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REVIEW OF AID PROGRAM

EL SALVADOR

October 20, 1978

OPERATIONS APPRAISAL STAFF  
BUREAU FOR PROGRAM AND POLICY COORDINATION  
A.I.D.

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## I. PREFACE

We appreciate comments from many quarters on the draft version of this report circulated May 15, 1978. A coordinated 25-page commentary from AID's Latin American and Caribbean Bureau and USAID/El Salvador was particularly comprehensive. Noting that field investigations for the appraisal took place in February-March 1978, LAC and the USAID recounted developments subsequent to the OAS team's visit and circulation of the draft report. They took issue with OAS on a few points - mainly over minor matters of emphasis, detail and length - but were in agreement with the basic thrust and conclusions of the report, finding it "constructive, supportive, useful and well worth the effort."

The Development Support Bureau commented that it hoped LAC/USAID would draw on DSB resources in developing programs in employment generation and management of natural resources, in addition to the established functional areas.

We have taken account of all comments received and have sought to incorporate many of them into this final report. Major editing has been limited to the "Summary Conclusions and Recommendations" section, though the Annexes containing detailed background material are available on request from our office.

We have tried to stay informed of follow-up actions bearing on key themes contained in the draft recommendations. While our knowledge is limited - rendering a full update unfeasible - it seems clear that most actions taken since the OAS appraisal are in consonance with the conclusions of the report. We note briefly those which may to some degree not be, while acknowledging without hesitation the basic responsibility of the USAID and the LAC Bureau for charting the course for the El Salvador program. Our major continuing concerns follow:

1. USAID's FY 1980 Annual Budget Submission does not by itself, in our judgment, provide adequate emphasis or content for an employment strategy requiring a build-up of labor-intensive export-oriented industries. This conclusion came from reviewing the make-up and rank-ordering of proposed projects in the ABS. The USAID strongly agrees that concentrating on agriculture alone won't solve El Salvador's large and growing unemployment problem and wants to mount discussions and programs to help the Government change its industrial policies. There would have been more stress on labor intensive employment activities in the ABS, we understand, if the USAID had a better information base for putting forward project ideas it had confidence the Government of El Salvador

would back. Following Washington review of the FY 1980 ABS, we understand LAC/CEN plans to work with the USAID on this need, with the aim of developing a project to help support employment-generating rural enterprises as one of two top-priority loan proposals for El Salvador in FY 1980.

2. We endorse completely USAID's continued determination to build a local participation element into projects. However, it is not clear that this positive approach to human rights is being pursued systematically through close and continuing exchange among USAID, other constituents of the U.S. Mission, and AID/Washington. It is because this dimension of AID programming is so difficult, yet so potentially important, that it needs to be approached with selectivity and resourcefulness.

3. The extremely high priority assigned to a rural clean water loan in FY 1979, when overall availabilities for LAC and El Salvador are known to be very tight, raises questions vis-a-vis other donors. While it clearly meets a basic human need, clean water represents a costly investment in an area which is already receiving substantial assistance in El Salvador from the Inter-American Development Bank. We understand that clean water may be dropped as a second AID loan for FY 1979 only because of inadequate funds to finance two loans. We suggest limiting support in FY 1979 to self-help grants to experienced PVOs that can work with citizen groups to help bring safe drinking water to sparsely populated areas where IDB is not helping.

4. At the time of the OAS visit, primary education was the most solid candidate for AID loan assistance in FY 1980. This planning grew out of a four-year AID-supported education sector analysis with the GOES. We understand AID has now abandoned these plans because the IBRD will be assisting in primary education. While we lack sufficient information to appraise this change of plans, it does raise questions as to the adequacy of coordination among donors - it is recalled that a year ago AID and the World Bank also found themselves well along in pursuing overlapping projects in the skills training area. A decision by AID not to provide loan assistance also makes one wonder about the value of AID and the GOES of Sector Analyses. We note with approval that the LAC Bureau has decided that any future use of Sector Analyses and Sector Assessments will be more modest and pragmatic than in the past.

5. We do not sense that AID/Washington, and in particular the LAC Bureau, has taken additional steps to forge the improved consultation and coordination arrangements among principal donors

which was strongly recommended in the OAS draft report, leading perhaps to a consortium-type mechanism. A better coordinated donor approach may be the only way to induce El Salvador to pursue seriously changes in economic policy aimed at increased off-farm employment and income through labor-intensive industrialization. The best efforts of the USAID can only lead to limited improvements in donor coordination unless there are reinforcement and initiatives from Washington, where the three prime donors - AID, IDB, and IBRD - are headquartered.

In touching on the above concerns, we do not wish to create an impression of substantial disagreement with AID's planned program for El Salvador. Differences are relatively few and center mainly on emphasis and timing. AID's work in agriculture, health, nutrition, population and vocational education, in our judgment, reflects innovative and effective planning and performance.

Finally, we wish to note that one of the responses to the OAS draft report took strong exception to our positions on human rights. Citing the difficulties of developing projects which seek to distinguish economic and social rights from personal, civil and political rights in a country where the majority is both powerless and poor, the commentator feared that AID's presence and programs could lend legitimacy to the existing oligarchic order and thus possibly even worsen the life of the poor. Endorsement of positive human rights initiatives was seen by this commentator as highly risky or even naive, since the Government would probably prevent or repress organized activity it did not control. While we will not try to inject this viewpoint at every juncture where it could be mentioned in the report, we agree that human rights represents a serious concern which needs to be considered along with other important developmental concerns as decisions are made.

## II. INTRODUCTION, BACKGROUND AND SETTING

This appraisal is primarily prospective rather than retrospective, largely because of the small size of AID programs in El Salvador in recent years. A loan agreement for skills training signed in May 1978 was the first new loan to El Salvador since 1973. The grant component also has been modest, and only in population have there been relatively large resource flows during the past five years. Past low aid levels are attributable in part to host government performance, limited fund availabilities, an extended period of sector studies, and the intervention of human rights questions in 1977.

As the OAS appraisal was under preparation, projected El Salvador aid levels of \$6.6 million for FY 1978 and \$6.9 million for FY 1979 reflected this past pattern. These levels have since increased somewhat. Approval of a Small Farmer Irrigation Loan increased AID obligations in FY 1978 to \$8 million. For FY 1979, the Latin American and Caribbean Bureau requested \$18 million, though it seems likely that the Agency-approved level will be closer to \$10 - \$11 million. AID levels for FY 1979 and beyond may well continue to fluctuate, depending on policy decisions of both the United States and the Government of El Salvador (GOES). We hope this OAS appraisal will contribute constructively to this evolving program framework and will assist the USAID and AID/W to look at the main policy and program alternatives and priorities in El Salvador over approximately the next five years.

The appraisal precedes by a short period the preparation of a new strategy statement by the USAID, which will be contained in materials to be prepared for the FY 1980 Congressional Presentation and the Country Development Strategy Statement.

There are additional important reasons for conducting our first El Salvador appraisal. First, El Salvador offers the opportunity to look closely at the inter-relations and impact of human rights issues on AID country programming. Second, the policy question emerges of how to apply the New Directions mandate in a setting where some type of labor-intensive industrialization appears critical to economic growth and income distribution. Finally, a new Mission Director arrived in February 1978 and requested the OAS appraisal in order to provide him with an independent perspective.

This appraisal does not seek to discuss every activity which USAID supports, or might support, in El Salvador. The emphasis, rather, is on the broader issues of human rights, development strategy, donor

coordination, and major programming areas directly benefiting the rural and urban poor. There is also a discussion on management and relations with Washington. Section III of the appraisal contains 19 principal recommendations. Findings and recommendations are elaborated inter alia in Section IV containing annexes to the report.

## BACKGROUND AND SETTING

Distribution of income among El Salvador's 4.5 million people is extremely skewed, and the economy has not been growing fast enough in recent years to have resulted in improved living standards for the poor majority. The number of people who want to work is growing much faster than the number of new full-time jobs available for them. Economic and social inequities are compounded by a population growth rate estimated at 3.2 percent, low levels of education, health and nutrition, and concentrated ownership of land and wealth.

### Too Many People - Too Few Jobs

El Salvador does not have enough arable land to absorb productively a rural population which has been growing at a rate of 3.5 percent annually. With a population density of 520 persons per square mile and poorly endowed land, three quarters of which is mountainous, El Salvador has one of the heaviest population support burdens for its agricultural land in the world - more than double the Latin American average.

Distribution of arable land is sharply skewed against small landholders. About 71 percent of farms are two hectares or less in size and comprise only 20 percent of the arable land, whereas 7.5 percent of the farms are 10 hectares or over, but comprise 56 percent of the arable land. Land tenure patterns reflect a similar imbalance. About 50 percent of all farms in El Salvador are farmed on a rented or leased basis in units under two hectares. Farmers in this situation mainly grow cereals and have neither the credit nor incentive to diversify production with more profitable cash crops.

Plantation farming dominates Salvadorean agriculture. In the latter decades of the last century and the early decades of the present, the structure of agricultural production was transformed. Fast growing and profitable foreign markets for coffee, sugar and later cotton, led to absorption of most higher quality productive lands

into larger farms, creating a rural proletariat of landless farmers and agricultural workers. This proletariat has swelled with population growth. In 1975, about 2 million people, or more than 80 percent of the rural population, fell into the AID rural poor target group (per capita income under \$150 in 1969 dollars).

The uneven distribution of the land also creates severe seasonal unemployment. Large numbers of rural dwellers, partly or wholly dependent on seasonal jobs in plantation agriculture, are underemployed or unemployed for a number of months of the year. Recent ILO estimates rank El Salvador first in Latin America in underemployment, with a rate of 47 percent a year.

The employment problem is no less serious in the urban areas of El Salvador. Forty percent of the population now live in cities and towns. However, the urban job market has fallen far short of the expansion needed to absorb the increasing labor supply. This has been due mainly to two inter-related factors: the swelling work force is largely unskilled; and industrial expansion since the early 1960s has been based on import substitution, capital-intensive policies; the cost of capital has been relatively cheaper than the cost of labor given low interest rates on borrowing, high tariffs on most finished industrial products and low duties on capital equipment and intermediate goods.

Income disparities have progressively increased. Neither during the industrial growth of the 1960s, spurred by the import substitution policies of the Central American Common Market, nor during the recent period of high earnings from coffee exports, have most of the poor benefited from the increased national wealth. The following table illustrates the extent of poverty in both rural and urban areas.

AID TARGET FAMILY INCOME<sup>1/</sup>

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	Yearly Family Income Including all Earnings	Per Capita Income (Family of 6)
Per Capita National Income		
<u>RURAL</u>		
Family with:		
2.0 Ha.	\$ 998	\$ 166
0.5 Ha.	582	97
No Land	374	62
<u>URBAN</u>		
Poor Family in San Salvador	529	88

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1/ Source: PREALC, "Situacion y Perspectivas del Empleo en El Salvador" published in 1975. Inflation has increased the AID target group per capita income from \$150 in 1969 to \$200 or more in 1976.

The central development/equity problem for the GOES is one of job creation: how to absorb its growing labor force within an economy which is constrained by limited land resources and pursuing policies which enlarge rather than diminish the income distribution gap. There is no way that agricultural development alone can satisfy the income needs of the rural poor, even with programs of structural reform in areas such as land tenure and small farm production. Substantially expanded off-farm employment is required.

The public sector traditionally has played a marginal role in the economy. Social overhead capital investments, for example, have generally lagged behind the growth of the economy. While such investments have increased somewhat in the last few years, historic low levels of investment in health, education, and other public

sector programs benefiting the poor majority have done little to alleviate the distortions of resource and asset distribution that characterize the society.

Considerable parts of the natural resource base of El Salvador are in an advanced stage of deterioration. Soil erosion and siltration of river basins are widespread and serious. The limited natural resources of El Salvador are being ravaged by the farming of marginal lands, generally by intensive cultivation of annual crops on the side of hills. Erosion outpaces the formation of new soil and soil fertility progressively diminishes, ultimately producing wasteland areas.

Sealing of the border following war with neighboring Honduras in 1969 has cut off a population escape valve and, in effect, added to the land scarce - labor surplus pressures. Meantime the recent unprecedented earnings from coffee exports have dulled the sense of urgency within ruling ranks in confronting basic, long-term economic and social problems.

#### The Military, Church and Oligarchy - Enclave Politics

The military has dominated the Government of El Salvador since 1932. The military is in turn dominated by the Army which, like the wealthy private sector and the Church, is not monolithic. Throughout Salvadorean history the Army has often split into factions scrambling for political power. In late 1960, for example, there was a coup by a group of young reformist officers who managed to hold power briefly until deposed by an older, more conservative junta. While generalizations are risky and subject to exception, present internal differences in the Army appear generally to be along two lines: generational and functional. The younger officers waiting in the wings tend to be more sensitive to the unjust social and economic conditions in the country and are more willing to accept change than their conservative superiors, the "cold war colonels." Officers detailed to the country's internal security forces take a harder-line position on the enforcement of public order than the career professionals who stay in the Army.

The GOES has traditionally been organized by the military on authoritarian lines, an authoritarianism which recently has been extended and deepened, at least in rural areas, in the face of unrest and acts of terror by extremist groups. The national elections in February 1977 which returned the incumbent political party to power were characterized by abuses which fueled terrorism and unrest and, in turn, contributed to human rights violations by

security forces. Constraints on political freedom limit the role for moderates who seek constructive solutions, contribute to the polarization of political forces, and encourage violence and terror from left and right extremes. There is a real need for a more open political society where the responsible opposition can organize with the expectation of contesting fair elections, and enjoying due process of law.

The Church is now the major institutional force promoting political and socio-economic reform in the country. It is no longer the propagator of the status quo in the countryside. Its message, though based on spiritual concepts, is essentially secular and addressed to the conditions of poverty and human impoverishment of its flock.

Political accommodation between the military government and the Church, or at least a willingness to begin a constructive dialogue, on such issues as human rights, appears necessary not only to defuse a volatile near-term political situation, but also to move the leadership of the two institutions toward some kind of evolving consensus to deal with the socio-economic problems which are pressing in on the country.

The third major power in the country is what are commonly called the "oligarchs," the wealthy elite who dominate the modern private sector of the economy. This group is often characterized as being reactionary, but also is not as monolithic, or as uniformly conservative, as it may have been in the past. More than a few of its leaders have diversified their interests and investments from the land and into trade and industry. There are also prominent younger members who are seeking ways to responsibly bring about changes. The wealthy elite, much like the military and the church, tends to live in its own enclave. Private sector leaders seldom hold positions of responsibility within government and apparently do not care to work very closely with it.

Programs or initiatives which tend to break down the enclave character of Salvadorean politics are presently badly needed. The United States Government, through aid programs and other tools of U.S. foreign policy, can play a constructive, if limited, role in encouraging this process and promoting dialogue among the power groups and, hopefully, with the powerless.

### III. SUMMARY CONCLUSIONS AND RECOMMENDATIONS

#### Human Rights and Economic Assistance

El Salvador does not have strong democratic traditions. The Government has been dominated by the Army for nearly 50 years, and the Army has shown little inclination to relinquish rule. While some administrations have been moderate and some excessive in the use of power, there has long been a tendency towards violence in the countryside. Public authorities and the citizenry alike have frequently sought to achieve order or justice as they saw fit, without regard to legal or judicial procedures.

Recently, an increasingly polarized society, population pressures, growing unrest and agitation for social and economic reforms, and the emerging role of the Catholic Church as the principal spokesman for change, have created an increasingly tense and volatile political situation. Violations of human rights clearly have been committed by public authorities.

The substantial cutbacks directed by AID/Washington in the summer of 1977 in USAID/El Salvador's FY 1979 field submission were due in considerable part to concern over the recent human rights performance of the GOES, particularly under former President Molina, whose term expired on June 30, 1977.

The present situation is less clear. On the one hand, the Government's security forces appear entrenched and active in the countryside and the government of President Romero, now more than a year old, is under continuous pressure from conservative groups to react strongly to acts of political violence or agitation from the left and to prevent peasants from joining rural organizations which conservatives label "Communist." A law passed in December 1977 places harsh penalties on speaking, meeting or organizing against "constitutional order."

On the other hand, the Romero government has acted with sensitivity to human rights issues on a number of occasions. Faced in the summer of 1977 with a rightist threat to all Jesuit priests, President Romero declared no violence would be tolerated and put armed guards on duty to protect priests and religious institutions. The GOES also invited the Inter-American Human Rights Commission to visit El Salvador in January 1978 - the report is still awaited - and has sought counsel from the United States on how to cope with the threat of terrorism without violating human rights. On May Day, 1978, the Government removed uniformed security forces from the

downtown rally in San Salvador, and the celebrations were among the most peaceful in years. While recent civil strife in neighboring Nicaragua may heighten tensions in El Salvador, there would appear to be at least a chance that the present government will try to see itself in the mold of some of its moderate and resourcerful predecessors.

Against this human rights background, the USAID is developing a set of projects for FYs 1979 and 1980 addressed to the equity and development problems of Salvadorean society. The Mission is also proposing an expansion of the aid level from the very low level of recent years to at least \$20 million annually over the next few years.

Is the USAID's program supportable in the context of El Salvador's human rights performance? The State Department has not determined that there has been "a consistent pattern of gross violations of internationally recognized human rights," and the USAID program is designed to meet the requirement of the Harkin Amendment that the assistance "directly benefit the needy people in such country."

However, recent Executive Branch policy guidance goes beyond the Harkin Amendment, indicating that countries whose human rights performance has been poor or becoming worse should not obtain as positive a U.S. response in foreign assistance as countries whose performance is satisfactory or becoming better. The policy also indicates, however, that longer term trends should be used in reviewing human rights conditions in individual countries and that the promotion of economic and social rights remains integral to U.S. objectives in human rights.

In looking at the human rights situation in El Salvador over the past two years - and particularly since the charges of fraud that preceded and followed the February 1977 elections - it is clear that increased aggressiveness by paramilitary conservative organizations has led to a greater number of confrontations and disturbances. It is probably true that on balance there has been some deterioration in the human rights performance of the Government. However, in the face of the substantial increase in the provocation that the GOES has faced, the extent or seriousness of the deterioration is less than clear. If there are more incidents in which the Government has reacted excessively, there are more, too, where it has reacted with restraint. The record also appears better if seen in the context of El Salvador's societal traditions, and human rights performance over the last 50 years. Given strong justification for a program designed to further basic economic and social rights, and the fact that long-standing social and economic

disparities underlie the increase in disturbances and unrest, the case for a moderately increased AID program is quite persuasive.

First, the need is substantial. El Salvador's per capita income ranks in the bottom third of Latin American and Caribbean countries currently receiving bilateral assistance from AID. Moreover, per capita income of the poor majority is only \$130 per year.

Second, the base for project development and performance measurement has been laid. A series of studies over the past few years has yielded detailed baseline information and analyses in health, nutrition, agriculture, education and population; and still more data will flow from the AID-assisted Multi-Purpose Household Survey project.

Third, it is questionable whether El Salvador has received its "fair share" in recent years of U.S. assistance to the region. Based on actual U.S. economic aid to Central America during the five-year period spanning FYs 1973-1977, El Salvador received \$29.0 million - about 25-30% of the amount of U.S. assistance provided to Guatemala, Honduras and Nicaragua, and \$10 million less than that for Costa Rica (which was regarded as a phase-out country during much of this period).

It is true that the much higher aid levels during this period for El Salvador's neighbors in part reflect the U.S. response to earthquakes in Guatemala and Nicaragua and floods in Honduras, but this may not fully explain away the magnitude of the disparities. On a per capita basis, Guatemala received two-and-a-half times more than El Salvador, Costa Rica three times more, Honduras five times more, and Nicaragua 16 times more. Moreover, Nicaragua and Guatemala also have higher per capita incomes than El Salvador and, many observers believe, poorer human rights records in recent years.

Finally, the GOES seems genuinely interested in investing more of its own resources in programs to advance equity, and an increased aid level might strengthen the ability of the U.S. to influence El Salvador to bring about needed changes in development strategy and a more positive promotion of human rights.

A related issue is the still evolving process within the U.S. Government to establish aid levels and approve projects in countries with human rights problems. In the summer of 1977, when AID/Washington cut El Salvador's FY 1979 field submission from \$39 million to \$6.9 million, the Christopher Group was just taking form,

and those State Department authorities responsible for coordinating discussions and recommending positions on implementation of U.S. human rights policy did not take part in the AID decision to cut the El Salvador program submission severely. At that point in time, the Christopher Group and its staff were looking at individual projects and not overall programs and levels. Now, however, the Christopher Group is looking at overall program levels as well as projects. AID needs to consider how, from the standpoint of USAIDs and the LDCs, this process can best contribute to responsible and efficient programming.

Recommendation #1:

Assuming no severe degeneration of the human rights situation, AID should support a moderate increase in U.S. assistance to El Salvador specifically directed to New Directions objectives. The size of the increase should be linked to policy and program actions by the GOES to foster growth with equity and provide increased employment. While the size of the increase will also hinge on competing needs for limited U.S. funds in other countries, an AID level at least double the \$6 to \$7 million projected for FY 1978 would put the El Salvador program closer to the recent average for other countries in the region and compensate in part for past low aid levels. (LAC and USAID believe that even a doubling may be too little "to make a meaningful impact on the needs of the poor majority.")

Recommendation #2:

AID should consider using the El Salvador case as an opportunity to examine within the Executive Branch whether adequate weight is being given to the economic and social rights of the poor majority, as opposed to violations of personal integrity and denial of civil and political rights, in reviewing economic assistance programs and projects from a human rights standpoint.

Recommendation #3:

In reviewing country submissions and projects for El Salvador and other countries with human rights problems, it is our view that AID/Washington and the Christopher Group should:

- coordinate as early and closely as possible through the ABS process on country aid levels in order to give USAIDs the clearest possible signals on their likely programs levels for the project planning year ahead. Barring dramatic changes in the human rights situation, the USAID could then develop plans with some certainty. With present uncertain processes, there is a danger

that a USAID can easily get itself committed to a host government and then not be able to deliver; or alternatively may be offered higher funding levels too late to meet U.S. and host government review and approval requirements;

- focus more on establishing overall aid levels and less on the short-term political impact of approving or postponing approval or funding of individual projects. We believe there are many ways of making clear to the host country our concern with human rights performance short of turning aid on and off.

(Concurring in this recommendation, LAC/USAID said they were encouraged to see the active participation of Christopher Group representatives during the summer of 1978 in the FY 1980 ABS Reviews.)

#### A Positive Approach to Human Rights

The USAID can take a positive approach to human rights in El Salvador by promoting local initiative and organization among interests not now well-represented in activities that enhance their well-being. There are opportunities that can be integrally built into bilateral projects with the GOES, for example, the development of community water users' associations as a component of the proposed new irrigation loan.

Programs which seek to encourage voluntarism and the representation of private group interests cannot, however, rely solely on the government for support. Direct AID support to private and voluntary organizations, both American and Salvadorean, through Operational Program Grants (OPGs), is also needed to promote positive human rights initiatives in El Salvador.

There are a range of different approaches to an enhanced OPG-PVO program which would have considerable potential in El Salvador. Briefly, these programs should include dispersed micro-development as far removed as possible from government control; preference for the development of Salvadorean private and voluntary organizations; stress on social and economic projects which contain heavy near-term equity and/or redistribution components; and activities which will promote a dialogue among elements of El Salvador's divided society. Such bilateral initiatives can be supplemented by centrally and regionally funded programs to enhance the awareness and exercise of legal and civil rights.

Recommendation #4:

The USAID should promote a positive human rights program in El Salvador, placing particular stress on the use of OPGs to stimulate small-scale activities which will promote economic and social participation in local communities, as well as the development of new interest groups and organizations.

Meeting El Salvador's Employment Crisis

The most crucial economic problem facing El Salvador is to provide jobs for a work force that is growing by 50,000 each year and already characterized by an underemployment rate of 47 percent and an unemployment rate of 18 percent. With 25 percent of Central America's people and only four percent of its land, El Salvador simply does not have enough room in the rural sector to provide full-time employment for a rural population which is growing at a rate of about 3.5 percent annually. If all of the country's better land were equally divided up among families currently farming (i.e., excluding 120,000 landless rural families and 145,000 poor urban families), the average farm size would only be about 1.4 hectares.

El Salvador's industrial sector is capital-intensive. It grew rapidly in the early 1960s, behind the protective tariff walls of the Central American Common Market and Government policies which made capital cheaper than labor. Industrial growth has now slowed down.

For the industrial sector in general, present tariffs in El Salvador have resulted in higher prices, reduced total output, reliance on imported rather than domestic inputs, and a reduced income to unskilled and semi-skilled labor. We believe that tariff reform, combined with devaluation, would be highly desirable but recognize that this solution, which requires actions on the part of all the members of the Central American Common Market, is not likely over the short-term future and is beyond the scope of this appraisal.

The industrial sector ought to be built around El Salvador's single largest resource - an abundance of hard-working, trainable, low-cost workers. By capitalizing on this asset, El Salvador could over time produce a wide variety of products for world export. The shift should probably begin with an emphasis on agro-industries, which in El Salvador are twice as labor-intensive as other industries. It could include processing of fresh fruits and vegetables and small-scale manufacturing of products utilizing such indigenous raw materials as cotton, straw and leather.

In the course of discussing strategy questions with USAID and Embassy personnel in San Salvador, the OAS team found wide support for the idea of adding a labor-intensive industry component to strategic planning for El Salvador but also some uneasiness as to whether the concept was salable - with the GOES, the private sector, and AID/W.

We heard from many sources that top GOES leaders would genuinely like to undertake economic reforms - but did not know quite what to do or how to do it. It is unlikely that the present Government would press for major reforms in land ownership, given the abortive Agrarian Reform effort of 1976. Labor-intensive industry represents an alternative focus - one that both the Government and the power elite might well perceive to be in their enlightened self-interest to pursue.

The GOES needs to study what mix of feasible policy and program actions would be needed to bring about this shift in direction in the industrial sector. The U.S. should stand ready to help El Salvador examine the selection and sequencing of an incentives package embracing, for example, export subsidies, higher interest rates, and, at the appropriate time, tariff and exchange rate reforms.

Support for agro-industries would directly expand the demand for farm products by strengthening backward linkages to rural poor farmers and landless laborers whom USAID also seeks to help through other projects. In considering support for a labor-intensive, export-oriented strategy, AID/W should recognize that El Salvador may only be one of the first Western Hemisphere countries facing a land scarce/labor surplus crisis and that other Latin American and Caribbean nations may face the problem soon, particularly small countries with high population densities.

(The USAID and the LAC Bureau believe that launching a labor-intensive industrialization strategy in El Salvador may be a harder and longer job than implied in the OAS discussion. They propose concentrating AID resource transfers over the short-term on meeting basic human needs in health, education and family planning, while simultaneously stressing to the GOES and donors the urgency of transferring wealth to labor-absorbing industry and helping the Government build up the information needed to decide on the incentives and investments for achieving the transition. Accordingly, USAID's FY 1980 program submission gives prime weight to improving the life of small farmers and the landless rural poor, while not ruling out accelerated support for labor-intensive industrialization if preparatory work pays off faster than expected. The Mission and the LAC Bureau, in discussions subsequent to the ABS submission,

have since agreed to give highest priority to development of two loans for FY 1980 - one in health, the other to support employment-generating rural enterprises.)

Recommendation #5:

The U.S. Government, while also continuing to support positive human rights activities, social capital investments benefiting the poor, and acquisition of land by more small farmers, should seek to influence El Salvador to place much greater stress on labor-intensive industrialization targeted increasingly to markets outside the Central American region. The U.S. should utilize all appropriate means to this end. The USAID, the Embassy, and AID/Washington should mount a concerted and broad-gauged effort to sensitize influential Salvadoreans in Government and the private sector to the advantages of a labor-intensive, export-oriented industry and marketing strategy. The change-over should be treated as a long-range effort, involving major policy changes and incentives to be planned and introduced in phases. Smaller cities and rural market towns should be the focus of the program; and inclusion of the crowded capital city of San Salvador should be discouraged.

Recommendation #6:

AID/W should support and assist the Mission in the development of a program to help El Salvador move towards a labor-intensive export orientation in its industrial sector, through both technical and project assistance. There are obvious themes in New Directions legislation which are supportable under such an emphasis, including development of agro-industries, support for off-farm employment and market town creation, greater application of appropriate technology, and support for the urban poor.

Strengthening Donor Coordination

Until recently there has been relatively little systematic and effective coordination among major foreign donors. The donors have now started to meet on a regular monthly basis in San Salvador. However, coordination in Washington, where basic policy and program decisions are made by the major donor agencies - IDB, IBRD, and AID - is inadequate. Prospects for encouraging El Salvador to take the difficult policy decisions required to move industry towards a labor-intensive orientation would be substantially strengthened if the donors were speaking to El Salvador with one voice, or at least

in harmony. Basic agreement among the donors on a labor-intensive industry emphasis for El Salvador would carry important weight with the GOES and also facilitate coordination of external assistance in support of this goal.

Recommendation #7:

AID/W should initiate a dialogue among major donors to see if agreement can be reached on the desirability and feasibility of a special effort to move El Salvador towards policies and programs emphasizing a labor-intensive, world-market oriented industrial strategy. With AID now giving priority attention to an employment-generating rural enterprises project for FY 1980, the LAC Bureau should start this dialogue in Washington without further delay.

Recommendation #8:

Parallel to this, AID/W should open a dialogue with other donors, including IDB, IBRD and the Organization of American States, on the possibility of establishing a consultative group, or some other mechanism, for development assistance to El Salvador. The idea should also be vetted with the Government of El Salvador. A useful way to give momentum to the process would be to propose that the Organization of American States convene an early meeting of CEPCIES at which El Salvador's Five Year Plan would be the subject of careful and critical review.

Agriculture and Natural Resources Management

The keys to increased income and more employment for small farmers in El Salvador are selective land distribution and more intensive land use patterns, particularly involving multiple cropping and the introduction of cash crops. Small farmers in El Salvador can significantly increase net returns by shifting some of their land from basic grains to higher yield, higher value, non-traditional crops such as fruits and vegetables.

An effective land distribution program which brings in the incentives of land ownership, and gives the producer a vested interest in increasing the productive capacity of his land, appears central to modernizing the small farm sector.

The expansion of irrigation facilities in the small farm sector to permit continuous cultivation is a key element in the transition away from basic grain production and toward a more modern and productive small farm sector.

Changes in land tenure and use are integral to the further expansion of labor-intensive agro-industries, since the small farm sector has to be capable of providing dependable, high quality raw materials for the agro-industries.

Finally, another needed element in this sector is expansion of modern natural resource management practices, particularly soil conservation, among small farmers to help stem the tide of soil erosion and general resource deterioration which is occurring on the marginal lands under cultivation in El Salvador.

There are, then, at least four areas in the agriculture sector where there is a priority requirement for GOES action and where the USAID can play a constructive role: land distribution, irrigation, the development of agro-industries, and resources management.

Recommendation #9:

A Small Farmer Development Loan, to provide production services to farmers acquiring land under the Government's voluntary land sales program, should go forward in FY 1979, assuming satisfactory evidence that the prices for land sales to small farmers can be maintained within reasonable ranges. Permitting lending institutions to let farmers borrow some portion of AID funds for the direct purchase of land - a concept rejected by Washington when proposed by USAID for FY 1978 - should not be ruled out if this would help catalyze structural change in land ownership patterns.

Recommendation #10:

An AID loan of \$2.3 million to support development of Small Scale Irrigation Systems was signed in August 1978. In monitoring implementation of this loan, it is strongly suggested that AID give particular attention to enhancement of organized community participation in the system.

Recommendation #11:

The high priority Rural Enterprise and Cooperative Development loan project, now planned for FY 1980 to promote agro-industry, should be reviewed at the PID stage quickly and then move into intensive project planning and design. This process will probably need to include one or more special purpose studies on Salvadorean agro-industrial development, focusing on international market

issues and products where El Salvador would appear to have a comparative advantage. Work on this project should go hand-in-hand with the broader set of initiatives discussed in earlier recommendations on the need for labor-intensive industrialization.

Recommendation #12:

There are numerous possibilities for involvement in the resource management field. We recommend that:

- (a) effective action should be taken by AID/W with the U.S. delegation to the Inter-American Bank to assure that the San Lorenzo power project goes forward only if the master plan for the Upper Lempa River Basin has been completed and that the GOES has committed the resources and has the capability required to deal with anticipated problems of malaria, siltration, erosion, etc.
- (b) Serious attention should be given by the USAID to cooperating with the Peace Corps in its proposed resource management project for pilot watershed areas in El Salvador. (Commencing on this point, USAID and the LAC Bureau note that cooperation with the Peace Corps is actively underway in this area as well as others.)

Population

El Salvador has made some headway in bringing down birthrates, thanks mainly to a progressive national population policy and the popularity of female sterilization, but population is still increasing at over 3 percent a year and at least three-quarters of the target-age population are not practicing family planning. USAID has assisted El Salvador in population programs since 1966, and combined central and bilateral support for the program is running at a level approaching \$1.4 million annually. The Mission's recently completed Population Strategy Paper seeks to move the GOES towards: (1) focusing family planning service and information programs far more sharply than in the past on specific segments of the target population - particularly rural men, younger women, and adolescents; (2) devoting more effort to programs in other sectors which foster fertility reduction.

Recommendation #13:

The Mission's basic population strategy is appropriate, but the USAID should make every effort to move El Salvador increasingly toward stronger actions, combining easily accessible family

planning services with policies which make large families economically and socially less desirable over time. More research and analysis are needed on El Salvador data assessing the impact on fertility of programs in other sectors receiving external assistance, including reduction of infant mortality, increased employment opportunities for women, and support for primary and secondary education.

#### Health and Nutrition

Health and nutrition are generally poor in El Salvador, particularly in rural areas. Two years ago, AID reentered the health assistance field in El Salvador, using population funds to train and support a new group of paraprofessionals called Rural Health Aides - young men and women trained for 10 weeks to provide simple medicines, contraceptives, and nutrition and hygiene education from door-to-door in their home communities. Initial impressions of this program are favorable, and AID intends to continue its support in the future.

A \$470,000 grant project to help El Salvador better plan and manage nutrition programs was signed in September 1978. Drawing in part on a recently completed draft of a Health Sector Assessment, the USAID is looking to the possibility of an FY 1980 health loan which might include assistance for malaria control, potable water, and rural sanitation improvements.

#### Recommendation #14:

While USAID's strategy appears to be well-conceived, the composition and magnitude of a possible multi-faceted Health Loan in FY 1980 will have to be planned in the context of projected limitations on total AID resource availabilities for El Salvador. Hence, any U.S. assistance in malaria control might accent technical assistance and the training of Salvadoreans in specialties where the U.S. has particular expertise, with the GOES and other donors funding other needed inputs. We note with favor that since our draft report, AID/W has decided to formally contact the IDB on assistance in malaria control because of the regional character of the problem.

Similarly, an appropriate AID role in potable water - where both IDB and the Canadians are already helping - might be through OPGs to PVOs experienced in low-cost rural water systems, with the prospect that, if successful, a PVO could manage the rural water component of an FY 1980 health loan. To the extent that planned evaluations of the Rural Health Aides program indicate a positive impact on health, nutrition and family planning objectives, AID

support for the training of additional health workers would probably be worthwhile. While support for rural sanitation infrastructure should not be ruled out at this time, its relative priority is open to question.

### Education

Half the population of El Salvador is functionally illiterate and two-thirds of new entrants into the work force each year are unskilled. At the time of the OAS appraisal, AID was planning a project in rural primary education and beginning implementation of a project in occupational skills training. A prime aim of the first was to help build enough classrooms to give rural children access to six grades of education, double-shifting teachers, since testing showed that children perform as well with a half-day as with a full-day of schooling. The second project will train 11,000 young men and women in useful skills over three years and create an institutional capability for training 4,000 people a year thereafter without external assistance.

### Recommendation #15:

Our draft report noted that the \$4.4 million AID contribution for primary education shown in the FY 1979 Congressional Presentation would barely add enough classrooms for the natural increase in rural population and recommended consideration of a level at least double this amount. To this we would add that we assume AID will do all within its reach to ensure that IBRD financing is sufficient to meet rural needs and our hope that the IBRD and the GOES utilize in planning the primary education project the four-year AID-funded Education Sector Analysis which was to have provided the basis for the AID loan. If the occupational skills loan proves as successful as a two-year pilot grant project which preceded it, AID should also consider future assistance in this field, coordinating closely with the IBRD, which is also helping in skills training. Assistance from AID could be meshed with GOES actions to encourage labor-intensive industrialization, with special attention in the early stages to small-scale agro-industries in market towns.

### Management, Administration and USAID Relationships

#### Lines of Authority

The USAID's new management team got off to a strong start in forging relations with the GOES, the donor community and the Embassy. American and Salvadorean USAID staff generally welcomed the

stepped-up tempo of activities. As demands on staff increased, there was some uneasiness, however, over "unrealistic deadlines" and uncertain priorities. The authority of Project Committees was not entirely clear to chairpersons or members.

Recommendation #16:

In our draft report, OAS noted that while the above comments could by-and-large be discounted as a normal bureaucratic reaction when the workload goes up while people are feeling their way under new leadership, the USAID should establish more orderly work flow procedures and clarify lines of authority, including the role of Project Committees. We said a clear system was also needed for setting priorities and assuring that staff have the time they need to carry out these priorities well. The USAID has since initiated a number of steps to enhance internal efficiency.

Personnel and Organization

The USAID's new leadership was devoting considerable time to personnel questions and to the optimal mix and organization of personnel within assigned ceilings. Instructions had come from Washington to cut the U.S. direct-hire ceiling from 22 to 20 in FY 1979. Since personnel matters were discussed at length with the Mission Director, we confined recommendations on personnel in the draft report to only three items, as follows:

Recommendation #17:

(a) One of the positions slated for elimination to get down to the FY 1979 ceiling was that of General Development Officer. This officer is responsible for a wide range of activities which do not neatly fit elsewhere, including relations with PVOs and the Peace Corps and positive promotion of human rights. The USAID needs to analyze if it can step up programming with U.S. and indigenous PVOs and initiate positive human rights activities while, at the same time, eliminating this position.

(b) Given the large and growing portfolio in health, population and nutrition, the USAID should consider if one additional direct-hire or contract American is needed in this division, beyond the three positions envisioned at the time of the OAS team's visit.

(c) The USAID should give consideration to merging the Capital Development Office and the Program Office. While efficiency and effectiveness arguments in favor of such a merger are discussed later in this report, appointment of a senior person to head the

combined office would probably also make it possible to reduce the total U.S. direct-hire complement from four to three positions.

(It has been decided since these recommendations were written, that the position of the General Development Officer will be retained and that population, health, nutrition staffing will be strengthened. On item (c), USAID and LAC agree that merging the Capital Development Office and Program Office makes sense in theory but believe it could be counter-productive in practice.) While recognizing the risks, we believe that the growing trend in AID to merge loan and grant operations merits a parallel initiative by AID/W to merge operations overseas.

#### Documentation

At the time of the OAS field visit, USAID/El Salvador has been saddled by AID/W over the previous three or four years with extremely heavy documentation requirements. The Health Sector Assessment had still not been submitted to Washington after nearly three years of effort and involvement of over 20 consultants. The Agriculture Sector Assessment, while done with less delay and anguish, was undertaken like the Health Assessment without collaboration of the Government of El Salvador. The Education Sector Analysis, on the other hand, was a joint undertaking. But it had required four years of effort, expenditures estimated at over \$1 million, and was still not completed. Added to these burdens, the Mission was in the final throes of preparing a Population Strategy Paper, requested by AID/W more than a year earlier.

Further, the Mission was regularly asked to prepare Interim Reports on conditionally approved PIDs before being allowed to proceed with preparation of the Project Paper. It appeared that the Latin American Bureau was substituting the Interim Report for the Project Review Paper, the former middle step in AID's project development system which the Administrator eliminated last year in an effort to speed up and simplify the process.

#### Recommendation #18:

Where sector studies are needed - and we are not convinced that they are necessarily preferable to good analyses done in a Project Paper jointly developed with the host government with appropriate AID/W participation - then we think the Agency needs to develop a less time and energy-consuming mechanism. No such study should be imposed unless the appropriate Regional Office Director, or his or her superiors, has determined that it is needed and has high

priority, after considering other documentation requirements confronting the USAID.

Recommendation #19:

Since the Interim Report appears to constitute an abrogation of the Administrator's decision to eliminate the PRP, the Interim Report requirement should generally be dropped except when a project is unusually complex. The need to carefully analyze and resolve issues in moving from approval of a PID to submission of a PP can be handled by active participation of qualified Washington TDY staff in preparation of the PP documentation.