CABEI								
Credits granted	--	--	--	--	--	-	634	634
Drawings	--	--	--	--	--	-	132	132
Repayments	--	--	--	--	--	-	-	-
Balances outstanding	--	--	--	--	--	-	132	132

USE OF EXTERNAL AND INTERNAL CREDITS BY INSAFI, 1961-1967
(In $1,000 Equivalents)

SOURCES OF CREDIT	1961	1962	1963	1964	1965	1966	1967	TOTAL
FIRST NATIONAL CITY BANK								
Credits granted	-	-	1,080	789	758	233	1,164	4,025
Drawings	-	-	-	1,680	522	574	844	3,620
Repayments	-	-	-	161	362	514	680	1,717
Balances outstanding	-	-	-	1,519	1,679	1,739	1,904	1,904
CENTRAL RESERVE BANK								
a) Rediscounts:								
Credits granted	-	-	-	-	420	1,200	164	1,784
Drawings	-	-	-	-	420	1,040	134	1,594
Repayments	-	-	-	-	-	420	1,062	1,482
Balances outstanding	-	-	-	-	420	1,040	112	112
b) Development Fund:								
Credits granted	-	-	-	-	-	-	280	280
Drawings	-	-	-	-	-	-	185	185
Repayments	-	-	-	-	-	-	-	-
Balances outstanding	-	-	-	-	-	-	185	185
						Total		8,817

1/ Excluding $200,000 for technical services.

INSAFI
PROJECTED CASH FLOW, 1968-1977
(In 000's of U.S. Dollar Equivalents)

CASH RECEIVED FROM	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Net profit	39.8	85.9	196.5	354.5	531.7	707.2	879.5	1004.7	1013.2	1041.0
Depreciation	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Loan repayment from borrowers	3279.7	3331.1	3740.4	4120.4	4446.0	4782.0	5127.2	5452.0	5730.0	5997.2
Net operation from Accts. payable and Accts. receivable	100.0	120.0	100.0	100.0	100.0	120.0	120.0	100.0	100.0	80.0
GOES contribution for operating capital revolving fund	400.0	400.0	400.0	400.0	400.0	-	-	-	-	-
INSAFI bonds	800.0	-	400.0	800.0	800.0	1200.0	-	1200.0	400.0	-
Drawdowns from local loans:										
Central Bank rediscounts	600.0	1200.0	1200.0	1400.0	1600.0	1600.0	1800.0	1200.0	1400.0	1400.0
Central Bank Develop't Fund	186.6	400.0	400.0	600.0	800.0	800.0	600.0	400.0	800.0	800.0
IDB loans	1680.0	400.0	-	400.0	400.0	400.0	-	-	-	-
First Nat'l. City Bank	99.0	320.0	-	-	-	-	800.0	-	400.0	-
From Foreign Lenders:										
AID Loan 519-L-005	140.4	-	-	-	-	-	-	-	-	-
CABEI	440.0	320.0	400.0	-	400.0	-	-	--	-	-
Proposed A.I.D. loan	-	1800.0	2000.0	1800.0	-	-	-	-	-	-
Other	6.0	8.0	8.0	8.0	8.0	12.0	12.0	12.0	14.0	14.0
Total cash received	7787.2	8401.0	8860.9	9998.9	9501.7	9637.2	9354.7	9384.7	9873.2	9348.2
CASH DISBURSED FOR										
Loans and investments	6000.0	6000.0	6800.0	7600.0	7200.0	7080.0	6600.0	7000.0	7200.0	7400.0
Bond amortization	200.0	600.0	-	240.0	-	560.0	600.0	200.0	400.0	--
To Central Bank - Central Bank rediscounts	600.0	1200.0	1200.0	1400.0	1600.0	1200.0	1200.0	1200.0	800.0	800.0

INSAFI
PROJECTED CASH FLOW, 1968-1977
(In 000's of U.S. Dollar Equivalents)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Central Bank Develop't	7.12	8.0	11.2	11.2	10.0	10.0	8.0	8.0	7.8	7.8
IDB Loan	29.4	32.2	120.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0
First National City Bank	662.8	480.0	480.0	480.0	400.0	344.0	320.0	280.0	240.0	200.0
To Foreign Lenders -										
AID Loan 519-L-005	-	-	-	-	-	-	290.3	290.3	290.3	290.3
CABEI	-	-	142.9	142.9	142.9	142.9	142.9	142.9	142.9	142.9
Proposed A.I.D. Loan	-	-	-	-	-	-	[illegible]	-	333.4	333.4
Other	21.4	21.4	21.4	21.4	-	-	-	-	-	-
Total Cash Disbursed	7520.7	8341.6	8775.5	9935.5	9416.9	9432.9	9241.2	9241.2	9534.4	9294.4
Annual Cash Surplus	266.5	59.4	85.4	63.4	84.8	204.3	113.5	143.5	338.8	53.8
Cash Balance - Beginning of year	288.6	266.6	59.4	85.4	63.4	84.8	204.3	113.5	143.5	338.8
Cash Balance - End of year	266.6	59.4	85.4	63.4	84.8	204.3	113.5	143.5	338.8	53.8
Increase or Decrease in Cash	-22.0	-207.2	+ 26.0	- 22.0	+ 21.4	+119.5	- 90.8	+ 30.0	+195.3	-285.0

INSAFI's INVESTMENT PLANS, 1968-1972
(In $1,000 equivalents)

NATURE OF PROJECT	INVESTMENT					
	Land	Buildings	Machinery	Working Capital	Total	Jobs Created
Polyvinyl chloride compounds	78	100	1,474	852	2,504	43
Castor oil	5	28	29	220	281	19
Steroids of barbasco	8	22	60	130	220	30
Menthol	8	22	50	50	130	30
Ethylene	n. a.	n. a.	n. a.	200	2,975	n. a.
Polyethylene and compounds	n. a.	n. a.	n. a.	1,200	7,200	n. a.
Gases*	-	-	5	9	14	7
Sulphur refining	n. a.	n. a.	700	n. a.	1,000	n. a.
Canned pineapple	14	22	182	260	478	19
Soybean oil and cake	4	29	225	288	546	18
Poplins and stamped textiles	40	726	2,816	1,020	4,599	403
Women's clothing	3	21	31	241	296	35
Sheets and tablecloths	26	448	775	312	1,561	200
Handkerchiefs	9	149	557	179	894	70
Kenaf fiber	10	5	85	6	96	28
Iron and steel shapes, forms, wire, rails, laminates, etc. *	15	16	200	74	305	266
Wire mesh	12	60	160	46	278	16
Lanterns and batteries	8	40	70	35	153	63
Ceramic sanitaryware	111	609	861	222	1,804	183
Hydrated lime	10	40	200	80	330	42
Sugar cane bagasse wallboard	8	92	1,450	200	1,750	65
Steel laminates	50	950	3,000	3,000	7,000	37
Shipbuilding and repairing	113	810	1,117	500	2,600	200
Total	531	4,190	14,107	9,124	37,014	1,174

* Expansion of existing plant.

POSSIBLE BENEFITS OF TWO STEP PAYMENT AGREEMENT

By End of CY	Possible INSAFI Capital Benefits (Difference Between INSAFI Payments to GOES, and GOES Payments to AID)
1970	$ 10,500
1971	30,500
1972	51,000
1973	56,000
1974	56,000
1975	56,000
1976	207,400
1977	435,887
1978	422,266
1979	316,822
Ten year benefits	$1,642,375
1980	195,712
1981	176,681
1982	1[illegible],350
1983	158,618
1984	149,587
1985	140,555
1986	131,524
1987	122,493
1988	113,462
1989	104,421
1990	95,399
1991	86,367
1992	77,336
1993	68,305
1994	60,274
Benefits if continued contribution to INSAFI Capital for life of INSAFI Loan	$3,490,459

LOAN AUTHORIZATION (D R A F T)

Provided FROM:	Alliance for Progress Loan Funds
EL SALVADOR:	Instituto Salvadoreño de Fomento Industrial (INSAFI)

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, Agency for International Development ("A. I. D.") by the Foreign Assistance Act of 1961, amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act, to the Instituto Salvadoreño de Fomento Industrial ("INSAFI") of not to exceed four million eight hundred thousand United States dollars ($4,800,000) to assist in financing subloans by INSAFI for the creation and expansion of productive enterprise in El Salvador. Up to $300,000 of the loan may be used to finance technical assistance to the Borrower. This loan shall be subject to the following terms and conditions:

1. <u>Interest and Terms of Repayment.</u>

(a) Borrower shall repay the loan to A. I. D. in United States dollars within twenty-five (25) years from the date of the first disbursement under the loan, including a grace period not to exceed seven (7) years. Borrower shall pay to A. I. D. in United States dollars on the disbursed balance of the loan interest at the rate of five (5) percent per annum.

(b) The Government of El Salvador or the Central Reserve Bank of El Salvador ("Guarantor") shall guarantee the payment of interest and repayment of principal under the loan until such time as the Guarantor makes the election pursuant to 1. (c) below.

(c) If prior to the date on which the first interest payment is due the Guarantor so elects, Borrower shall fulfill its dollar obligation under the loan by paying to the Guarantor in the currency of El Salvador the equivalent, at the times called for in the Loan Agreement, of the amounts payable under 1. (a) above, determined at the rates of exchange prevailing on the dates of disbursement, and in the event of such election the Guarantor shall become the primary obligor and shall pay to A. I. D. :

(i) Interest in United States dollars on the disbursed balance of the loan at the rate of two percent (2%) per annum during a grace period of not to exceed ten (10) years ("Guarantor Grace Period") and three percent (3%) per annum thereafter.

(ii) Principal in United States dollars within forty (40) years including the Guarantor Grace Period.

2. Other Terms and Conditions

(a) All goods and services financed under the loan shall have their source and origin in the United States of America, or the Central American Common Market countries. Shipping financed under the loan shall be procured from the United States and marine insurance financed under the loan shall be placed in the United States with a company authorized to do a marine insurance business in any State of the United States.

(b) United States dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through Special Letter of Credit procedures and shall be used only for procurement in the United States.

(c) Prior to the first disbursement under the loan, the Government of El Salvador shall provide for additionality incentives in a manner satisfactory to A. I. D.

(d) The loan shall be subject to such other terms and conditions as A. I. D. may deem advisable.

Deputy U. S. Coordinator

Date