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UNCLASSIFIED

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

130

EL SALVADOR

PROJECT PAPER

PUBLIC SECTOR EMPLOYMENT PROGRAM

AID/LAC/P-040

Project No:519-0256
Loan Numbers:519-T-024
519 W-025

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete
 Amendment Number: _____
 DOCUMENT CODE: **3**

2. COUNTRY/ENTITY: **EL SALVADOR**

3. PROJECT NUMBER: **519-0256**

4. BUREAU/OFFICE: **LAC** **05**

5. PROJECT TITLE (maximum 40 characters): **Public Sector Employment Program**

6. PROJECT ASSISTANCE COMPLETION DATE (PACD):
 MM DD YY: **06 30 82**

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4):
 A. Initial FY: **80** B. Quarter: C. Final FY: **80**

8. COSTS (\$000 OR EQUIVALENT \$1 = 2.50)

A. FUNDING SOURCE	FIRST FY 80			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
* AID Appropriated Total		10,125	10,125		15,125	15,125
(Grant) SDA	()	(125)	(125)	()	(125)	(125)
(Loan) ARDN/SDA	()	(10,000)	(10,000)	()	(15,000)	(15,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country		2,320	2,320		5,150	5,150
Other Donor(s)						
TOTALS						20,275

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ARDN	260	-	060				4,000		7,000
(2) SDA	710	-	820			125	6,000	125	8,000
(3)									
(4)									
TOTALS						125	10,000	125	15,000

0. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each):
 120 890 067 069

11. SECONDARY PURPOSE CODE: 890

2. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each):
 A. Code: BL BU LAB
 B. Amount: 7,250 7,250 14,500

3. PROJECT PURPOSE (maximum 480 characters):
 The primary purpose is to increase employment and income opportunities for un- and underemployed laborers and to institutionalize the optimal use of labor-intensive Public Works projects to absorb surplus labor and increase incomes.

4. SCHEDULED EVALUATIONS: Interim **11 28 80** Final **06 8 82**

15. SOURCE/ORIGIN OF GOODS AND SERVICES: 000 941 Local Other (Specify) **CACM**

AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

17. APPROVED BY: **Charles J. Stockman**
 Title: **Mission Director**
 Date Signed: **02 11 80**

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: **02 12 80**

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON DC 20523

THE ADMINISTRATOR

PROJECT AUTHORIZATION

Name of Country: El Salvador
Name of Project: Public Sector Employment
Number of Project: 519-0256

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Public Sector Employment Project for El Salvador (the "Cooperating Country") involving planned obligations of not to exceed Fifteen Million United States Dollars (\$15,000,000) in loan funds ("Loan") and One Hundred and Twenty-five Thousand United States Dollars (\$125,000) in grant funds ("Grant") over a two year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The Project ("Project") will in the short term, increase employment and income opportunities for unemployed and underemployed laborers by financing a variety of labor-intensive subprojects in both rural and urban areas, and thereafter, help to institutionalize a system through which the Government of El Salvador can make optimal use of labor-intensive public works/infrastructure projects to absorb surplus labor and increase incomes.

3. The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within twenty-five (25) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services (Loan)

Goods and services, except for ocean shipping financed by A.I.D. under the Loan, shall have their source and origin in countries included in A.I.D. Geographic

Code 941, or in countries that are members of the Central American Common Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States or of countries that are members of the Central American Common Market.

c. Source and Origin and Services (Grant)

Goods and services, except for ocean shipping, financed by A.I.D. under the Grant shall have their source and origin in the United States except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

d. Reimbursement of Expenses

Upon compliance with the relevant Conditions Precedent, A.I.D. may disburse Loan or Grant funds as reimbursement for eligible costs incurred on or after February 15, 1980, provided that evidence of such costs is furnished to A.I.D. in form and substance satisfactory to A.I.D.

e. Conditions Precedent to First Disbursement (Grant and Loan)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish, in form and substance satisfactory to A.I.D.:

(1) Evidence that a Special Resource Office has been established within the Ministry of Public Works and staffed in accordance with the terms jointly agreed upon by the Cooperating Country and A.I.D.

(2) Evidence that the Emergency Employment Fund has been established within the Central Reserve Bank of El Salvador and that a system exists to disburse funds from the Central Reserve Bank to the individual implementing agencies.

f. Condition Precedent to First Disbursement (Loan)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D., a list of subprojects selected for implementation during the first three months of the Project, and shall include a statement of the estimated cost of labor, materials and equipment, location of the subprojects, implementing agencies, estimated construction or execution time, and procedures for and frequency of expected field supervision and inspections.

g. Condition Precedent to Disbursement for Reforestation, Soil Conservation and Water Reservoir Activities (Loan)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance any reforestation, soil conservation or water reservoir subproject, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D. detailed implementation plans for such subprojects which shall include an analysis of the institutional support, materials, equipment and recurring cost requirements.

h. Condition Precedent to Subsequent Disbursement (Loan)

Prior to any disbursement of Loan funds in excess of \$10 million equivalent, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D., a detailed list of subprojects which meet the Subproject Selection Criteria agreed to between the Cooperating Country and A.I.D. and which are proposed for funding under Phase II of the Project. The list shall include a statement of the estimated cost of labor, materials and equipment, location of the subprojects, implementing agencies, and estimated construction or execution time.

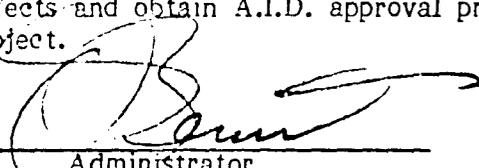
Covenants

(1) The Cooperating Country shall covenant that prior to disbursement from the Emergency Employment Fund for any subproject activity:

(a) The Special Resources Office will have certified that the subproject meets the Subproject Selection Criteria.

(b) The Special Resources Office will have certified that the land upon which any new facility, financed with A.I.D. funds, is to be constructed, is owned by the Cooperating Country and that all Project activities financed with A.I.D. funds will be conducted on publicly owned property.

(2) For all subprojects which Project consultants or the Special Resources Office indicate might cause potentially significant environmental effects, the Cooperating Country will submit to A.I.D. the findings with regard to such effects and obtain A.I.D. approval prior to the financing of any such subproject.



Administrator

Mar 6, 80
Date

Clearances:

GC/LAC:JLKessler: 2/25/80 date 2-25-80
LAC/CEN:MArnold: _____ date _____
LAC/DR:CPeasley: _____ date _____
LAC/MBrown: SB date 2/25/80

AA/LAC:EWCoyle: W.C. date 2/25/80
AA/PPC:ASakow: AS date 2/25/80
GC:NHolmes: NH date 2/27/80

Drafted:GC/LAC:DAAdams:ckg:2/25/80:ext:29183

Project Paper
El Salvador - Public Sector Employment Program
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- B. Ministry of Public Works Spare Parts List
- C. Illustrative Water Sub-Project
- D. Soil Conservation Methodologies
- E. Implementation Schedule

I. SUMMARY AND RECOMMENDATIONS

A. Face Sheet

B. Recommendations

1. USAID/El Salvador recommends approval and authorization of a \$15 million Loan and \$125,000 Grant for a Public Sector Employment Program. At least \$10 million of the Loan should be allotted at the time of Project Approval; the remaining \$5 million can be allotted later in FY 1980 or early FY 1981. The entire \$125,000 of grant funds should be allotted at the time of Project approval.

2. In order to proceed quickly with authorization of this Project, USAID/El Salvador is recommending use of standard loan terms for which El Salvador is now eligible -- i.e., that the Loan be repaid to A.I.D. in United States Dollars within twenty-five years from the date of first loan disbursement, including a grace period of not to exceed ten years, and that the rate of interest be 2% during the grace period and 3% thereafter. Over the longer term, the Mission will request AID/W to review and determine whether El Salvador is eligible for AID's most concessional lending terms -- i.e., 40 years repayment period.

3. Also, because of the emergency nature of this program and the need to have the greatest possible short-term impact, USAID/El Salvador recommends that it be authorized to reimburse the GOES for eligible sub-project expenditures from the date the Special Resources Office is created rather than from the date of the Project Authorization.

C. Borrower/Grantee

The Ministry of Public Works (MPW) of El Salvador will be the Borrower/Grantee. The MPW will disburse funds directly to the major implementing agencies within the MPW and the Ministry of Agriculture (MAG).

D. Project Summary

The project is designed to respond to an immediate need to stimulate economic activity and restore public confidence and order. Its primary purpose is in the short-run to increase employment and income opportunities for un- and underemployed laborers throughout El Salvador. Its secondary, although longer-term, purpose is to institutionalize a system through which the Government of El Salvador (GOES) can make optimal use of labor-intensive public works projects to absorb surplus labor and increase incomes of the poor. In order to achieve these purposes, the Project will provide funds to establish an Emergency Employment Fund

which will finance a variety of small-scale public works sub-projects which meet specific selection criteria. Since the major objective is to create jobs as quickly as possible, the most important criteria are labor content and readiness for implementation. Other criteria include development priority, non-duplication of other donor or AID programs, socio-economic benefits, environmental benefits, and revenue producing and/or maintenance saving potential.

The bulk of Project funds will be used to finance a variety of labor-intensive public works, including water supply and sewerage, street improvements, drainage structures, rural access roads, food storage facilities, reforestation, soil conservation, and rural water catchments. The allocation of Loan funds will be approximately 50-50 between rural and urban areas. Almost all urban infrastructure sub-projects will take place in marginal communities -- both because they have the greatest need and because they have a ready supply of un- and underemployed laborers.

The remaining Project funds will be used to finance (1) local engineering consultants who will help a special project office within the Ministry of Public Works to implement the program; (2) spare parts to restore to operation a number of Ministry of Public Works and Ministry of Agriculture vehicles; and (3) special consultants and training to help the GOES define the role of an expanded public works program in its long-term employment strategy and to evaluate Project implementation.

The following costs are projected over the life of the Project:

FINANCIAL SUMMARY
(\$000s)

	<u>A.I.D.</u>		<u>GOES</u>	<u>TOTAL</u>
	<u>Loan</u>	<u>Grant</u>		
<u>1. Emergency Employment Fund</u>				
Urban Infrastructure Sub-Projects	7,800		1,027	8,827
Rural Infrastructure Sub-Projects	3,700		941	4,641
Land & Conservation Sub-Projects	3,100		532	3,632
Sub-Total	<u>14,600</u>		<u>2,500</u>	<u>17,100</u>
<u>2. Design, Management & Implementation</u>				
Special Resources Office	200		650	850
Spare Parts	200		-	200
Implementing Agency Management	-		2,000	2,000
Sub-Total	<u>400</u>		<u>2,650</u>	<u>3,050</u>

	<u>A. I. D.</u>		<u>GOES</u>	<u>TOTAL</u>
	<u>Loan</u>	<u>Grant</u>		
3. <u>Strengthening Public Works Sector</u>				
Evaluation	-	25	-	25
Technical Assistance & Training	-	100	-	100
Sub-Total	-	125	-	125
T O T A L	<u>15,000</u>	<u>125</u>	<u>5,150</u>	<u>20,275</u>

E. Summary Findings

Although designed to respond in the short-term to urgent and immediate socio-economic and political problems in El Salvador, the Project is consistent with an overall USAID strategy to increase employment and income opportunities for the country's poor majority. All relevant analyses have been done, and the Project Committee has found the Project to be technically, financially, economically, and socially sound, and to be ready for implementation. All statutory requirements have been met.

F. Project Issues

The major remaining issues relate to the ability of the GOES to manage and coordinate such a program and the institutional capacity of the individual implementing agencies. Recognizing possible institutional shortcomings, the Project includes financing for five local consultants to the Special Resources Office which will be responsible for the final selection of sub-projects, implementation monitoring, and the certification of completed work. It is expected that this supplemental support will be adequate to ensure timely implementation. If additional support is required, USAID and the GOES will jointly reprogram the Loan funds to provide the necessary support.

G. Conditions and Covenants

1. Conditions Precedent to First Disbursement

Prior to the first disbursement under the Project, the GOES will, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

(a) evidence that a Special Resources Office has been established within the Ministry of Public Works and that it has been staffed as jointly agreed upon by the GOES and AID; and

(b) evidence that the Emergency Employment Fund has been created within the Central Reserve Bank of El Salvador and that a system exists to disburse funds from it to the individual implementing agencies.

2. Condition Precedent to First Disbursement of Loan Funds

Prior to the first disbursement of Loan funds under the Project, the GOES will...furnish to AID... a list of sub-projects selected for implementation during at least the first three months of the Project. This list should include a statement of the estimated cost (labor, materials, and equipment), location, implementing agency, estimated construction or execution time, and procedures to be used and frequency of expected field supervision and inspections.

3. Condition Precedent to Disbursement of Funds after the first \$10 million

Prior to disbursement of more than \$10 million of loan funds, the GOES will...furnish to AID... a detailed listing of sub-projects which meet the jointly agreed upon Project selection criteria and which are proposed for funding in Phase II of the Project. This list should include a statement of the estimated cost (labor, materials, and equipment), location, implementing agency, and estimated construction or execution time.

4. Condition Precedent to Disbursement of Loan Funds for Reforestation, Soil Conservation, and Water Reservoir Activities

Prior to the disbursement of Loan funds for reforestation, soil conservation, or water reservoir sub-projects, the GOES will...furnish to AID... detailed implementation plans for such sub-projects, including an analysis of the institutional support materials, equipment, and recurring cost requirements.

5. Covenants

a. The GOES covenants that prior to disbursement from the Emergency Employment Fund for any sub-project activity, the Special Resources Office (SRO) will assure that:

- (i) the sub-project meets the appropriate jointly agreed upon sub-project selection criteria; and
- (ii) the land upon which any new facility is to be located belongs to the government and/or that the activity to be financed under the Project occurs on publicly owned property.

b. The GOES covenants that for any sub-project for which

consultants or the SRO indicate that there may be potentially significant adverse environmental effects, the GOES will submit to AID for its review the findings relative to these effects. Financing for each such sub-project shall be subject to prior AID approval.

H. Waivers

None

I. Project Committee

Jess Snyder, General Development Officer, USAID/EI Salvador
Roberto Gavidia, Engineer, USAID/EI Salvador
Wayne Nilsestuen, Rural Development Officer, USAID/EI Salvador
Charles Brooks, Controller, USAID/EI Salvador
Marvin Schwartz, Program Economist, USAID/EI Salvador
Charles Stevens, U.S. Consulting Engineer
Ramiro Eduardo, ROCAP Financial Analyst
Carol Peasley, LAC/DR TDY Finance Officer

II. BACKGROUND, PROBLEMS TO BE ADDRESSED, AND PROJECT RATIONALE

A. Overview

On October 15, 1979 a new coalition government took control in El Salvador. This government is headed by a junta with a five member military and civilian representation. Its basic thrust is progressive, and it is planning significant political and economic reforms. The Junta's major long-term aims are to increase national production, employment, and income; provide basic goods and services to the entire population; and decentralize developmental resources and socio-economic opportunities. In the short-term, it is focusing on the immediate ways in which economic activity can be reactivated and employment stimulated, the basic food and health needs of the poor can be met, and basic reforms can be initiated. ^{1/}

B. Problems to be Addressed

1. Deteriorating Macroeconomic Situation

Because of mounting political pressure from both the left and the right and sporadic violence, the viability of this reformist government is uncertain. This tension has caused the closure of many manufacturing and agro-processing facilities, a slow-down in coffee harvesting, and an overall reduction in economic activity. This has, in turn, resulted in a downturn in almost all economic variables, and an urgent need for the Government to reactivate the economy and provide new jobs quickly, even while being called upon to come to grips with growing foreign and domestic resource constraints.

a. Declining Economic Activity. Even during the early 1970's, El Salvador's economy had one of the poorest performance records in Central America, for example, during the period 1971-74, its average rate of real GDP growth of 5.4% was substantially less than in Guatemala, Nicaragua, and Costa Rica. During 1976 and 1977, its real GDP growth slowed further, becoming the lowest in Central America. This worsening trend accelerated during 1979. In spite of excellent weather which allowed for a 2% expansion in real agricultural output and record coffee exports, preliminary estimates show that GDP in 1979 declined by 4 to 6%. This was primarily due to political uncertainty

^{1/} See the Mission's FY 1980 Accelerated Impact Program Strategy Paper for more details on the status of expected reform measures.

and terrorism and a decline in private investment of 25%, only part of which was compensated for by increased public investment. The industrial, construction, commercial, and services sectors suffered the greatest decreases, both in terms of production/economic growth and employment.

b. Declining Foreign Exchange Reserves. The slowdown in economic activity has also seriously affected the country's balance of payment and fiscal situation. El Salvador has traditionally had balance of payments surpluses and relatively comfortable levels of international reserves. This situation began to change in 1978, and this change greatly accelerated during 1979. Although final figures are not available, preliminary estimates show that net reserves dropped by at least \$100 million during the year -- to an end of year level of approximately \$132 million, or slightly more than six weeks of imports at the 1978-79 level. As shown in Table 1, this estimate takes into account a strong recovery in coffee exports and a significantly reduced current account deficit. However, even though the current account deficit was relatively small, capital moved away from, rather than into, the country during 1979 as external loans were repaid and new lending declined. This resulted in the substantial reduction in net resource

Reduced economic activity in 1979 and continuing political pressures will undoubtedly cause the country's foreign exchange position to deteriorate further during 1980. Even assuming no real increase in imports and record coffee export earnings, our projections show that there will be an increased deficit on current account. 2/ This will be accompanied by continued losses on the capital account -- primarily because (a) direct foreign investment is likely to be zero at most, and (b) there is a large amount of short-term credit due during 1980 which is very unlikely to be rolled over. In addition, in spite of Government efforts to halt capital flight -- e.g., nationalization of coffee and sugar export marketing and new regulations limiting the amount of foreign exchange which can be taken out of the country on personal trips -- at least some private Salvadoran capital will

2/ The record coffee export earnings are assumed because some of the 1978-79 crop is still being held and is available for export or sale. However, if violence in rural areas continues, much of the 1979-80 crop will not be picked and will be lost. The projected \$670 million for coffee export earnings is, therefore, optimistic and subject to substantial reduction, either from a reduced harvest or a fall in the world price. Any amount below \$670 million will mean an even larger current account deficit and reduction in net reserves.

continue to leave the country. As a result of these factors, we expect foreign exchange reserves to drop further during 1980. Some form of "emergency" financing and possibly sales of reserve gold will be necessary. (See Table I.)

TABLE I
BALANCE OF PAYMENTS
(Millions of Current Dollars)

	1977	1978	1979	1980 1/
Export (FOB)	972.0	846.0	1069.2	1072.0
Coffee	(596.2)	(440.4)	(640.4)	(670.0)
Imports (CIF)	930.0	1031.0	1040.0	1080.0
Trade Balance	42.0	-185.0	29.6	- 8.0
Net Services	- 52.0	-110.0	-140.0	-148.0
Net Transfers	<u>40.0</u>	<u>52.0</u>	<u>56.0</u>	<u>56.0</u>
Balance on Current Account	31.0	-243.0	- 54.4	-100.0
Net Private and Autonomous Institutions				
Capital Flow	19.0	221.0	-118.8	-235.0
Official Capital Flow	- 3.0	45.0	40.0	100.0
Central Bank Capital Flow	<u>- 15.0</u>	<u>65.0</u>	<u>33.2</u>	<u>40.0</u>
Balance on Capital Account	1.0	331.0	- 45.6	- 95.0
Errors & Omissions	<u>- 31.0</u>	<u>- 59.0</u>	<u>-.-</u>	<u>-.-</u>
Basic Balance	1.0	29.0	-100.0	-195.0
Net Reserves (Year End)	206.0	235.0	135.0	-.-

Source: Banco Central de Reserva - Ministerio de Planificación.

1/ Preliminary GOES Projection

c. Declining Domestic Financial Resources. During the early 1970's, the Government of El Salvador traditionally carried over revenue surpluses from one year to the next. This changed in 1978 when current expenditures increased by some 23% over the previous year. Because of a simultaneous drop in coffee export tax receipts, savings on current account fell by 40%, from a high 7% of GDP in 1977 to 4% in 1979. This decreased savings on current account was accompanied by a dramatic increase in capital investment -- especially for major projects such as the new Cuscatlán Airport and highway to San Salvador. As a result, the 1977 surplus of overall Central Government operations which equalled 2.5% of GDP turned to a deficit in 1978, equivalent to 1.9% of GDP.

The domestic resource situation will worsen during 1980. Current account savings will decline, i.e., they were only \$146 million in 1979 and were able to finance some 91% of the central government's investment budget. In 1980 current account savings will be \$68 million and finance 33% of the Central Government's Investment Budget. The GOES will have to rely to a much greater extent on external capital and deficit financing to finance investment costs. However, as stated earlier, the turbulent political situation discouraged the inflow of external capital during 1979, and for 1980, the GOES will have to rely upon deficit financing of at least \$150 million.

2. Rising Un- and Under-employment

El Salvador has traditionally had high rates of un- and underemployment. The historic pattern of development has failed to provide sufficient job opportunities for a rapidly increasing population. In 1978, the last year for which official figures are available, the economically active population (EAP) was 33.4%, or 1,430,000 out of a population of 4,282,000 people. Of this EAP, only 60% were employed full time and earned more than \$40 per month; 4% were openly unemployed; and 36% were considered underemployed, i.e., earning less than \$40 per month. As shown in Table II approximately 560,000 workers were either un- or underemployed in 1978. The employment situation in El Salvador is further complicated by considerable variation in the seasonal demand for labor and the high degree of self-employment, especially in the informal service sector which is characterized by low productivity.

These factors illustrate a normal pattern of high un- and underemployment. This situation has been seriously exacerbated by recent economic and political activities. First, declining private sector activity during the past year has led to growing unemployment in all sectors except agriculture. In the past year, 12 large

TABLE II
Structure of Employment, 1978

	<u>Econ. Active Populat.</u>	<u>Employed in Sector</u>	<u>%</u>	<u>Under- Employed</u>	<u>Rate of Under- Employment</u>	<u>Rate of Unemploy- ment</u>
AGRICULTURE	586,800	567,208	41.2	276,691	48.7	3.3
INDUSTRY	203,100	195,897	14.2	60,571	30.9	3.5
CONSTRUCTION	77,500	71,439	5.2	8,902	12.4	7.8
COMMERCE	488,300	219,193	15.9	82,659	37.7	3.9
SERVICES		249,830	18.1	76,729	30.7	
OTHER	<u>74,700</u>	<u>72,926</u>	<u>5.3</u>	<u>4,040</u>	<u>5.5</u>	<u>2.4</u>
TOTAL	<u>1,430,400</u>	<u>1,376,493</u>	<u>100.0</u>	<u>509,592</u>	<u>37.0</u>	<u>3.8</u>

factories in San Salvador (each of which employed more than 100 persons) have permanently closed eliminating 4,000 jobs. In a September 1979 survey by the Ministry of Planning, 25% of all manufacturing firms and 44% of construction firms reported planning layoffs during the second half of 1979. This reduction in industrial and construction employment has been felt in both the San Salvador Metropolitan Area where more than 50% of the country's manufacturing value-added and employment is located and throughout the country's secondary urban and rural areas. Since the estimates in Table II were made, employment outside the agriculture sector has probably declined by at least 70,000 with heaviest losses in the relatively high paying construction sector. Adding to this the 20,000 new entrants into the non-agricultural job market, open unemployment can be estimated to have risen from 53,000 in mid-1978 to at least 148,000 in late 1979. The Ministry of Planning's most recent analysis shows the following:

1. Open Unemployment Rates

1975	5.2%	64,754 people
1978	3.7%	53,306 people
1979	10.3%	148,161 people

11. Unemployment Rates in Construction Sector

1975	9.4%	4,876 people
1978	7.8%	6,023 people
1979	21.7%	16,856 people

These very rough estimates indicate a near trebling of the unemployment rate to 10% in a society that has no unemployment security system. Since underemployment has undoubtedly also increased during this period, we can safely estimate that more than half of the Salvadoran labor force is now either unemployed or seriously underemployed and earning incomes far below their needs.

3. Inadequate Infrastructure and Deteriorating Natural Resources Base

At the same time that the Government must deal with mounting financial and unemployment pressures, it faces serious shortages of basic infrastructure in both urban and rural areas. In urban areas, the major needs are for basic public services and infrastructure in marginal communities. For example, the World Bank sponsored EDURES study (Estudio de Desarrollo Urbano y Regional de El Salvador) points out that

- more than half of all urban households do not have access to running water and that 40% must rely upon rain water or carrying water from distant streams and springs;

- streets in and access roads to marginal communities have no drainage structures and are being rapidly eroded away; and
- sewerage systems are non-existent in most marginal communities.

In rural areas, the needs are broader, ranging from a need for an expanded farm-to-market road network to increased numbers of food storage facilities to basic public buildings. The need for improved and increased rural access roads is particularly important. Although the country's road system includes approximately 11,000 km., priority has been given historically to paving major highways and secondary roads rather than expanding the network of rural access roads. As a result, many towns and potentially productive agricultural areas are not adequately serviced by all weather farm-to-market roads. The GOES has committed itself to reversing this trend by greatly increasing expenditures for constructing new and/or for upgrading existing penetration roads which encourage new production, open areas to basic social services, and generate employment and new sources of income. In most rural areas of the country there are also increasingly serious problems of soil erosion and a general deterioration of the natural resources base, both of which can be dealt with in part by basic public works, reforestation, and soil conservation projects.

C. Project Rationale and Strategy

As outlined above, the economic and employment situations in El Salvador deteriorated significantly during 1979, and, unless corrective steps are taken soon, will continue to do so during 1980. Much of this has been in response to political uncertainty, which in turn was at least partially a result of the deteriorating economic situation. The basic rationale for the proposed project is macro-economic -- to break this vicious circle by helping to reactivate the economy through the generation of new employment opportunities. The 50% of the Salvadoran labor force which is un- or underemployed represents a volatile force which must be defused in the immediate future, especially during the traditional period of high unemployment between February and August. The GOES recognizes the need for immediate action, but given its deteriorating resource situation, is not able to embark on a large-scale program without external assistance. No other donors are prepared or able to respond to these pressing Salvadoran needs in a timely fashion. Therefore, we feel that AID can and should move quickly with a Public Sector Employment Loan that can begin to create jobs by late February-early March.

The proposed short-term employment strategy emphasizes public works investment for two major reasons. First, the GOES recognizes that a program of "work for work's sake" would provide only a temporary and artificial solution to the country's growing unemployment problem. Therefore, it has determined that employment should be generated through investment which is directed at important bottlenecks to future economic and social progress. In El Salvador, these areas include: (a) access roads, streets, and related drainage improvements which will improve transportation and communication essential to the development of small industry, tourism, and commerce; (b) extensions to local water supply and sewerage systems which respond to basic health needs and are essential to labor productivity; and (c) reforestation and soil conservation measures which develop environmentally sound bases for improved land use. Secondly, the GOES is prepared to move quickly with a public works-type employment program. Sub-project plans exist; large numbers of adequately trained, but un- or under-employed workers are available due to the near standstill in economic activity; and there is a demand for the kinds of public works and infrastructure sub-projects anticipated.

Although the project strategy is basically short-term, we see it as an essential element in the country's longer-term development. That is, only by providing jobs now and easing the growing economic emergency can an environment be created in which longer term development can take place. This project is merely an initial step. It will provide the Government with financing to quickly undertake economically and socially important, labor-intensive public works projects. In the longer term, as part of this project, and more importantly as part of the Mission's proposed FY 1980 Economic Policy and Reform Grant Project, USAID will help the Government better understand the employment implications of its current economic and investment policies, as well as formulate an employment strategy which is more appropriate to the needs of the country.

D. Relationship to Other Donor and AID Programs

No other donors have or are planning emergency short-term employment programs. There is, however, a close relationship with two major other donor activities: a \$17 million on-going Inter-American Development Bank Community Development Program in the Northeast region of the country and a proposed \$30 million World Bank Urban Development III Program. Nonetheless, as explained below, we consider that the universe of needs and the level of demand for improved basic infrastructure are so great that duplication will be avoided. To ensure that this is the case and that there is maximum coordination among the programs, one of the SRO's selection criteria will be that the sub-project does not duplicate or conflict with other donor programs.

The IDB loan will provide approximately \$3.4 million for various kinds of small-scale infrastructure projects, including rural roads, schools, markets, water supply, and public baths. All will be coordinated through the National Community Development Directorate (DIDEDO), and will involve community participation in the identification of needs and in actual construction. The project will concentrate on 300 communities in the Northeast of the country. In preparing lists of potential sub-projects, the Ministry of Public Works has taken into account the planned IDB activities. In no cases will the MPW propose projects which have been identified by DIDECO and the individual communities for funding under the IDB loan.

The proposed \$30 million IBRD Urban III Program also includes financing for community upgrading, including improvement of plot layouts, improved roads, community facilities, and introduction or expansion of water, sewerage, and electrical systems. Approximately 20 to 25 communities of some 10,000 families, or less than 20% of the marginal communities within San Salvador, will be selected for inclusion in this component of the project. In selecting potential sub-projects for the proposed Public Sector Employment Program, the GOES has taken care to avoid conflict with the IBRD loan. The Mission and GOES have reviewed preliminary IBRD loan preparation documents which identify 52 potential communities for inclusion in the Urban III loan. With only minor exceptions, none of the sub-projects identified for possible financing in the AID loan fall within the expanded list of IBRD communities. In those few cases in which there might be overlap, it is expected that the infrastructure financed under the Public Sector Employment Program will be only a small part of what is ultimately required, and will not duplicate or conflict with the IBRD program. Also, because of delays in the start-up of the World Bank's Urban III Loan -- i. e., the Project Appraisal Team has been delayed by several months and the loan is not likely to be presented to the IBRD's Board until Summer 1980 or signed until late 1980 -- we do not expect duplication between the two projects.

Special care has also been taken to avoid duplication with other AID programs, particularly the proposed FY 1980 Marginal Community Improvement (MCI) Project. This project will finance community upgrading activities, but most will be in rural or quasi-urban areas. No community infrastructure upgrading will be financed in the San Salvador Metropolitan Area, where a large proportion of the Emergency Employment Fund will be used. All infrastructure activities in the MCI Project will be coordinated by DIDECO, and managed through a different mechanism than the Public Sector Employment Program. Also, to ensure that conflict is avoided, the SRO's sub-project selection criteria will exclude activities which duplicate activities being funded by other AID programs.

III. PROJECT DESCRIPTION

A. Goal and Purpose

The long-term goal of this Project is to improve the socio-economic well-being of the country's poor majority. However, because of El Salvador's growing economic problems -- particularly financial resource constraints and rising un-and underemployment -- it is becoming increasingly difficult for the GOES to enter into the kinds of programs which are required to meet this long-term goal. An important intermediate step or sub-goal must therefore be to stimulate economic activity and reverse the downturn in major economic variables. The Government is attempting to do this in a number of different ways, including measures to control capital flight and to stimulate new investment. Because of continued political uncertainty and sporadic violence, the Government cannot rely totally upon the private sector to increase its investments and to take the lead in reactivating the economy. Rather, the GOES must rely to a considerable degree upon the public sector and the role it can play in creating employment and increasing cash incomes.

This project is important in helping the Government to create employment. Its primary purpose is, in the short-run, to increase employment and income opportunities for un-and underemployed laborers throughout El Salvador. It will do this through an expanded and accelerated rural and urban public works program. As a direct result of the infrastructure and public works financed, at least 80,000 person months of new employment will have been generated and at least \$10,000,000 of new wage income added to the economy. A secondary, albeit longer term, objective of the project is to institutionalize a system through which the GOES can make optimal use of labor-intensive public works projects to absorb surplus labor and increase incomes of the poor. This latter purpose will be accomplished by creating a special office within the Ministry of Public Works which is capable of identifying, planning and executing labor-intensive public works sub-projects.

B. Detailed Project Description

The Project will consist of three elements: (1) creation of an Employment Fund to finance the construction of labor-intensive sub-projects; (2) assistance in the design, management, and implementation of sub-projects; and (3) assistance in strengthening the labor-intensive public works sector. The total Project will cost \$20,275,000, of which \$15,000,000 will come from an AID Development Loan, \$125,000 from an AID Development Grant, and \$5,150,000 from GOES counterpart.

1. Emergency Employment Fund

\$14.6 million of loan and \$2.5 million of GOES counterpart funds will be used to create an Emergency Employment Fund to finance high priority, labor-intensive public infrastructure and land improvement/conservation sub-projects which meet basic selection criteria. As a first step, the GOES has developed a list of public works/infrastructure and land improvement sub-projects which can be implemented quickly and which have a high ratio of unskilled labor utilization. The list of potential sub-projects currently totals approximately \$17.7 million -- \$8.5 million which are ready for immediate implementation and \$9.1 million which will be ready for implementation within six months. These potential projects are summarized in the following table and in Annex II.A. which is a detailed list of Potential Sub-Projects.

SUMMARY OF POTENTIAL SUB-PROJECTS

(A) Ready for Implementation within 30 Days

1. <u>Urban Sub-Projects</u>	<u>Number</u>	<u>Estimated Cost</u>
Drainage	18	\$ 489,500
Streets	53	2,336,000
Water	122	1,216,000
Sewer	56	765,600
Food Storage	40	120,000
Sub-Total	<u>209</u>	<u>\$ 4,927,100</u>
2. <u>Rural Sub-Projects</u>		
Drainage	53	\$ 1,451,800
Roads	177	1,590,600
Bridges	1	192,300
Food Storage	138	414,000
Sub-Total	<u>369</u>	<u>\$ 3,648,700</u>
TOTAL (1) and (2)	<u>578</u>	<u>\$ 8,575,800</u>

(B) Ready for Implementation within Six Months

1. <u>Urban Sub-Projects</u>		
Drainage	9	284,800
Streets	35	1,314,600
Bridges	4	113,600
Water	15	394,500
Sewer	15	278,900
Sub-Total	<u>78</u>	<u>\$2,386,400</u>

<u>2. Rural Sub-Projects</u>	<u>Number</u>	<u>Estimated Cost</u>
Drainage	5	\$ 440,900
Roads	21	310,600
Bridges	3	570,400
Reforestation (2,200 has.)	5	3,569,000
Soil Conservation (500 has.)	-	1,340,000
Water Reservoirs	10	500,000
Sub-Total	<u>44</u>	<u>\$ 6,730,900</u>
TOTAL (1) and (2)	<u>122</u>	<u>\$ 9,117,300</u>

In general, the sub-projects to be implemented under this program will be selected from the list shown in Annex II.A. However, as new requirements and opportunities arise, the GOES can add to the list, as long as the proposed activities are consistent with the objectives of the program and meet the selection criteria noted below.

All the potential sub-projects involve high priority activities for which there is an expressed demand. In the case of San Salvador, most sub-projects result from lengthy community need studies, which included local group participation in the identification process during the EDURES study, 1974-78. In order to prepare a final implementation schedule -- i.e., to weed out those which will not be financed and to determine a relative order of priority for implementation -- the potential sub-projects will be further evaluated against the following selection criteria:

- Local labor content. No sub-project with less than a 40% labor/total cost ratio can be financed. Sub-projects with the highest labor content will be given priority.
- Development priority and socio-economic benefits.
- Environmental benefits.
- Revenue producing and/or maintenance saving potential.
- Readiness for implementation.
- Non-duplication with other donor or AID projects.

Each of these criteria will be considered, but the most important will be labor content, readiness for implementation, development priority, and non-duplication with other donor and AID projects.

a. Infrastructure Sub-Projects. During intensive review, approximately \$12.0 million of infrastructure sub-projects were identified, primarily for street improvements, drainage, water supply and sewerage,

access roads, minor bridges, and food storage facilities. This \$12 million will be biased slightly toward urban areas, with approximately \$7.0 million for urban sub-projects and \$5.0 million for rural infrastructure. Of the \$7.0 million tentatively allocated for urban areas, more than half is programmed for the San Salvador capital area.

(i) Urban Streets and Drainage Improvement. This category includes 115 sub-projects located in urban areas throughout the country. They will include rehabilitation and paving of city streets with pre-fabricated cement blocks and the construction of curb and storm sewers, together with appropriate ditching and outfalls, to provide storm drainage runoff relief. All of the sub-projects will be quite small: the average cost for street improvements will be \$42,000 and for drainage \$29,000. Approximately one-third will be in the San Salvador Metropolitan Area -- most, but not all of these will be in marginal communities, illegal colonies and tugurios which are in urgent need of improved access and drainage. The remaining projects will be spread throughout the country's major and minor urban or semi-urban centers. All will be constructed by the MPW's Directorate of Urbanization and Architecture.

(ii) Urban Water Supply and Sewerage. Two hundred and eight sub-projects have been identified for this category, 137 to extend water lines and 71 to extend sewerage lines into communities which do not have access to such services. Most fall within the government's emergency plan to increase and improve public services in tugurios and illegal urban colonies. The planning and construction will include provisions for facilitating house connections to permit immediate access to public utility extensions. All of the proposed sub-projects are small: the average cost of the water line extensions is \$9,600 and of the sewerage line extensions, \$13,700. They will be constructed by the National Water and Sewer Administration (ANDA).

(iii) Rural Access Roads. This category includes 200 sub-projects totalling approximately 1,000 kilometers throughout rural El Salvador. Some new roads will be constructed or extended, but the majority of the sub-projects will be improvements: e.g., widening, select earthen material surfacing, drainage culverts, and small bridges. Most of the sub-projects are extremely small: road improvement projects will average \$9,600 and drainage culvert projects will average \$33,000. The proposed sub-projects for one department, La Paz, provide an illustration of the magnitude and types of activities anticipated:

RURAL ACCESS ROAD SUB-PROJECTS -- LA PAZ

<u>TYPE/LOCATION</u>	<u>MUNICIPALITY</u>	<u>LENGTH (KMS.)</u>
a) <u>Road Improvements</u>		
Santiago Nonualco - Cantón "Animas"	Santiago Nonualco	12
Santiago Nonualco - Santa Cruz Loma	" "	10
San José La Paz - San José Loma	" "	8
Litoral - Cantón Chancuyo	San Pedro Nonualco	3
San Pedro Nonualco- Ujuchtal	" " "	4
San Pedro Nonualco- La Comunidad	" " "	4
San Juan Nonualco - La Veranera	San Juan Nonualco	10
Cantón Buena Vista- San Pedro Masahuat	San Pedro Nonualco	3
San Salvador-Coma- Tapa (Km. 17) - La Cuchilla	Olocuilta	3
CA-2 (San José de la Montaña) - Despoblado	Zacatecoluca	4
Cantón Liévano - El Zapote	"	7
Zacatecoluca - Piedra Grande	"	4
Zacatecoluca - La Arrinconada	"	4
San Vicente - El Perical	"	7
		<u>83 Kms.</u>

b) Drainage Structures

15' Culvert CA-2 - San Pedro Nonualco	San Pedro Nonualco
15' Culvert San Pedro Masahuat - Buena Vista	San Pedro Nonualco

The total estimated cost of these 16 sub-projects is \$239,600, of which \$134,400 or 56% is for labor costs. All of the proposed access roads, structures, and bridges will be constructed by the Directorate of Rural Roads.

(iv) Food Storage Facilities. The Ministry of Health is in the early stages of expanding and accelerating a Nutrition/Feeding Program to all regions of the country. It is expected that this program, which is in part supplied by the World Food Program, will benefit approximately 240,000 pregnant and lactating women and children less than five years of age. In order to implement this expanded program, the Ministry of Health's clinics and health posts urgently need additional storage space for the food which is to be distributed. Preliminary plans call for expansion of storage space in 178 health post/clinics throughout the country: 40 in the San Salvador Metropolitan Area, 62 in the Central Region, 43 in the Eastern Region, and 33 in the Western Region. The

average size of the storage expansions will be 4 mts. x 4 mts.; the average cost, including shelving, will be \$3,000 per unit. The construction of these storage facilities will be done by DUA, as agreed upon with the Ministry of Health.

b) Land Improvement/Conservation Sub-Projects

(i) Reforestation

The Directorate of Renewable Natural Resources (D.G.R.N.R.) of the Ministry of Agriculture is planning to undertake the reforestation of up to 4,000 hectares of vulnerable lands over a two-year period. Pine and other fast growing species suited to the eco-zones of the sub-project sites will be selected, and the majority of the reforestation work done with seedlings. The work on each of the sites will involve four types of activities: the collection and treatment of seed, the production of seedlings in nurseries, transplanting, and maintenance.

These activities are extremely labor intensive. An estimated 250 person-days of work will be required to reforest one hectare, implying total unskilled labor requirements of almost 900,000 work days to achieve DGRNR's target of 4,000 hectares of reforestation over the next two years.

A total of eight sites encompassing 4,000 hectares of public lands have been identified for reforestation. Reforestation work at 5 sites is expected to commence with the onset of the rainy season in May. Final selection of sites, reforestation techniques, species, etc. will be determined at the time DGRNR's detailed sub-project proposals are submitted to the Special Resources Office for approval. Preliminary site selection suggests that most of the work will be done on ISTA's lands ^{1/}as shown in the table below:

1/ ISTA is the Spanish Acronym for the Salvadoran Institute of Agrarian Transformation

TABLE III
Location, Institutional Owner, and Area
of Selected Reforestation Sites

Location (Department)	Institutional Owner	Area (Ha.)
San Miguel	I.S.T.A.	2,400
La Unión	I.S.T.A.	200
La Libertad	I.S.T.A.	600
Chalatenango	I.S.T.A.	400
I.S.T.A. Sub-Total		3,600
Chalatenango	C.E.L. ^{2/}	300
Santa Ana & Chalatenango	DGRNR	100
Other public lands Sub-Total		400
T O T A L		4,000

It is expected that this Project will finance no more than 2,200 hectares of the planned reforestation work, and that this will take place primarily on ISTA lands in San Miguel and Chalatenango. Since only preliminary plans have been drawn up thus far for this activity, the Mission is recommending a Condition Precedent which calls for AID approval of the detailed plans, including a statement of administrative, equipment, and recurring cost requirements, for all reforestation and other land improvement sub-projects.

Total reforestation costs are expected to average about \$1,600 per hectare and the stream of benefits (discounted at 10%) over 20 years arising from lumber, posts and railway tie products are estimated to equal \$1,907 per hectare. Annual maintenance costs beyond

^{2/} CEL is the Spanish acronym of public electricity utility named the Executive Commission of the Lempa River

the first two years (which are minimal) and harvesting costs are not included in these calculations.

(ii) Soil Conservation

The Watershed Management and Soil Conservation Service of the DGRNR is also planning to undertake an expanded Soil Conservation program. Conservation works will be selected from among four basic technologies -- bench terraces, hillside brick drains, stone retaining walls, and live barriers. Site specific conditions such as topography, soil type and depth, current ground cover and use, and water availability will be taken into account in selecting the technologies most appropriate for each sub-project. Annex II.D contains a brief description, illustrative drawing and citation of the utilization limitations for each of these conservation works. Also, investments may be made in controlling gully erosion, and in minor irrigation and drainage works.

Potential sub-projects sites have been located in three properties belonging to the Salvadorean Institute of Agrarian Transformation (ISTA). Preference will be given to locations where the introduction of live barriers appears suitable, as the economic returns on this technology appear to be the most attractive among the four alternatives.

The table below shows the estimated labor requirements for the four conservation practices. Construction work is scheduled throughout the year, through it is recognized that it will be lightest during the May - October rainy season.

TABLE IV

Estimated Work Days per Hectare

<u>Conservation Techniques</u>	<u>Person Work Days</u>
Bench Terraces	730
Hillside Brick Drain	470
Stone Retaining Walls	370
Live Barriers	200
Other Works	230

(iii) Water Reservoirs

The Livestock Directorate (DGG) of the Ministry of Agriculture is planning to undertake the construction of small water

reservoirs or tanks designed to capture and store sufficient water during the rainy season to last throughout the six-month dry season, November-April. The primary purpose of these structures will be to provide drinking water for livestock, though some fish ponds will also be constructed. The reservoirs shall have an average volume of 5,000 cubic meters, calculated to store enough water for 300 head of cattle for six months. All works including excavation, soil compaction and sealing the structures shall be done by hand labor, thus requiring an average of 6,030 work days per tank.

Site selection will be based on the size of the catchment area, soil properties and community requirements. An effort will be made to locate most of these structures in the northern zone of the country where water constraints are most severe. All construction will be managed by the DGG.

c. Geographic Distribution of Sub-Projects

In order to spread potential employment benefits as widely as possible, sub-projects are being proposed throughout the country. Using the potential list of sub-projects, the probable geographic distribution will be as follows:

1. Western Region (Ahuachapán, Santa Ana and Sonsonate departments -- 751,384 population - 1971)

	(\$000s)	
	<u>Estimated Sub-Project Costs</u>	
Urban Streets & Drainage	\$	967.6
Urban Water		162.7
Urban Sewerage		119.4
Rural Drainage Structures		299.0
Rural Roads		628.1
Food Storage		99.0
Land Improvement/Water Storage		804.0
Sub-Total	\$	<u>3,079.8</u>

2. Central Region (Cabañas, Chalatenango, Cuscatlán, La Libertad, San Vicente and La Paz departments -- 1,077,653 population - 1971)

Urban Streets & Drainage	730.5
Urban Water	293.0
Urban Sewerage	127.1
Rural Drainage Structures	411.7

Rural Roads	\$ 1,003.9
Food Storage	185.0
Land Improvement/Water Storage	1,836.0
Sub-Total	<u>\$ 4,587.2</u>

3. San Salvador (733,445 population - 1971)

Urban Street & Drainage	\$ 2,083.2
Urban Water	1,105.1
Urban Sewerage	755.5
Bridge	69.0
Food Storage	120.0
	<u>\$ 4,132.8</u>

4. Eastern Region (La Unión, Morazán, San Miguel, and Usulután departments -- 992,166 population - 1971)

Urban Street & Drainage	\$ 643.6
Urban Water	49.8
Urban Sewerage	42.5
Rural Drainage Structures	1,182.0
Rural Roads	962.9
Food Storage	129.0
Land Improvement/Water Storage	2,269.0
Sub-Total	<u>\$ 5,278.8</u>

Applying these potential sub-project levels to the most recent regional population figures, one sees a fairly even distribution of Project activities -- ranging from a low of \$4.09 per capita in the Western Region to a high of \$5.63 in the San Salvador Metropolitan Area. Considering the emergency nature of the Project, and particularly the drastic reduction in construction investment in the environs of San Salvador, this relative emphasis is appropriate.

2. Assistance in Design, Management, and Implementation of Project

As described in Section IV.B. a Special Resources Office (SRO) will be created within the Ministry of Public Works to serve as the primary administrative and management unit for the project. This office will be staffed with personnel from the Ministries of Public Works, Agriculture and Planning. The counterpart cost of this office is estimated at \$650,000 over the L.O.P. In order to ensure timely project implementation and disbursement, there will be a need to supplement this staff with additional professional talent. The

project therefore includes \$200,000 of Loan financing to cover the costs of five personal service consultants to the Special Resources Office. They will be engineers who are experienced in force account construction procedures; all will be Salvadoran or locally resident engineers who are familiar with local conditions and practices. They will assist the SRO in all aspects of project implementation, but their most important function will be the review and certification of plans, sub-project authorizations and cost estimates, all construction work, and all payment vouchers. The estimated cost for each personal services contract over the two year implementation period is \$34,000, or a total for the five contracts of approximately \$200,000, including a nominal contingency allowance.

Also, in order to avoid implementation delays caused by downed equipment, the project includes \$200,000 of loan financing for the procurement of essential equipment and vehicle spare parts and hand tools. These spare parts will allow the Ministry of Public Works (MPW) directorates of Urbanization and Architecture (DUA) and Rural Roads (Caminos) and the Water and Sewer Administration (ANDA) to put back into operation various trucks and utility vehicles for the transportation of construction materials and workers. The MPW has prepared a preliminary list of down vehicles and spare parts required, as shown in Annex II.B. During project implementation, this list will be amplified as needed. In doing so, the USAID Project Manager will work closely with the MPW in identifying urgent requirements and in planning ways in which vehicles can be put back into operation as quickly as possible. Some additional requirements for parts support has also been identified in the D.G.R.N.R. and D.G.G. of MAG. Based on specific analysis, funds may also be programmed for that requirement. In providing this assistance, the Public Sector Employment Project will be given priority, as determined by the SRO, in the assignment and use of all such equipment which is rehabilitated and put back into operation. Off-shelf procurement from local distributors will be authorized for all spare parts.

3. Assistance in Strengthening Labor-Intensive Public Works Sector

During the early 1970's, employment in the construction sector lagged considerably behind investment, e.g., between 1971 and 1975, the construction sector's contribution to real GDP growth increased by 77%, while employment in the sector increased by only 58%. This trend appears to have been reversed, e.g., between 1975-1978 real construction sector GDP increased by 16%, while employment increased by 50%. Part of this success has been due to deliberate GOES policies and actions, including efforts by the Ministry of Public Works to use more labor in many of its basic infrastructure projects.

Although the GOES is sensitive to the need to use as much labor as possible in its public investment programs, this notion has not become an explicit part of its long-term employment strategy. Also, although the MPW has experience in managing relatively labor-intensive public works projects, its capability to manage an expanded program is limited, as is its knowledge of the range of possible labor-intensive technology choices and the impact of alternative technologies on the life of various kinds of public works sub-projects, particularly rural roads. Some of these limitations will be dealt with by financing engineering consultants to the Special Resources Office within the MPW. Beyond this, the proposed project will grant finance \$125,000 of technical assistance and training related to (a) the long-run role of labor-intensive public works programs in the country's employment strategy, (b) the management of labor-intensive public works programs, (c) the choices of alternative technologies, (d) evaluation of the program, and (e) limited technical assistance in preparing detailed sub-project plans. This \$125,000 will cover approximately 12 person months of technical assistance and 6 person months of training for staff in the ministries of Planning, Public Works, and Agriculture. Final details on TA/training for (a) and (b) above will be worked out in collaboration with the Development Support Bureau's Rural and Administrative Development Office (DS/RAD) which is managing a centrally funded project on Labor-Intensive Rural Public Works Projects.

IV. PROJECT ANALYSES

A. Technical Analysis

Detailed implementation plans and engineering sketches exist for approximately one-half of the \$17 million of potential sub-projects listed in Annex II A. These plans have been reviewed, and all have been found to involve only routine planning, design, and construction procedures, e.g. see Annex II C for an illustration of a simple design for the extension of a water line. Preliminary plans exist for the remaining \$9 million of potential sub-projects. Detailed plans for these will be ready within the next 180 days. Plans for the remaining infrastructure sub-projects are expected to follow the same methodologies and procedures for the street improvement, water and sewerage, drainage, and rural access road sub-projects already defined. All will be technically routine and simple.

1. Technology Mix

The Project favors and supports the implementation of labor-intensive, social and public infrastructure sub-projects. The ratio of labor costs to total construction cost averages about 55%, ranging from as high as 75 to 90% for the reforestation work to as low as 40 to 45% for some road/street and water/sewerage sub-projects. The proposed reforestation activities will require few materials (basically seedlings) and practically no equipment other than hand tools. Road/street work and water/sewer construction, however, both require the purchase and delivery of materials to the job site, such as road/street surfacing, drainage/cuivert pipe, and bridge construction materials and water main/sewer pipe and related accessories. This need for basic materials is reflected in lower ratios for labor costs, generally 40 to 50% of the construction cost, for these latter types of sub-projects. However, as noted earlier, no sub-project with less than 40% labor cost ratio has been or will be considered for inclusion in the Project.

Labor-intensive construction practices will be followed, and use of equipment will be primarily for the transport of materials to the job sites. In selected cases of road/street improvement work, however, the speeding and compaction of selected earthen base and surfacing materials will be required. Such practice is representative of nominal equipment needs and usage as customarily followed in accomplishing effective labor-intensive rural road construction. All other component work, such as drainage and related structures, together with the placing of pre-fabricated cement block surfacing, will be performed with hand labor.

2. Construction Procedures

All construction under this Project will be performed by force account procedures supervised by the pertinent Ministry division within the specific area of sub-project responsibility. The particular Ministry division will also be responsible for the planning and design. Plans will consist of a simple sketch delineating the scope of the project and a description of its limitations, outline specifications, a breakdown of costs by labor, materials and equipment, and a construction schedule and time table.

When the sub-project has been authorized and the financing has been allocated by the SRO, construction will be initiated under the supervision of the particular Ministry division with sub-project responsibility. All the MPW divisions have three construction offices, one located in San Salvador to cover the capital metropolitan zone, one in Santa Ana to cover the western zone, and one in San Miguel to cover the eastern zone of the country. A job foreman from one of these offices will be assigned the responsibility for the construction of the approved and authorized sub-project. He will contract all labor as needed, and will make arrangements, through his Ministry division, for the procurement, scheduling, transport, and on-site storage of the materials, vehicles and equipment needed to perform the construction work.

The Special Resources Office will monitor and inspect the work, approve payments, and finally accept the sub-project. Payments, as discussed under Section V., Project Implementation, will be made by the SRO, based on approved vouchers and work certified by the personal services consultants to be retained by the SRO for reviewing and inspecting the work.

3. Construction Equipment

No construction equipment is proposed for procurement under this Project. All equipment needs for the MPW sub-projects can be fulfilled from current pools, together with that to be repaired or brought back into operation through spare parts financed under the Project. Because the MAG does not have a construction equipment pool of the magnitude of the MPW, it is contemplated that their incremental equipment and vehicular needs will be met through contracting. Some of these contract equipment costs will be covered by the Project. Both ministries which use in-house equipment for force account construction can be reimbursed for the operating costs of that equipment. Allowances for capital depreciation and replacement, cost items customarily reflected in equipment rental rates, will be considered as a counterpart contribution.

4. Availability of Construction Materials

Because of the recent slowdown in private construction sector activities, there is a ready supply of all materials in the country. Under this Project, the most pressing requirement will be for cement; the Ministry of Public Works estimates the country has an operating capacity to produce 769,000 tons of cement per year. The Ministry has also assessed the needs for reinforcing bars, pipes, and tubing. The major requirements will be for 1/2 inch, 2 inch, and 3 inch pipes, all of which are available in-country or can be imported in a short time from Central American Common Market countries.

B. Institutional Analysis

Implementation of this program will be undertaken by five major GOES agencies -- two of these agencies are directly under the Ministry of Public Works (Directorate of Roads, Caminos, and the Directorate of Urbanization and Architecture, DUA); one is a semi-autonomous agency which operates under the direction of the MPW (National Administration of Aqueducts and Sewers, ANDA); and two are directorates of the Ministry of Agriculture and Livestock, MAG (Directorate of Renewable Natural Resources, DGRNR) and (Directorate of Livestock, DGG). Overall coordination of sub-project execution by the respective agencies will be the responsibility of the Ministry of Public Works through the Special Resources Office (SRO, See Section 3).

The capacity of each of the organizations involved has been assessed and, while specific weaknesses have been noted, especially with ANDA, DGRNR, and the DGG, it has been determined that they possess a demonstrated ability to undertake the classes and levels of sub-projects identified in connection with this program. The SRO and its personal services consultants will provide support where needed to assure that implementation progress is not impeded. Additionally, in the case of the Ministry of Agriculture's DGRNR and DGG, special sub-project management units will be established to augment present limited staff capacity during the life of the project.

1. Ministry of Public Works: The Ministry of Public Works (MPW) is the national institution with major responsibility for the planning and construction of basic infrastructure projects essential to El Salvador's development. As noted, three of its five operating divisions will be most directly involved in implementation of the program. The MPW has the technical force account and contract procedures to plan, design and construct the kinds of small-scale facilities contemplated. In 1979, MPW executed small works totalling

an estimated \$50 million, including the organization and supervision of construction effort required by other Ministries. The MPW also has more than 12 years of extensive experience with the organization and conduct of small community works through a specific "self-help" program which implements approximately eighty projects annually. Nonetheless, it is recognized that this program will represent a special additional burden, especially in some added planning and design load. Some potential weakness within all three directorates, and in those of MAG, has also been noted in the area of equipment maintenance. This deficiency is related to funding constraints which are affecting current spare parts inventories, rather than the lack of shop or staff capability. A spare parts fund has been projected under the program to address this problem. The capacity of field construction offices for each directorate has also been examined to assure adequacy for additional labor contracting, procurement, transport, and on-site materials storage.

a. Directorate of Roads

The Directorate of Roads, Caminos, has the expertise and the necessary personnel to carry out the design and construction of rural roads by force account. Last year's budget was for a total of \$127,257,785, of which \$32,165,280 were spent for construction of roads and highways under force account work, \$76,728,900 under construction and supervision contracts, and \$18,363,605 were spent for administration. The total number of staff for last year reached 11,321 persons, including laborers.

Three major regional offices exist, one each in the east, the center, and the west. Each of these regional offices is capable of carrying out the required work under this project.

Caminos has about 300 vehicles, a mixture of trucks, pick ups and jeeps. They also have about 200 units of heavy equipment. About 16% of the trucks, pick ups and jeeps need to be repaired, some 10% of the heavy equipment is also in need of repair. They have the capability of repairing this equipment; the bottleneck is in the provision of spare parts. The Loan therefore includes \$200,000 for the local procurement of spare parts and materials needed to repair part of the light equipment, i.e. trucks, pick ups and jeeps, to be utilized under this program. This equipment has been assessed by the Mission to be adequate to carry out the project. If additional transportation is needed, Caminos will contract it out with various private transportation companies in El Salvador.

b. Directorate of Urbanization. DUA has the same experience as Caminos in design and construction of the kind of sub-

projects contemplated under this project, DUA's budget last year was for a total of \$32,000,000. Approximately \$23,000,000 were spent to finance construction projects, \$5,000,000 were spent for consultants, and \$4,000,000 for administration. DUA, as Caminos, has the same problem in equipment maintenance, although because of the small nature of its work, it has less heavy equipment. Some of the \$200,000 of loan funds will be allocated to DUA to repair the 25% of DUA trucks and pick ups which are in need of repair. DUA has three major offices established in El Salvador, one in the east, one in the west, and one in San Salvador for the central zone. Each one of these regional offices is adequately staffed. Last year DUA's personnel reached a total of 4,595 persons.

c. Administration for Water and Sewers (ANDA).

ANDA was created in 1961 as a semi-autonomous agency responsible to and under the general direction of the Ministry of Public Works. Last year's budget was for a total of \$17,515,464. Approximately \$4,100,808 were spent to finance construction projects by force account; \$11,962,268 for administration; and \$1,451,388 for repayment of external loans. ANDA has also a large project under contract for a total amount of \$74,400,000 for the provision of water for the North Western Metropolitan Area. The project is called the Zona Norte and is being financed in part by a loan with IDB.

2. Ministry of Agriculture and Livestock (MAG)

a. Directorate of Renewable Natural Resources (DGRNR).

The DGRNR is one of four operational directorates within MAG. It is organized into seven "services", five of which are technical in nature. The Service for Watershed Management and Soil Conservation shall be responsible for planning and implementing conservation sub-projects, and the Forestry and Wildlife Service shall deal with reforestation sub-projects. Although the DGRNR has 945 people currently on its payroll and 256 vehicles, these project activities may require the development of additional staff and logistic support.

An office of eight technical and auxiliary staff members will be established to plan and manage the reforestation project and a total of 15 vehicles will be made available to transport project personnel and materials. The conservation sub-project activities shall require a special implementation office consisting of six professionals and 14 auxiliaries, supported by 6 vehicles plus office and field equipment. The creation of enhanced institutional capability is essential to the completion of the ambitious goals set for these projects. DGRNR is familiar with AID operating procedures, and there exists a good working relation between USAID and donors.

In the course of planning and implementing the Small Farmer Natural Resource Management Project (519-0217) the DGRNR has shown itself to be a competent institution, DGRNR is deemed capable of implementing the proposed activities having demonstrated a capacity to work with AID and other donors in the areas of soil conservation and reforestation. Although large relative to DGNR's annual budget of \$6.4 million, AID project resources can be responsibly managed with the special project implementation capabilities that have been designed for these project activities.

b. Livestock Directorate (DGG). This directorate will also establish a special office to execute its greatly expanded responsibilities in the construction of water reservoirs. A staff of 7 professionals and 4 auxiliaries will be assembled and the project will be provided with logistic support of about 15 vehicles and \$18,000 of office equipment. It is deemed that these special resources will be sufficient to implement water sub-project activities. The DGG has an operating budget of \$6.7 million for FY 80 and 800 employees on its payroll.

3. Project Coordination.

Because of the character of the employment sub-projects identified for execution under this loan, the principal implementation entity of the GOES will be the Ministry of Public Works and its operating sub-divisions, Caminos, DUA and ANDA. It is anticipated that the Ministry will also have responsibility for the execution of physical construction projects being implemented by other Ministries, for example, food storage facilities for the Ministry of Public Health. Therefore, although overall GOES coordination of Emergency Action Programs, including this Employment project, is invested in the Executive Office of Sectorial Coordination in the Ministry of Planning, all day to day coordination and implementation execution will be carried out under the direction of the Minister of Public Works through the mechanism of a Special Resources Office (SRO) to be established for that purpose.

Physically headquartered in the Ministry of Public Works' central offices, the SRO will be staffed by an assigned Civil Engineer administrator; two assistant engineers, five construction inspectors, two accountants and three secretaries for the life of the project. Five consulting engineers, funded under this loan, will provide required technical support for all SRO operations. Planning liaison representatives from the Ministries of Planning, Public Health and Agriculture will be seconded to the unit as required. Additionally, a liaison representative from DIDECO, Ministry of the Interior, will be assigned to the SKU to provide guidance and assistance to assure maximum community participation in the identification and implementation of sub-projects.

The SRO will be responsible for all central planning

requirements, including contingent needs for sub-projects being executed by elements of other Ministries (i.e., Natural Resources and Livestock Divisions of the Ministry of Agriculture); assistance in the development of completed additional sub-project plans; and the monitoring and certification of sub-project implementation by each executing agency. Specifically, the SRO will:

- Review and authorize eligible sub-projects prior to execution.
- Monitor and conduct work in-progress inspection of sub-projects.
- Assess and certify completed sub-project activity for reimbursement.
- Manage emergency employment fund revolving account.
- Evaluate and recommend modification of sub-project procedures and practices where appropriate.

The operation of the SRO is consistent with extensive previous similar coordination roles performed by the Ministry of Public Works. Further, the Ministry's efforts in this capacity are recognized and accepted by other Ministries. The Ministry of Public Works has the necessary depth and range of personnel required and is capable of adequately supporting the SRO administrative requirements.

C. Financial Analysis

1. Financial Plan:

Based on the Financial Summary presented in Section I and discussed in the Project Description it is anticipated that AID Loan funds and AID grants and GOES counterpart resources will be allocated to the project as follows:

<u>Consolidated Financial Plan</u>				
<u>In US \$000</u>				
<u>Use of Funds</u>	<u>Loan</u>	<u>Grant</u>	<u>GOES</u>	<u>Total</u>
Emergency Employment Fund	14,600	-	2,500	17,100
Design and Management Improvement	400	-	2,650	3,050
Strengthening of Public Works Sector	-	125	-	125
TOTAL	<u>15,000</u>	<u>125</u>	<u>5,150</u>	<u>20,275</u>

AID funds will be authorized for disbursement in two separate phases. Ten million dollars is expected to be authorized in loan funds and the total requirements (\$125,000) of the grant funding in Phase I. Authorized funding for Phase II will be an additional \$5.0 million of loan funds. For funding source detail see Exhibit II, Cost Estimate and Financial Plan of AID funds by Funding Sources.

As can be seen in Exhibit I no separate budget allocation has been made for Contingency or Inflation as this Project has been designed to provide funding for a number of public works projects from a predetermined list of sub-projects with specific criteria which must be met before AID financing can be approved. The governing ceiling is the amount provided by this project and it will be the responsibility of the Ministry of Public Works Special Resources Office to establish specific project ceilings which will contain contingency and inflation factors when appropriate.

Expenditures have been projected by cost components, by source of funding and by Fiscal Year and are shown as Exhibit III. Total expenditures by fiscal year are as follows:

<u>Consolidated Disbursement Schedule</u>			
<u>In US \$000</u>			
<u>Use of Funds</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Emergency Employment Funds	8,000	7,000	2,100
Design and Management Improvement	1,230	1,130	690
Strengthening of Public Works Sector	<u>42</u>	<u>48</u>	<u>35</u>
TOTAL	<u>9,272</u>	<u>8,178</u>	<u>2,825</u>

During Fiscal Year 1980, forty six percent of total expenditures are estimated to occur as this is an emergency project and it is expected that the GOES will immediately act upon project execution.

Ninety seven percent of Loan funds or \$14,600,000 has been identified to be utilized in the emergency Employment Fund; however, if the component for the Design and Management Improvement appears to be underestimated for an adequate and expedient utilization of the Employment Fund, the GOES with USAID's concurrence may allocate Loan resources by mutual understanding.

Although this project structure lends itself to the use of fixed amount reimbursement method (FAR) of financing, it has been

decided not to use FAR because the purpose of this project is to generate employment immediately. The FAR process of estimating costs, obtaining approvals, etc. is considered too lengthy.

2. Counterpart Contributions

Counterpart contributions of \$5,150,000 consist of \$650,000 for the two and one half year operation of the SRO, \$2.0 million will be in-kind contributions of infrastructure management supervisory activities, which are estimated at 15% of project costs. This is a very conservative estimate since the overall Ministry of Public Works 1980 budget provides \$27.8 million for operating costs of a total \$93.1 million budget which is 30% of the budget.

The other \$2.5 million will be cash contributions which will be deposited in tranches into the Central Reserve Bank Account to cover project costs.

The costs of the SRO are expected to be as follows:

Special Resources Office - (2 yr. costs)

Personnel

1	Engineer/Manager	-	30 mos. at 1,200/mo.	\$ 36,000
2	Ass't. Engineers	-	1 at 30 mos. at 800/mo.	24,000
			1 at 24 mos. at 800/mo.	19,200
5	Construction Inspectors	-	2 at 30 mos. at 720/mo.	43,200
			3 at 24 mos. at 720/mo.	51,840
2	Accountants	-	30 mos. at 750/mo.	45,000
3	Secretaries	-	1 at 30 mos. at 400/mo.	12,000
			2 at 24 mos. at 300/mo.	14,400
13	Drivers	-	24 mos. at 200/mo.	64,400
1	Messenger	-	24 mos. at 160/mo.	3,840
	Social Benefits	-	30% of Salaries	94,164
				<u>\$408,044</u>

Other Operating Costs

8 vehicles for staff	-	24 mos. at 300/mo.	\$ 57,600
5 vehicles for consultants	-	24 mos. at 300/mo.	36,000
Office Equipment	-	30 mos. at 1,500/mo.	45,000
Travel	-	Staff (50% of time)	10,000
		2,520 days at \$10 x 2 yrs.	50,400
Misc. Expenses for Office			40,000
			<u>\$239,000</u>
Total Office Operating Cost			\$647,044
Contingency			2,956
			<u>\$650,000</u>
		T O T A L	

EXHIBIT I

PUBLIC SECTOR EMPLOYMENT PROGRAM
SUMMARY COST ESTIMATE AND FINANCIAL PLAN
In US \$000

	<u>Loan</u>	<u>AID Grant</u>	<u>Total</u>	<u>GOES Counterpart</u>	<u>TOTAL</u>
<u>Emergency Employment Fund</u>					
Urban Infrastructure Subprojects	7,800	-	7,800	1,027	8,827
Rural Infrastructure Subproject	3,700	-	3,200	941	4,641
Land and Conservation Subprojects	3,100	-	3,100	532	3,632
SUB TOTAL	14,600	-	14,600	2,500	17,100
<u>Design and Mgmt. Improvement</u>					
Min. of P.W. Special Resources Office	200	-	200	650	850
Spare Parts	200	-	200	-	200
Implementing Agency Management	-	-	-	2,000	2,000
SUB TOTAL	400	-	400	2,650	3,050
<u>Strengthening of Public Works Sector</u>					
Project Evaluation	-	25	25	-	25
Tech. Assistance and Training	-	100	100	-	100
SUB TOTAL	-	125	125	-	125
GRAND TOTAL	15,000	125	15,125	5,150	20,275

PUBLIC SECTOR EMPLOYMENT PROGRAM
Cost Estimate and Financial Plan AID Funds
by FUNDING SOURCE

(In U.S. \$000)

	PHASE I				PHASE 2		TOTALS			
	Loan		Grant	Total AID	Loan		Loan		Total Loan	Total Grant
	F&N	SDA	SDA		F&N	SDA	F&N	SDA		
<u>Emergency Employment Fund</u>										
Urban Infrastructure Subproject	-	5,800	-	5,800	-	2,000	-	7,800	7,800	
Rural Infrastructure Subprojects	2,800		-	2,800	900	-	3,700		3,700	
Land Conservation Subprojects	1,000	-	-	1,000	2,100	-	3,100	-	3,100	
SUB TOTAL	3,800	5,800	-	9,600	3,000	2,000	6,800	7,800	14,600	-
<u>Design and Management Improvement</u>										
Min. of P.W. Special Resources Office	200	-	-	200	-	-	200	-	200	
Spare Parts		200	-	200	-	-	-	200	200	
Implementing Agency Management	-	-	-	-	-	-	-	-	-	
SUB TOTAL	200	200	-	400	-	-	200	200	400	-
<u>Strengthening of Public Works Sector</u>										
Project Evaluation	-	-	25	25	-	-	-	-	-	25
Technical Assistance and Training	-	-	100	100	-	-	-	-	-	100
SUB TOTAL	-	-	125	125	-	-	-	-	-	125
GRAND TOTAL	4,000	6,000	125	10,125	3,000	2,000	7,000	8,000	15,000	125

PUBLIC SECTOR EMPLOYMENT PROGRAM
PROJECTION OF EXPENDITURES BY FISCAL YEAR
In US \$000

	1980				1981			
	<u>Loan</u>	<u>Grant</u>	<u>Total AID</u>	<u>GOES</u>	<u>Loan</u>	<u>Grant</u>	<u>Total AID</u>	<u>GOES</u>
<u>EMERGENCY EMPLOYMENT FUND</u>	6,800	-	6,800	1,200	6,000	-	6,000	1,000
<u>Design and Management Improvement</u>								
Min. of P.W. Special Resources Office	50	-	50	160	100	-	100	280
Spare Parts	60	-	60	-	110	-	110	-
Implementing Agency Management	-	-	-	960	-	-	-	640
SUB TOTAL	110	-	110	1,120	210	-	210	920
<u>Strengthening of Public Works Sector</u>								
Project Evaluation	-	10	10	-	-	-	-	-
Technical Assistance and Training	-	32	32	-	-	48	48	-
SUB TOTAL	-	42	42	-	-	48	48	-
GRAND TOTAL	6,910	42	6,952	2,320	6,210	48	6,258	1,920

PUBLIC SECTOR EMPLOYMENT PROGRAM
PROJECTION OF EXPENDITURES BY FISCAL YEAR
In US \$000

	1982				TOTAL			GRAND TOTAL
	Loan	Grant	Total AID	GOES	Loan	Grant	GOES	
<u>EMERGENCY EMPLOYMENT FUND</u>	1,800	-	1,800	300	14,600	-	2,500	17,100
<u>Design and Management Improvement</u>								
Min. of P.W. Special Resources Office	50	-	50	210	200	-	650	850
Spare Parts	30	-	30	-	200	-	-	200
Implementing Agency Management	-	-	-	400	-	-	2,000	2,000
SUB TOTAL	80	-	80	610	400	-	2,650	3,050
<u>Strengthening of Public Works Sector</u>								
Project Evaluation	-	15	15	-	-	25	-	25
Technical Assistance and Training	-	20	20	-	-	100	-	100
SUB TOTAL	-	35	35	-	-	125	-	125
GRAND TOTAL	1,880	35	1,915	910	15,000	125	5,150	20,275

D. Social Analysis

1. Project Beneficiaries and Spread Effects

The primary target group for the Project is the large number of un- and underemployed laborers in El Salvador. Present estimates indicate that both have increased significantly during the past year -- to the point that some 50% of the labor force (700,000 people) are seriously under- or unemployed. It goes without saying that this project will not provide benefits for this entire group. Nonetheless, assuming an average wage rate of 212 per day (\$4.80), approximately 80,600 person months of employment will be created. Again assuming that all of this employment will be short-term, i.e., averaging from two to three months per sub-project, at least 25,000 to 40,000 people will be employed and will receive income supplements as a direct result of the public works financed through this project.

The distribution of employment created by the Emergency Program will also have important income and migration effects, both of which will contribute to increasing political and economic stability during the life of the project. This is based on several factors. First, despite a traditional preference for agricultural work, increasing rural/urban wage/price differentials and severely reduced employment/income alternatives in rural areas are creating greater movement into the country's already strained urban areas. Because of the extremely short distances in El Salvador, such rural/urban transfers are all too feasible during periods of economic dislocation. Adding to the pressure for this migration is a significant difference in the dependency ratio between rural and urban workers: the rural worker is estimated to support an average of 2.3 additional economically inactive individuals compared with the 1.9 of his urban counterpart.

To the extent employment generated by this program produces enhanced rural economic alternatives, pressures on the rural unemployed to migrate to urban areas will be reduced. This will help to decrease the urban unemployment burden, as well as reduce the pressures on limited services and facilities in marginal urban areas. While enhanced economic opportunities in both urban and rural zones will assist in reducing potential adverse political action by deflating the available market, increased rural employment could also cut sharply into current exploitation of campesino labor problems by opposing political groups, including the practice of trucking large numbers of idle farm laborers to anti-government demonstrations in San Salvador and other urban centers.

Project beneficiaries will also include a substantial

number of urban and rural poor who are currently without basic water and sewerage services. In San Salvador alone, it is estimated that some 60,000 people living in tugurios and illegal settlements will directly benefit from the new infrastructure and services provided under this Project.

2. Feasibility

With the exception of certain higher level skills in the construction sector (masonry, carpentry, construction supervision) the predominant employment requirement (approximately 90% of all jobs) demanded by the sub-projects is for unskilled, manual labor, particularly within the rural/agricultural field. The character of the work entailed (earth moving/shaping, handling, lifting, compacting, etc.) is traditionally acceptable and within the capability of the unemployed target group. Higher level skill needs developed by the respective sub-projects can be adequately met by those unemployed in the currently moribund commercial construction and manufacturing sector.

3. Role of the Community

Direct community involvement in this program -- in the sense of organized community participation in the entire planning or implementation phases is not contemplated except in isolated circumstances. Nonetheless, sub-projects to be implemented in the small urban core areas of the rural towns and villages outside of San Salvador will rely heavily on traditional community structures/institutions for recruitment and employment of the local labor force and for necessary ancillary support. Income effects on participating communities, of course, will also be important.

4. Role of Women

While direct employment generated by this project is culturally defined for men, some sub-projects will provide selected job opportunities for women, for example "rocking" on access road improvements. Women are frequently directly employed on "lighter" aspects of such construction work such as chipping, stacking, etc. For the most part, however, involvement of women in this program is likely to be indirect, such as additional sales by female street vendors near such projects and some probable increased farm employment and income as a result of male displacement on local sub-project construction. In some cases, women may be able to reduce undesirable outside employment and redirect work effort to the home or community.

E. Economic Analysis

The macro-economic justification for the Public Sector Employment Program is provided in the Background and Problem section of

this Project Paper. Given the employment generating orientation of the Project, cost-benefit ratios were not computed for sub-projects. However, projects have been selected with a view to ensuring that positive benefits are created -- primarily through lowered transport costs, health improvement, increased food storage capacity, conservation and wood fuel supply, and improved soil productivity.

1. Demand

During intensive review, the Mission identified 480 sub-projects for an estimated \$8.5 million ready for immediate implementation from a backlog of Government projects designed to meet infrastructure needs in urban and rural areas occupied by predominately lower-income groups. Additional projects totalling \$9.2 million can be ready for implementation within six months. All of the \$17.7 million of potential sub-projects met loan criteria. Given the backlog of other projects in earlier design stages, there is sufficient demand for project funds even if any of the potential projects selected for financing are eliminated following more intensive review.

2. Employment Effect

Direct Employment: Table V provides a detailed breakdown of labor content and job creation by investment category. Labor coefficients as a percent of total cost were estimated from the detailed budgets of projects ready for implementation. These coefficients were then used to derive the estimated wage bill. The wage bill was then divided by the weekly wage of ¢84,00 colones (\$36,60) proposed for the project to obtain person weeks of labor created. Since most sub-projects are quite small scale, most will be completed between 45 and 90 days. An average of 60 days was assumed in calculating the number of jobs to be created.

Using these assumptions, the Project will create some 37,900 job opportunities of 60 day duration and generate at least \$10 million of wage income. Approximately 14,800 urban sector jobs will be heavily concentrated in the San Salvador Metropolitan Area. At a maximum, this will provide direct but temporary relief to 5% of the 750,000 workforce considered un- or underemployed. Direct employment beneficiaries, including extended family members, should total approximately 200,000.

3. Secondary Effects:

A reliable model for El Salvador with which to predict

TABLE V

ESTIMATED EMPLOYMENT CREATION

	Estimated Cost (\$)	Estimated Percent Labor	Estimated Wage Bill *	Person-Weeks Labor	# Jobs Created
Urban Sub-projects					
Drainage	774,300	59	457,000	13,600	1,600
Streets	3,650,600	59	2,154,000	64,100	7,500
Water	1,610,500	51	821,000	24,400	2,900
Sewer	1,044,500	64	668,000	19,900	2,300
Food Storage	120,000	60	72,000	2,100	300
Bridges	113,600	58	65,000	1,900	200
Sub-Total	7,313,500	58	4,237,000	126,000	14,800
Rural Sub-projects					
Drainage	1,892,700	52	984,000	29,300	3,500
Roads	1,901,200	51	970,000	28,900	3,400
Bridges	762,700	68	519,000	15,500	1,800
Food Storage	414,000	60	248,000	7,400	900
Reforestation	3,569,000	74	2,641,000	78,600	9,200
Soil Conservation	1,340,000	67	898,000	26,700	3,100
Water Reservoirs	500,000	68	340,000	10,100	1,200
Sub-Total	10,379,600	64	6,600,000	196,500	23,100
T O T A L S	17,693,100	61	10,837,000	322,500	37,900

additional employment and income generating effects does not exist, although it is likely that the purchase of locally manufactured construction materials will generate additional employment demands. However, it is in the area of consumer demand creation and subsistence level small-farm investment that the Project's major secondary effects will be generated. For lower income barrios, the widespread disbursement of \$10.8 million of new incomes will maintain cash flows presently being reduced by economic depression. For some of those employed, it is likely to be the only source of cash with which to purchase needed seed and fertilizer inputs for small farm plots during the period of the public sector employment plan.

V. PROJECT IMPLEMENTATION

A. Summary

In order to achieve the major purpose of the Project -- to increase employment and income opportunities in the short-term -- implementation of sub-projects and the disbursement of funds will need to begin quickly. The Project has been designed to accommodate this need for speed. During intensive review, more than \$17 million of sub-projects which meet the agreed upon selection criteria were identified for inclusion in the Government's Emergency Employment Program. Detailed plans exist for approximately \$8.5 million of these sub-projects; implementation on these can therefore begin immediately.

The first steps will be for the GOES to (1) create an account for the Emergency Employment Fund in the Central Reserve Bank of El Salvador and (2) establish and staff the Special Resources Office (SRO) within the Ministry of Public Works. As stated in the Institutional Analysis Section of this Paper, the SRO has been designed to compensate for administrative weaknesses within the MPW, as well as to serve as the Project coordination point. It will review all potential sub-projects; select those which are eligible for Project financing; monitor sub-project implementation; approve payments; and certify when sub-projects are completed. It will be staffed by at least ten professional civil servants, three support/clerical personnel, and five local contract engineers. Once the sub-project is approved and funding authorized, construction will be supervised by the appropriate implementing agency -- MPW Directorate of Urbanization and Architecture, MPW Directorate of Rural Roads, National Water and Sewer Administration, or Ministry of Agriculture. All work will be done using force account construction procedures, with labor contracted as needed.

It is anticipated that the SRO will have been established and staffed by February 15, 1980, and that the initial sub-projects will have been identified for financing and ready for implementation before the end of February. The Mission is therefore requesting that it be authorized to reimburse the GOES for eligible expenditures from the date of creation of the SRO, rather than the date of authorization, which may be several weeks later. This will allow the GOES to move forward quickly with the program and with creating new jobs. Assuming that this schedule can be maintained, we expect at least \$8 million of Loan funds to have been disbursed by September 30, 1980. Therefore by late FY 1980, and certainly no later than the first two months of FY 1981, the Mission expects to obligate the remaining \$5 million for the Public Sector Employment Program.

B. Disbursement Procedures

1. Local Currency

a. Employment Fund Account

Taking into consideration the emergency nature of this Project and the relative cash position of the GOES at this time, A.I.D. is prepared to authorize an advance of funds which will be based on a 90 day projection of disbursements. The advance will be made to the GOES Treasury, Development Loans Account on behalf of the borrower. The Treasury will in turn authorize the opening of a revolving fund account in the Central Bank. The account will be managed by the Special Resources Office (SRO) of the borrower in order to make timely payments of the project costs. This account will be reimbursed by the Treasury from the A.I.D. advance; the Treasury will request loan disbursements submitting either paid documentation and or certifications in order to replenish the advance account.

The advantage of establishing this type of account is that it facilitates and expedites payments for materials and labor costs which cannot be delayed. In addition, once the Treasury is involved, all GOES fiscal requirements will have to be followed for recording the loan disbursements, project expenditures, pre audit of vouchers, and becomes part of the legal accounting system of the GOES. The Court of Accounts (a parallel of our GAO) will audit all expenditures and procedures, thus minimizing any improper use of loan funds.

The proposed account will also simplify transfers of funds and or payments for costs of projects being implemented by different agencies of the three ministries involved in this project.

The documentation requirements and certifications for payments will be spelled out in Implementation Letters under the Loan Agreement.

b. Disbursement to Implementing Agencies

Following approval of each sub-project, the SRO will provide the appropriate implementing agency with the full amount of estimated sub-project funding in accordance with the approved cost estimates and budget. This will take the form of progress payments to the implementing entity, contractors, or suppliers on presentation of the stipulated documentation. This procedure has proven effective in meeting bimonthly force account payrolls, contractor and supplier billings and in exercising control and accounting of disbursements for

other MPW works. The stipulated documentation will include certifications by a designated construction supervisor, by the Special Resources Office, and by the personal services engineering consultant to be retained by the SRO.

Under usual payroll procedures, payment for a previous bimonthly work period are made at the end of the following weekly period. This is accomplished by submission of the certified payroll documentation to the SRO which releases funds in time to meet the payroll. Documented contractor and supplier billings can similarly be reimbursed within a one-week period of submission.

Because each sub-project final cost estimates will contain inflation and contingency allowances, cost overruns are not expected to be a problem, particularly under force account procedures. It is planned to include a contingency allowance of 10% for materials and transport and 15% for labor costs in the preparation of cost estimates. In addition, the GOES is currently under pressure to increase wages which, if done during sub-project execution, will entail appropriate related cost adjustments.

2. Foreign Exchange

Since the primary objective of the program is to create employment, all of the anticipated sub-projects will be relatively small and labor-intensive and will have been designed to make maximum use of local materials and labor and to minimize the need for imported goods. However, to the extent that limited imported goods are needed and foreign exchange costs incurred, the Project can be used to cover them. In these cases, upon request by the GOES, A.I.D. would issue a Letter of Commitment to a U.S. bank for any sub-project related foreign exchange costs. Letters of Credit would then be executed by the Central Bank (on behalf of the Emergency Employment Fund) in the name of the supplier and payment would be made directly to this supplier. Any banking charges incurred by the GOES in connection with these Letters of Commitment and Letters of Credit can be financed under the project.

C. Procurement Procedures

No procurement of major equipment is expected. Also, since all construction will be done on a force account basis, there will be no construction contracts. The only expected procurement will be for (1) \$200,000 of loan funded, equipment spare parts, (2) \$200,000 for five personal services contractors with the Special Resources Office, and (3) local procurement of construction materials, minor equipment and labor.

1. Spare Parts

The spare parts listed in Annex II.B will be procured using \$200,000 of Loan Funds. Because of the minor nature of the sum and the need to procure the items quickly in order to avoid implementation delays, these spare parts will be procured from local distributors. The origin of all spare parts will be the United States.

2. Consultants to SRO

The five consultants to the SRO will be contracted through host country contracts. No contract is expected to exceed \$50,000. All will be negotiated according to normal GOES procedures.

3. Local Materials and Labor

The implementing agencies will procure all required materials locally off-the-shelf, and contract for unemployed labor as needed.

D. Project Monitoring

The local consulting engineers will submit monthly progress reports to the Special Resources Office. These will include current information on disbursements and commitments, work force levels, sub-project status, and recommendations for procedural improvements (when relevant). Copies of the monthly reports will be provided to USAID. Monthly progress reviews will be held between USAID and the Special Resources Office.

E. Evaluation Plan

Two project evaluations are planned: one between September and December 1980, approximately six to nine months after the Project begins, depending upon implementation progress, and one in June 1982, at the completion of the Project.

The first will concentrate on implementation procedures and on the degree to which the program has been able to have the desired high and immediate impact. In more specific terms, it will look at:

- the effectiveness of the SRO, including how long it takes in reviewing, authorizing, and disbursing for sub-projects;
- the appropriateness of the sub-project selection criteria, especially as they relate to the Project purposes;

- the effectiveness of the individual implementing agencies in meeting Project objectives and ways in which the Project could be restructured to compensate for any weaknesses;
- hardware, including spare parts, requirements for the implementing agencies; and
- the locations and status of sub-projects already completed.

In more general terms, this first evaluation will look at the amount of new employment and the income levels generated as a result of the Project. It will also attempt to ascertain the prior employment status of those laborers hired under the Project, as well as identify the particular beneficiaries of the program -- e.g., whether or not there is a predominance of workers from certain regions of the country or from certain age groups.

The second or final evaluation, will also look at the effectiveness of the Project design in meeting its short-run high impact objectives. Beyond this, it will examine the longer run role of expanded public works programs in the country's employment strategy. It will look at:

- the labor content of the sub-projects financed through the Public Sector Employment Program and the overall income effect;
- the possible migration effects and geographic distribution of benefits;
- the degree to which laborers temporarily employed under this Project have been able to move on to permanent jobs; and
- the socio-economic benefits of the infrastructure financed under the Project.

F. Environmental Considerations

The attached Initial Environmental Examination (IEE) recognizes that most of the potential sub-projects proposed will have no, or very little, environmental impact. This is particularly true of all those projects which merely add to, extend, or repair existing facilities, and which by design will not cause the original infrastructure or affected area to be changed. It therefore recommends a Negative Threshold Determination. However, in some cases, there may be changes

in land-use -- e.g., the reforestation and soil conservation sub-projects -- which will require further environmental analysis. The sub-project selection criteria have been designed to take into account environmental considerations, especially to avoiding projects which might have adverse environmental effects. When the sub-projects are reviewed, the SRO will determine those for which there may be potentially adverse effects. In those cases, the GOES will agree to submit its findings on possible environmental effects to AID prior to approval. AID will review these findings, and when deemed necessary, will advise the SRO of the kinds of additional environmental analyses which will be required before sub-project authorization.



MINISTERIO DE PLANIFICACION
COORDINACION DEL DESARROLLO
ECONOMICO Y SOCIAL

ANNEX I.A

San Salvador
8 de Febrero de 198

No. 08
DECS

Señor Charles J. Stockman
Director
USAID/El Salvador
PRESENTE.

Estimado señor Stockman:

Me es grato dirigirme a usted a fin de comunicarle que dentro de los lineamientos de la Proclama de la Fuerza Armada, se encuentra como uno de sus grandes objetivos el mejoramiento de las condiciones de vida de los estratos poblacionales de más bajos ingresos. Y que bajo este contexto el presente gobierno está haciendo un esfuerzo de alta prioridad para la generación inmediata del nivel de empleo más alto a través de una rápida implementación de trabajos urgentes de infraestructura básica tanto en el área urbana como rural de nuestro país.

El programa en mención generará aproximadamente 45.000 meses-hombre de empleo en 1980, mediante el desarrollo de subproyectos de servicios públicos que se necesitan para iniciar o mejorar sistemas de drenaje de aguas negras o residuales; accesos rurales, pavimentación o mejoramiento de calles, incremento y mejoramiento de sistemas de agua potable y trabajos rurales necesarios que incluye agua y conservación de suelos.

Hemos considerado que para realizar nuestro objetivo necesitamos una inversión de cincuenta millones de colones (¢50.000.000), y para -- iniciarlo, deseamos solicitar formalmente de su gobierno y de acuerdo a pláticas preliminares la consideración de un préstamo concesional de -- ¢37.500.000 (Treinta y siete millones quinientos mil colones), los que serán complementados con una aportación local del Gobierno de El Salvador para llevar a feliz término esta ardua tarea.

Agradeciendo su atención a lo anteriormente expuesto, aprovecho la oportunidad para renovarle las muestras de mi alta consideración y estima.

Héctor Dada Hírezi
Encargado del Despacho

5C(1) - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Economic Support Fund

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

Project will benefit the country's needy poor.

2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the United States unlawfully?

El Salvador takes adequate steps to prevent narcotic traffic.

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

Yes.

4. FAA Sec. 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?

No, as far as is known.

5. FAA Sec. 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?

No.

A.

6. FAA Sec. 620(a), 620(f); FY 79 App. Act, Sec. 108, 114 and 606. Is recipient country a Communist country? Will assistance be provided to the Socialist Republic of Vietnam, Cambodia, Laos, Cuba, Uganda, Mozambique, or Angola?

No.

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

No.

8. FAA Sec. 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?

No.

9. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, convertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

El Salvador has instituted the Investment Guaranty Program.

10. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters:

El Salvador has not seized or imposed penalties against any U.S. fishing activities in international waters.

a. has any deduction required by the Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by AID Administrator?

11. FAA Sec. 620; FY 79 App. Act, Sec. 603.
(a) Is the government of the recipient country in default for more than 6 months on interest or principal of any AID loan to the country?
(b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds?

12. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the

Yes. 9.2 percent of the current national budget is assigned for military expenses. Of this amount \$10 million is to be expended on military equipment. The GOES has not purchased sophisticated weapons.

A.12.

amount spent for the purchase of sophisticated weapons systems? (An affirmative answer may refer to the record of the annual "Taking Into Consideration" memo: "Yes, as reported in annual report on implementation of Sec. 620(s)." This report is prepared at time of approval by the Administrator of the Operational Year Budget and can be the basis for an affirmative answer during the fiscal year unless significant change in circumstances occur.)

13. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No

14. FAA Sec. 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 AID Administrator in determining the current AID Operational Year Budget? From information available to the Mission, El Salvador is meeting its UN obligations.

15. FAA Sec. 620A, FY 79 App. Act, Sec. 607. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? No.

16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA? No.

17. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty? No.

B. FUNDING CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 102(b)(4). Have criteria been established and taken into account to assess commitment progress of country in effectively involving the poor in development, on such indexes as: (1) increase in agricultural productivity through small-farm labor intensive agriculture, (2) reduced infant mortality, (3) control of population growth, (4) equality of income distribution, (5) reduction of unemployment, and (6) increased literacy?

El Salvador is committed to involve the poor in the development process by carrying out several projects to address their needs in the agricultural, health, nutrition, housing, employment and other sectors.

B.1.

b. FAA Sec. 104(d)(1). If appropriate, is this development (including Sahel) activity designed to build motivation for smaller families through modification of economic and social conditions supportive of the desire for large families in programs such as education in and out of school, nutrition, disease control, maternal and child health services, agricultural production, rural development, and assistance to urban poor?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights?

We don't think so.

b. FAA Sec. 533(b). Will assistance under the Southern Africa program be provided to Mozambique, Angola, Tanzania, or Zambia? If so, has President determined (and reported to the Congress) that such assistance will further U.S. foreign policy interests?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

d. FY 79 App. Act, Sec. 113. Will assistance be provided for the purpose of aiding directly the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

e. FAA Sec. 620B. Will security supporting assistance be furnished to Argentina after September 30, 1978?

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual fund sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Fund.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PRODUCT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 79 App. Act Unnumbered; FAA Sec. 653 Sec. 634A. (a) Describe how Committees on Appropriations of Senate and House have been notified concerning the project;
(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?

An advice of Program Change has been forwarded to the congress notifying them of this new FY80 project. The project is within the OYB.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonable estimate of the cost to the U.S. of the assistance?

Yes.

3. FAA Sec. 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 purpose of the assistance?

Not required.

4. FAA Sec. 611(b); FY 79 App. Act Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

N/A.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Yes.

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No

1.

7. FAA Sec. 601(a). Information and conclusions whether project 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.

The project will finance labor-intensive public works and conservation activities. It will indirectly contribute to efforts to strengthen the private sector.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. goods and services will be used as appropriate.

9. FAA Sec. 612(b); Sec. 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.

The GOES will contribute to the Emergency Employment Fund and provide staff, equipment and related support for implementation.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

12. FY 79 App. Act Sec. 608. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar, or competing commodity?

N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); 111; 113; 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained

The purpose of the project is to increase employment and income opportunities for the poor through a variety of small-scale labor-intensive public work activities. Investment will flow to urban, secondary city, market town, and rural areas. It will promote the participation of both rural and urban poor men and women in the country's development.

B.1.a.

basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106, 107.

Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.)

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(i) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(ii) to help alleviate energy problems;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

Approximately \$8 million of the loan funds will finance rural infrastructure investment. AID sub-projects will include substantial labor content, and therefore contribute to increased rural incomes.

Approximately \$7 million of loan funds will finance urban infrastructure sub-projects, including street improvements, drainage structures, and water and sewerage line extensions in marginal communities. All planned activities will help the poor to increase their participation in development.

B.1.b.(4).

(v) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for programs of urban development especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

c. [107] Is appropriate effort placed on use of appropriate technology?

Yes, all sub-projects will be chosen on the basis of labor-intensity.

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

Yes.

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to the Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

No

f. FAA Sec. 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 civil education and training in skills required for effective participation in governmental and political processes essential to self-government.

I/A

g. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase or productive capacities and self-sustaining economic growth?

Yes, the project will have a significant impact on the country's infrastructure base -- increases in this will contribute to an improved productive capacity.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

The country has the capacity to repay the loan.

b. FAA Sec. 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?

N/A

B.

3. Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

b. FAA Sec. 533. Will assistance under this chapter be used for military, or paramilitary activities?

5C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed? Yes.
2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him? Yes, off-the-shelf procurement will be used according to standard AID procedures.
3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed? Yes.
4. FAA Sec. 604(e). If offshore 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? N/A
5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? Yes.
6. FAA Sec. 603. (a) Compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. Yes.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the Yes.

A.7.

facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available? Yes.

9. FY 79 App. Act Sec. 105. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States? Yes.

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest? No contracting of construction is expected, U.S. or otherwise. All construction will be done by GOES entities on force account basis.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the United States not exceed \$100 million? N/A.

C. Other Restrictions

1. FAA Sec. 122 (e). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Yes.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A.

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-bloc countries, contrary to the best interests of the United States? Yes.

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or guaranty of such transaction? Yes.

C.

5. Will arrangements preclude use of financing:

- a. FAA Sec. 104(f). To pay for performance of abortions or to motivate or coerce persons to practice abortions, to pay for performance of involuntary sterilization, or to coerce or provide financial incentive to any person to undergo sterilization? Yes.
- b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.
- c. FAA Sec. 660. To finance police training or other law enforcement assistance, except for narcotics programs? Yes.
- d. FAA Sec. 662. For CIA activities? Yes.
- e. FY 79 App. Act Sec. 104. To pay pensions, etc., for military personnel? Yes.
- f. FY 79 App. Act Sec. 106. To pay U.N. assessments? Yes.
- g. FY 79 App. Act Sec. 107. To carry out provisions of FAA sections 209(d) and 251(h)? (Transfer of FAA funds to multilateral organizations for lending.) Yes.
- h. FY 79 App. Act Sec. 112. To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields? Yes.
- i. FY 79 App. Act Sec. 601. To be used for publicity on propaganda purposes within United States not authorized by the Congress? Yes.

ANNEX I.C

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

I, Charles J. Stockman, as Director of the Agency for International Development Mission to El Salvador, having taken into account, among other things, the maintenance and utilization of projects previously financed by U.S.A.I.D./El Salvador, do hereby certify that in my judgment the Government of El Salvador and the implementing agencies in particular have the financial capacity and human resources capability to effectively utilize and maintain the proposed Public Sector Employment Program Loan and Grant. In order to ensure this, the Loan and Grant provide funding for consultants and technical assistance to help implement the Project, as needed.

This judgment is based upon the implementation record of AID-financed projects in El Salvador and the degree of planning and analysis which have been done in designing and preparing this new project.



Charles J. Stockman
Director, USAID/El Salvador

2/11/80

Date

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

THE ADMINISTRATOR

PROJECT AUTHORIZATION

Name of Country: El Salvador
Name of Project: Public Sector Employment
Number of Project: 519-0256

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Public Sector Employment Project for El Salvador (the "Cooperating Country") involving planned obligations of not to exceed Fifteen Million United States Dollars (\$15,000,000) in loan funds ("Loan") and One Hundred and Twenty-five Thousand United States Dollars (\$125,000) in grant funds ("Grant") over a two year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The Project ("Project") will in the short term, increase employment and income opportunities for unemployed and underemployed laborers by financing a variety of labor-intensive subprojects in both rural and urban areas, and thereafter, help to institutionalize a system through which the Government of El Salvador can make optimal use of labor-intensive public works/infrastructure projects to absorb surplus labor and increase incomes.

3. The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within twenty-five (25) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services (Loan)

Goods and services, except for ocean shipping financed by A.I.D. under the Loan, shall have their source and origin in countries included in A.I.D. Geographic

Code 941, or in countries that are members of the Central American Common Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States or of countries that are members of the Central American Common Market.

c. Source and Origin and Services (Grant)

Goods and services, except for ocean shipping, financed by A.I.D. under the Grant shall have their source and origin in the United States except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

d. Reimbursement of Expenses

Upon compliance with the relevant Conditions Precedent, A.I.D. may disburse Loan or Grant funds as reimbursement for eligible costs incurred on or after February 16, 1980, provided that evidence of such costs is furnished to A.I.D. in form and substance satisfactory to A.I.D.

e. Conditions Precedent to First Disbursement (Grant and Loan)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish, in form and substance satisfactory to A.I.D.:

(1) Evidence that a Special Resource Office has been established within the Ministry of Public Works and staffed in accordance with the terms jointly agreed upon by the Cooperating Country and A.I.D.

(2) Evidence that the Emergency Employment Fund has been established within the Central Reserve Bank of El Salvador and that a system exists to disburse funds from the Central Reserve Bank to the individual implementing agencies.

f. Condition Precedent to First Disbursement (Loan)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D., a list of subprojects selected for implementation during the first three months of the Project, and shall include a statement of the estimated cost of labor, materials and equipment, location of the subprojects, implementing agencies, estimated construction or execution time, and procedures for and frequency of expected field supervision and inspections.

g. Condition Precedent to Disbursement for Reforestation, Soil Conservation and Water Reservoir Activities (Loan)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance any reforestation, soil conservation or water reservoir subproject, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D. detailed implementation plans for such subprojects which shall include an analysis of the institutional support, materials, equipment and recurring cost requirements.

h. Condition Precedent to Subsequent Disbursement (Loan)

Prior to any disbursement of Loan funds in excess of \$10 million equivalent, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D., a detailed list of subprojects which meet the Subproject Selection Criteria agreed to between the Cooperating Country and A.I.D. and which are proposed for funding under Phase II of the Project. The list shall include a statement of the estimated cost of labor, materials and equipment, location of the subprojects, implementing agencies, and estimated construction or execution time.

i. Covenants

(1) The Cooperating Country shall covenant that prior to disbursement from the Emergency Employment Fund for any subproject activity:

(a) The Special Resources Office will have certified that the subproject meets the Subproject Selection Criteria.

(b) The Special Resources Office will have certified that the land upon which any new facility, financed with A.I.D. funds, is to be constructed, is owned by the Cooperating Country and that all Project activities financed with A.I.D. funds will be conducted on publicly owned property.

(2) For all subprojects which Project consultants or the Special Resources Office indicate might cause potentially significant environmental effects, the Cooperating Country will submit to A.I.D. the findings with regard to such effects and obtain A.I.D. approval prior to the financing of any such subproject.

Administrator

Date

ANNEX I.E.

INITIAL ENVIRONMENTAL EXAMINATION

USAID/EI Salvador requests LAC/DR proceed with approval of IEE for subject project. Basic information for project IEE is as follows:

Project Location: EI Salvador

Project Title : Public Sector Employment Program

Funding FY 80 : Loan \$10,000,000
Grant 125,000

FY 81 : Loan \$ 5,000,000

Life of Project : Two Years

IEE Prepared by : C. Stevens Engr. and C.R. Gavidia USAID/EI
Salvador, General Engineering and Environmental
Coordinator

IMPACT IDENTIFICATION AND EVALUATION

<u>Impact Areas & Sub-areas</u>	<u>Impact Identification & Evaluation</u>
A. LAND USE	
1. Changing the character of the land through:	
a. Increasing the population	N
b. Extracting natural resources	N
c. Land clearing	N
d. Changing soil character	N
2. Altering natural defenses	N
3. Foreclosing important uses	N
4. Jeopardizing man or his works	N
5. Other factors	-

Impact Areas & Sub-areas

Impact Identification & Evaluation

B.	WATER QUALITY	
	1. Physical state of water	N
	2. Chemical and biological states	N
	3. Ecological balance	N
	4. Other factors	-
C.	ATMOSPHERIC	
	1. Air additives	N
	2. Air pollution	N
	3. Noise pollution	N
	4. Other factors	-
D.	NATURAL RESOURCES	
	1. Diversion, altered use of water	N
	2. Irreversible, inefficient commitments	N
	3. Other factors	-
E.	CULTURAL	
	1. Altering physical symbols	N
	2. Dilution of cultural traditions	N
	3. Other factors	-
F.	SOCIO-ECONOMIC	
	1. Changes in economic/employment patterns	L
	2. Changes in population	N
	3. Changes in cultural patterns	N
	4. Other factors	-

<u>Impact Areas & Sub-Areas</u>	<u>Impact Identification & Evaluation</u>
G. HEALTH	
1. Changing a natural environment	N
2. Eliminating an ecosystem element	N
3. Other factors	-
H. GENERAL	
1. International impacts	N
2. Controversial impacts	N
3. Larger program impacts	N
4. Other factors	-
I. OTHER POSSIBLE IMPACTS (not listed above)	NONE

DESCRIPTION OF PROJECT & IDENTIFICATION OF ENVIRONMENTAL IMPACTS

The proposed project is intended to improve the economic and social status of lower income unemployed. Through the fast-track execution of the planning and construction of labor-intensive public infrastructure-type sub-projects, the productivity and income of the unemployed will be increased in the short run. Over the long term, the economic and social infrastructure of basic services essential to growth will be maintained and expanded.

The sub-project activities include: road improvements and drainage; water supply distribution and sewerage line extensions to meet basic health needs essential to worker productivity; food storage facilities to complement an accelerated GOES nutrition program; and small scale reforestation and land-improvements.

These sub-projects will have negligible environmental implications. During the implementation of these relatively uncomplicated and simple sub-projects in nine separate departments, each, with few exceptions, at a varying cost of \$50-200,000, caution will be exercised to minimize any environmental disturbances from the relatively small amount of earth movement and excavation. In the long run, the completed sub-projects

will provide environmental benefits through improved public water supply/facilities and through improved controls of storm drainage discharges with related minimizing of soil erosion and degradation problems.

The Ministry of Public Works which will administer this program has had project experience throughout the region in evaluating the environmental considerations of infrastructure projects. It will review and evaluate the environmental implications of the sub-projects under this program as they are submitted for approval and financing. To accomplish this, all sub-project documentation to be prepared for review and approval will include an examination and evaluation of its environmental considerations and implications. Also, as part of the overall project management provisions, on-site inspections will take place, and the project engineering consultants will be instructed to ensure that construction work is performed and completed with a minimum of environmental disturbance.

At the present time there is no comprehensive national environment planning agency, the Ministry of Public Works does, however, have the necessary expertise to prepare guidelines to permit project management to evaluate each of the sub-projects. These guidelines will take into consideration the preparation of check lists to solve possible issues such as the following:

Upgrading Marginal Communities

INFRASTRUCTURE -- evaluation of alternatives and selection of least-cost, most environmentally sound sites for upgrading.

Urban Services -- design of appropriate systems for potable water, sewerage, storm drainage, garbage, street upgrading, and other services.

Rural Infrastructure -- design of appropriate least-cost rural roads and storm drainage, reforestation, soil erosion control, small water reservoirs for animal consumption. Essentially, the emphasis will be on selecting appropriate project sites, components, and technologies. The checklist shall be based upon Salvadoran environmental conditions. The Mission will assist the Ministry of Public Works in carrying out a complete and sound analysis, and in so doing will promote the participation of the design and implementation personnel therefore achieving the necessary training.

RECOMMENDATION FOR THRESHOLD DECISION

USAID/EI Salvador finds this project is not a major action which will have a significant environmental impact. A negative determination is, therefore, recommended.



Charles J. Stockman
Director

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

ANNEX I. F

Life of Project:
From FY 80 to FY 82
Total U.S. Funding \$15,125,000
Date Prepared: 2/11/80

Project Title & Number: Public Sector Employment Program 519-056

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>GOAL: To improve the socio-economic well-being of the country's poor majority</p> <p>SUB-GOAL: To stimulate economic activity and reverse a downturn in major economic variables</p>	<p>Measures of Goal Achievement:</p> <ol style="list-style-type: none"> 1. Increased incomes 2. Improved health indicators 3. Improved living conditions 4. Increase access to Govt. services <p>By 1982:</p> <ol style="list-style-type: none"> 1. Real GDP growth increases from negative 4-6% in 1979 to at least positive 4%. 2. Real GDP growth in construction sector increases to at least 6%. 3. Un- and underemployment rates drop at least 25% below 1972 levels 	<ol style="list-style-type: none"> 1. Surveys and special studies 2. " " " " 3. " " " " 4. " " " " <ol style="list-style-type: none"> 1. Official GOES publications 2. " " " " 3. " " " " 	<p>Assumptions for achieving goal targets:</p> <ol style="list-style-type: none"> 1. Political stability 2. Private investment increases 3. GOES able to manage growing financial resource constraints, including capital flight

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 80 to FY 82
Total U. S. Funding \$15,125,000
Date Prepared: 2/11/80

Project Title & Number: Public Sector Employment Program

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose:</p> <p><u>PURPOSES:</u></p> <p>The primary purpose is in the short-run to increase employment and income opportunities for un- and underemployed laborers. The longer-term, although secondary, purpose is to institutionalize a system through which the GOES can make optimal use of labor-intensive public works projects to absorb surplus labor and increase incomes.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <p><u>EOPs:</u></p> <ol style="list-style-type: none"> 1. At least \$10 million of incomes generated by end of project 2. At least 80,000 person months of new employment opportunities created by public works sub-projects. 3. MPW has special office designing and managing labor-intensive public works program. 4. An increased proportion of the MPW budget is being used for sub-projects with a labor content of at least 40%. 	<ol style="list-style-type: none"> 1. SRO monthly reports and MPW, ANDA, and MAG records. 2. " " " 3. Observation 4. GOES/MPW budget 	<p>Assumptions for achieving purpose:</p> <ol style="list-style-type: none"> 1. GOES remains committed to labor-intensive public works as part of employment strategy 2. Demand for appropriate sub-projects remains high. 3. Labor and political unrest do not impede GOES from contracting laborers.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: _____
From FY 80 to FY 82
Total U.S. Funding \$15,125,000
Date Prepared: 2/11/80

Project Title & Number: Public Sector Employment Program

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Outputs:</p> <p>1. <u>Sub-Projects</u></p> <p> a. Urban Street Improvement and Drainage</p> <p> b. Urban Water</p> <p> c. Urban Sewer</p> <p> d. Bridge</p> <p> e. Rural Roads & Drainage</p> <p> f. Food Storage Facilities</p> <p> g. Reforestation</p> <p> h. Soil Conservation</p> <p> i. Water Tanks</p> <p>2. SRO within MPW</p> <p>3. Trained engineers in labor intensive technology choices</p>	<p>Magnitude of Outputs:</p> <p>1. Number of expected sub-projects</p> <p> a. 115</p> <p> b. 137</p> <p> c. 71</p> <p> d. 8</p> <p> e. 258</p> <p> f. 178</p> <p> g. 5</p> <p> h. 500 has.</p> <p> i. 10</p> <p>2. Created by 3/1/80</p> <p>3. At least 6</p>	<p>1. SRO monthly reports and evaluations</p> <p>2. Observation</p> <p>3. SRO and loan reports</p>	<p>Assumptions for achieving outputs:</p> <p>1. Labor and materials continue available to meet demand</p>

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 80 to FY 82
Total U. S. Funding \$15,125,000
Date Prepared: 2/11/80

Project Title & Number: Public Sector Employment Program

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
<u>AID</u>			
1. Emergency Employment Fund	1. \$14,600,000 (DL)	Monthly Loan reports for all inputs	1. 2nd. tranche of \$5 million DL available in late FY80-early FY 81
2. Spare Parts	2. \$ 200,000 (DL)		
3. Consultants to SRO	3. \$ 200,000 (DL)		
4. TA & Training	4. \$ 125,000 (DL)		
<u>GOES</u>			
1. Emergency Employment Fund	1. \$ 2,500,000		
2. Project Management	2. \$ 2,650,000		

ANNEX I.G

DAEC GUIDANCE CABLE

The PID approval and DAEC guidance cable were included in a broader cable dealing with review of the FY 1980 Accelerated Impact Program for El Salvador (State 02084). The relevant paragraph states:

"Rural Infrastructure. With delay in availability of Dols. 5 million ESF, Mission should consider combining this project with earlier proposed Emergency Urban Employment Program. We would then expect to see Dols. 10-15 million Employment Sector/Infrastructure DL-funded project for review in Washington by mid-February. In preparing PP, Mission should pay particular attention to questions of institutional capability and steps which GOES and USAID may need to take to ensure rapid implementation."

ANNEX II.A.1

LISTING OF POTENTIAL SUB-PROJECTS
(Ready for Immediate Implementation)

DEPARTMENT	TYPE NUMBER	IMPLEMENTING AGENCY	CONSTRUCTION		COST		PERCENT LABOR
			LABOR	MATERIALS	EQUIPMENT	TOTAL	
I- URBAN	SUB-PROJECTS		(UNIT - 1,000 DOLLARS)				
AHUACHAPAN	STREETS - 4	DUA	60.0	33.0	10.0	103.0	58
	WATER - 3	ANDA	18.6	14.1	3.3	36.0	52
	SEWER - 1	ANDA	4.9	2.1	0.7	7.7	64
CABAÑAS	DRAINAGE- 1	DUA	12.0	7.0	1.2	20.2	59
	STREETS - 1	DUA	24.0	14.1	2.0	40.1	60
	WATER - 7	ANDA	20.8	15.8	3.7	40.3	52
	SEWER - 4	ANDA	20.7	8.7	2.9	32.3	61
CHALATENANGO	DRAINAGE- 2	DUA	48.0	28.2	4.0	80.2	60
	WATER - 1	ANDA	17.9	13.2	3.1	34.2	52
CUSCATLAN	STREETS - 1	DUA	24.0	14.1	2.0	40.1	60
	WATER - 2	ANDA	8.1	5.9	1.4	15.4	53
LA LIBERTAD	DRAINAGE- 1	DUA	12.0	7.0	1.2	20.2	59
	STREETS - 4	DUA	107.5	63.4	9.2	180.1	60
	WATER - 8	ANDA	59.9	43.5	10.3	113.7	53
	SEWER - 4	ANDA	21.6	8.7	3.0	33.3	65
LA PAZ	STREETS - 1	DUA	48.0	28.2	4.0	80.2	60
	WATER - 10	ANDA	34.8	26.9	6.1	67.8	51
	SEWER - 5	ANDA	34.1	14.1	4.8	53.0	61
LA UNION	STREETS - 1	DUA	14.4	7.9	2.4	24.7	58
	WATER - 1	ANDA	9.1	6.2	1.5	16.8	54
	SEWER - 1	ANDA	18.1	6.7	2.5	27.3	66

MORAZAN	DRAINAGE- 2	DUA	14.4	7.9	2.4	24.7	58
	STREETS - 1	DUA	14.4	7.9	2.4	24.7	58
	WATER - 1	ANDA	4.5	3.3	0.8	8.6	52
SANTA ANA	STREETS - 9	DUA	192.0	105.6	32.0	329.6	58
	WATER - 4	ANDA	64.0	50.7	11.5	126.2	51
	SEWER - 4	ANDA	59.7	28.0	8.8	96.5	62
SAN MIGUEL	DRAINAGE- 3	DUA	52.8	29.0	8.8	90.6	58
	STREETS - 4	DUA	81.6	44.9	13.6	140.1	58
	WATER - 1	ANDA	5.1	3.8	0.9	9.8	52
SAN SALVADOR	DRAINAGE- 8	DUA	127.2	74.4	10.8	212.4	60
	STREETS - 17	DUA	601.1	359.5	52.4	1,013.0	59
	WATER - 80	ANDA	360.8	285.2	64.6	710.6	51
	SEWER - 33	ANDA	303.9	129.4	43.3	476.6	64
SAN VICENTE	STREETS - 1	DUA	48.0	28.2	4.0	80.2	60
	WATER - 2	ANDA	10.3	9.3	2.0	21.6	48
	SEWER - 2	ANDA	5.3	2.4	0.8	8.5	62
SONSONATE	STREETS - 7	DUA	132.0	72.6	22.0	226.6	58
	WATER - 1	ANDA	0.2	0.2	0.1	0.5	40
	SEWER - 1	ANDA	8.2	5.6	1.4	15.2	54
USULUTAN	DRAINAGE- 1	DUA	24.0	13.2	4.0	41.2	58
	STREETS - 2	DUA	31.2	17.2	5.2	53.6	58
	WATER - 1	ANDA	7.7	5.6	1.3	14.6	53
	SEWER - 1	ANDA	9.7	4.1	1.4	15.2	64
I- SUB-TOTAL	249		2,776.6	1,556.8	373.8	4,807.2	58

... 3

II- RURAL SUB-PROJECTS

AHUACHAPAN	DRAINAGE-	4	DGC	50.0	42.0	13.8	105.8	47
	ROADS	- 23	DGC	96.7	80.0	60.0	236.7	41
CABAÑAS	DRAINAGE-	4	DGC	68.2	41.8	16.5	126.5	54
	ROADS	- 25	DGC	189.5	40.0	45.9	275.4	69
CHALATENANGO	ROADS	- 7	DGC	51.3	50.0	20.3	121.6	42
CUSCATLAN	BRIDGE TRANSFER-	1	DGC	131.7	10.0	50.6	192.3	68
LA LIBERTAD	DRAINAGE-	1	DGC	12.2	7.8	3.0	23.0	53
LA PAZ	DRAINAGE-	2	DGC	39.7	24.3	9.6	73.6	54
	ROADS	- 15	DGC	55.0	30.0	17.0	102.0	54
LA UNION	DRAINAGE-	26	DGC	296.1	184.0	100.0	580.1	51

MORAZAN	DRAINAGE- 4	DGC	92.5	59.5	22.8	174.8	53
	ROADS - 5	DGC	37.4	40.0	15.5	92.9	40
SANTA ANA	DRAINAGE- 5	DGC	91.6	56.4	22.2	170.2	54
SAN MIGUEL	DRAINAGE- 2	DGC	34.7	33.3	10.2	78.2	44
	ROADS - 25	DGC	61.2	60.0	24.2	145.4	42
SAN VICENTE	DRAINAGE- 2	DGC	39.7	24.3	9.6	73.6	54
	ROADS - 31	DGC	147.7	40.0	37.5	225.2	66
SONSONATE	DRAINAGE- 1	DGC	12.2	7.8	3.0	23.0	53
	ROADS - 46	DGC	169.1	140.0	82.3	391.4	43
USULUTAN	DRAINAGE- 1	DGC	12.2	7.8	3.0	23.0	53
II- SUB-TOTAL	233		1,688.7	979.0	567.0	3,234.7	52

III- FOOD STORAGE SUB-PROJECTS

SSMA	40	72.0	48.0	-	120.0	60
Central Region	30	54.0	36.0	-	90.0	60
Eastern Region	43	77.4	51.6	-	129.0	60
Central Region	32	56.6	38.4	-	95.0	60
Western Region	<u>33</u>	<u>59.4</u>	<u>39.6</u>	-	<u>99.0</u>	<u>60</u>
SUB-TOTAL	178	319.4	213.6	-	533.0	60

ANNEX II, A.2

LISTING OF POTENTIAL SUB-PROJECTS
(Ready for Implementation within Six Months)

DEPARTMENT	TYPE NUMBER	IMPLEMENTING AGENCY	CONSTRUCTION		COST		PERCENT LABOR
			LABOR	MATERIALS	EQUIPMENT	TOTAL	
I- URBAN SUB-PROJECTS							
AHUACHAPAN	STREETS - 4	DUA	48.0	28.8	9.6	86.4	55
LA PAZ	STREETS - 4	DUA	106.0	71.2	12.0	189.2	56
SANTA ANA	STREETS - 6	DUA	76.4	45.2	15.2	136.8	55
SAN MIGUEL	STREETS - 1	DUA	16.0	9.2	2.8	28.0	57
	BRIDGES - 4	DUA	66.4	36.4	10.8	113.6	58
	DRAINAGE - 4	DUA	70.8	38.4	12.4	121.6	58
SAN SALVADOR	STREETS - 15	DUA	426.4	260.5	66.1	753.0	56
	DRAINAGE- 3	DUA	62.0	36.8	6.0	104.8	59
	WATER - 15	ANDA	209.1	149.9	35.5	394.5	53
	SEWER - 15	ANDA	167.3	75.3	36.3	278.9	60
SONSONATE	STREETS - 3	DUA	48.0	28.4	8.8	85.2	56
USULUTAN	STREETS - 2	DUA	20.4	11.6	4.0	36.0	56
	DRAINAGE- 2	DUA	34.0	18.4	6.0	58.4	58
I- SUB-TOTAL	78		1,350.8	810.1	225.5	2,386.4	57

..... 2

II. RURAL SUB-PROJECTS

CUSCATLAN	DRAINAGE-	2	DGC	64.0	36.0	15.0	115.0	56
LA UNION	ROADS	-21	DGC	140.1	120.0	50.5	310.6	45
MORAZAN	BRIDGE	- 1	DGC	216.0	144.0	54.0	414.0	52
SAN SALVADOR	BRIDGE	- 1	DGC	36.0	24.0	9.0	69.0	52
SAN VICENTE	BRIDGE	- 1	DGC	42.0	34.0	11.4	87.4	48
USULUTAN	DRAINAGE-	3	DGC	159.5	123.9	42.5	325.9	49
II. SUB-TOTAL		29		657.6	481.9	182.4	1,321.9	49

III- LAND PROVEMENT/WATER STORAGE SUB-PROJECTS

SAN MIGUEL	REFOREST-	2	DGRNR/ISTA	1,680.5	45.4	45.5	2,271.0 ^{1/}	74
	(1,400 Has.)							
LA LIBERTAD	SOIL CONS-	1	DGRNR/ISTA	359.1	5.4	64.3	536.0 ^{1/}	67
	(100 Has.)							
CHALATENANGO	REFOREST-	3	DGRNR	960.5	25.9	26.0	1,298.0 ^{1/}	74
	(800 Has.)							

.... 3

SONSONATE	SOIL CONS-2 (300 Has.)	538.7	7.9	96.7	804.0 ^{1/}	67
National Level (Water Reservoirs)		340.0	10.0	10.0	500.0 ^{1/}	68
III- SUB-TOTAL		3,878.8	94.6	242.5	5,409 ^{1/}	72

^{1/} Total Project Cost - Includes Other Costs (land, professional staff, etc.) not shown.

COST ESTIMATE FOR SPARE PARTSA. Identified MPW Requirement

Type Vehicle	Motor Overhaul			Brake Overhaul			T O T A L \$
	No.	Unit Cost \$	Sub-Total \$	No.	Unit Cost \$	Sub-Total \$	
Pick-up trucks	56	1,800	100,800				100,800
Dump trucks	22	6,800	149,600	11	200	2,200	151,800
Jeeps	7	1,800	12,600				12,600
4X4 WD pick-ups	8	1,800	14,400				14,400
Total			\$277,400			\$2,200	\$279,600

B. Sample Spare Parts List for Pick-up Motor Overhauls
(U.S. - made vehicle)

6 pistons - 0.030 mm
 1 set motor gaskets
 1 set motor bearings
 1 set piston bearings
 1 set cam shaft bearings
 1 crank shaft gear
 1 cam shaft gear
 12 hydraulic valve lifters
 6 exhaust valves
 6 intake valves
 1 oil retainer (back motor)
 1 water pump
 1 oil gauge
 1 temperature gauge
 1 accelerator cable (foot)
 6 rubber spark plug protectors
 8 distributor rubber protectors
 1 fly wheel
 1 throw-out bearing
 1 clutch pressure plate

Estimated cost per vehicle \$ 1,800

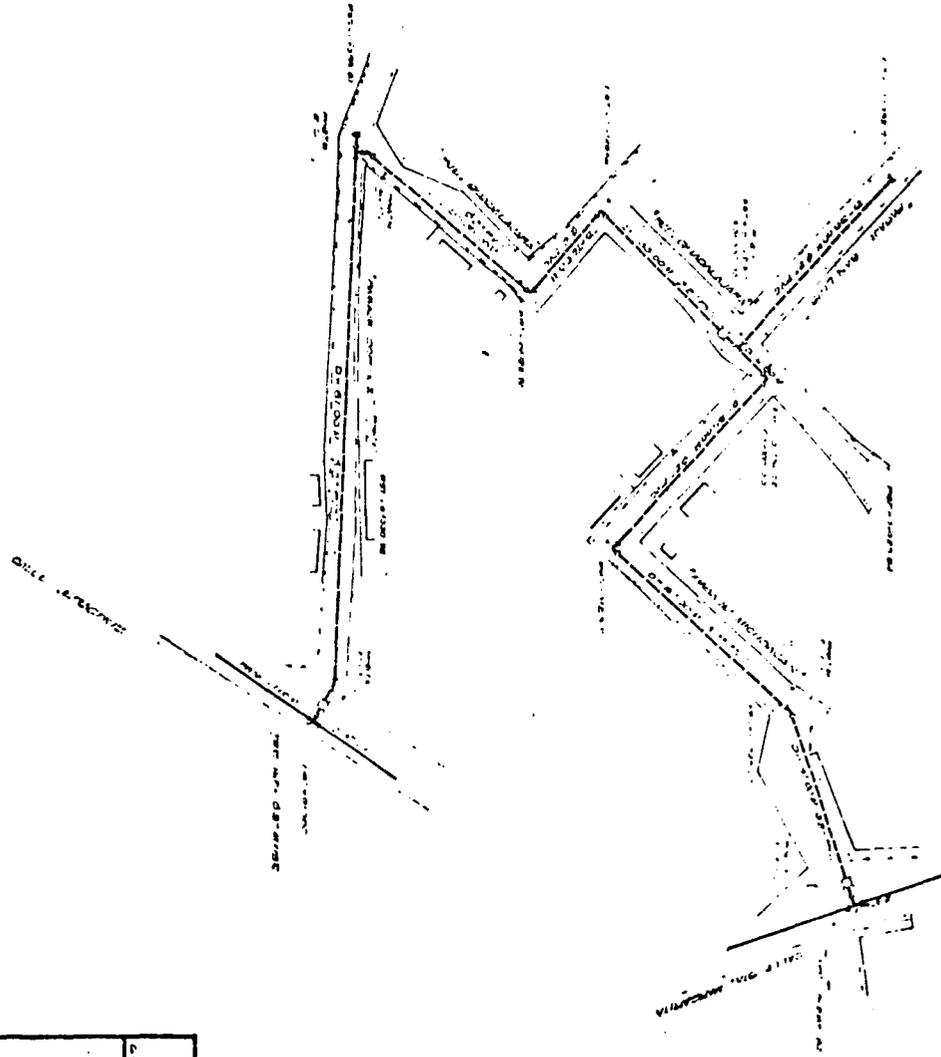
C. Sample Spare Parts List for Brake Overhauls

8 brake linings
4 sets brake fluid gasket systems
1 master cylinder kit
brake fluid

Estimated cost per vehicle \$ 200

ILLUSTRATIVE WATER SUB-PROJECT

COLONIA VERACRUZ



C-VII-79	<p>4402 243</p>
<p>CUSCATANCINGO-DEIETO - SAN SALVADOR INTRODUCCION DE SERVICIO DE AGUA - POTABLE A COL. VERACRUZ SEGUN PLAN/65/79</p>	
<p>11.800</p>	<p>9680</p>

Administración Nacional de Acueductos y Alcantarillados

DIVISION DE INGENIERIA

Presupuesto del Proyecto No. 1691/79

Depto. _____ Sección _____ Hoja de Hoj

Descripción **INTRODUCCION DE SERVICIO DE AGUA POTABLE A COLONIA VERACRUZ, JURISDICCION DE CUSCATANCINGO.**

Depto. San Salvador

Elaboró Br. Marvel A. Vásquez

Ing. Roberto Baños Pacheco

Jefe Depto.

Revisó Br. Oswaldo R. Ramírez A.

Es Conforme Ing. Félix Roberto Mancía

Jefe DIN

Fecha _____

Total Presupuesto \$ **9.194.00**

RESUMEN					
No.	Concepto	%	Presupuesto	Acumulado	No.
	Materiales		2.537.16	2.537.16	
2	Equipo				2
3	Trabajo directo		2.444.20	4.981.36	3
4	Trabajo indirecto local	% de 3	652.50	5.633.86	4
5	Transporte	% de 1 y 2	50.00	5.683.86	5
6	Estudios y Proyecto	% de 1 a 5	150.00	5.833.86	6
7	Dirección	% de 1 a 6	919.00	6.752.86	7
8	Supervisión	% de 1 a 7	920.00	7.672.86	8
9	Administración General y Prest. Soc.	% de 1 a 8	1.104.94	8.777.80	9
10	Imprevistos	% de 1 a 9	416.20	9.194.00	10
11	TOTAL PRESUPUESTO	Suma de 1 a 10	9.194.00		11

Observaciones:

El presente presupuesto no incluye costo de mechas, acometidas, ni gastos de tramitación.

ADMINISTRACION NACIONAL DE ACUEDUCTOS Y ALCANTARILLADOS

1691/79

Continuacion del Presupuesto del Proyecto No. _____

66666 / Depto. Desarrollo Urbano

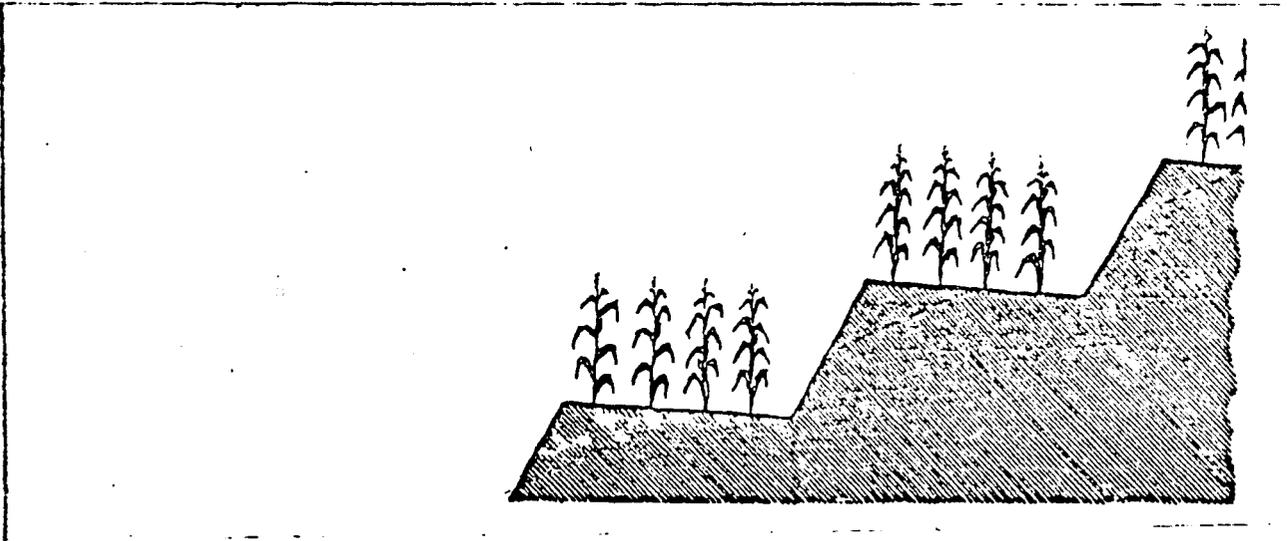
Hoja 2 de 2 Hojas

DETALLE					
Cantidad	Unidad	Descripcion	Precio Unitario	Valor	Total
		VIENEN	\$	\$	\$
		INSTALACION DE 313.00 MTS. CANERIA Ø 2" PVC (J.R.)			
		<u>Materiales</u>			
318	m	Cañerfa Ø 2" PVC (J.R.) -----	3.27	1.039.86	
3	un	Válvula comp. Ø 2" PVC (J.R.) -----	214.00	642.00	
3	un	Tubo guía para válvula -----	40.00	120.00	
1	un	Tee Ho. Fo. Ø 3"x2" (J.M.) -----	135.00	135.00	
1	un	Anillo Ho. Fo. Ø 3" -----	112.00	112.00	
1	un	Cabo brida Ho. Fo. Ø 2" -----	85.00	85.00	
1	un	Cabo brida PVC Ø 2" -----	16.90	16.90	
1	un	Cabo Ho. Fo. Ø 3"x1.0 m. -----	35.00	35.00	
2	un	Codo PVC Ø 2"x22-1/2° (J.R.) -----	19.80	39.60	
1	un	Codo PVC Ø 2"x45° (J.R.) -----	19.80	19.80	
4	un	Codo PVC Ø 2"x90° (J.R.) -----	19.80	79.20	
2	un	Tee PVC Ø 2"x2" (J.R.) -----	20.90	41.80	
2	un	Tapón PVC Ø 2" -----	3.00	6.00	
1	un	Cabo brida Ho. Fo. Ø 3" -----	96.45	96.45	
1	un	Cabo brida PVC Ø 3" -----	40.95	40.95	
1	un	Reductor PVC Ø 3"x2" -----	12.60	12.60	
		Material Desinfección -----	15.00	15.00	2.537.16
		<u>Mano de Obra</u>			
313	m	Instalación cañerfa Ø 2" -----	0.40	125.00	
3	un	Instalación válvula Ø 2" -----	4.00	12.00	
3	un	Instalación tubo guía -----	3.00	9.00	
6	un	Instalación accesorios Ø 3" -----	2.25	13.50	
13	un	Instalación accesorios Ø 2" -----	1.50	19.50	
225	m3	Terracerfa -----	10.00	2.250.00	
		Desinfección y Prueba -----	15.00	15.00	2.444.20

SOIL CONSERVATION METHODOLOGIES *

BENCH TERRACES

Bench terraces are stairstep structures constructed so that the flat or semi-flat surface can be used for agricultural production. They are constructed following the contours of the land, with a slight gradient along the length of the terrace and with a 5% slope towards the drain at the rear of the terrace. Hand-made terraces will have a width of 2.5 to 5.2 meters; the length limit is 100 meters. A drainage channel or path is located at the rear of the terrace. Bench terraces are constructed on slopes of 12 to 46%.



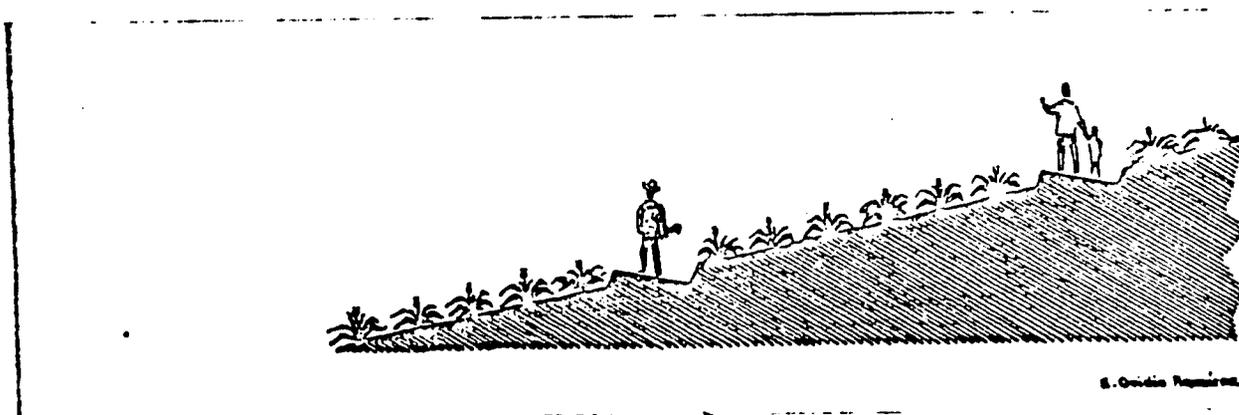
LIMITATIONS:

1. They are most suited to very densely populated regions characterized by scarce amount of level ground. High-value crops must be grown to justify the investments in labor and other costs.
2. The slope of the face of the bench terrace depends on the soil texture and the use of labor or machinery; slopes may range between 7:1 and 1:1.
3. Terraces cannot be constructed in shallow or unstable soils.

* Description of conservation works have been extracted from a GOES soil conservation manual.

HILLSIDE BRICK DRAINS

These are narrow terraces constructed on slopes of 12-50% for the purpose of cutting the force of rain water run-off and permitting the water to partially infiltrate into the terrace, thus storing ground water. The drains can also serve as paths; they are constructed with a horizontal drop of 1%. They may be up to 100 meters long and have a 10% drop from the outer to the inner edge of the terrace to conduct the water to the drain located at the rear of the terrace. Appropriate agronomic practices are necessary to complement the work.

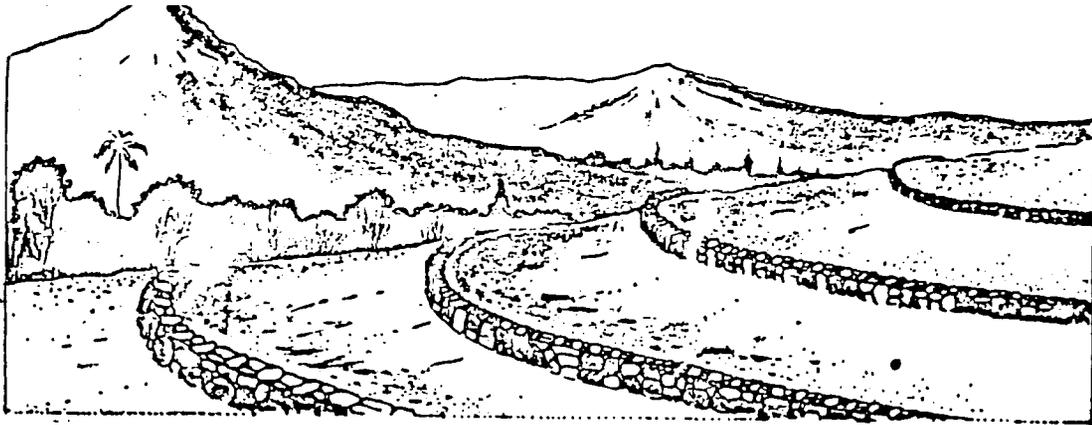


RECOMMENDED AGRONOMIC PRACTICES:

- a. Contour planting
- b. Staggered planting
- c. Mulching
- d. Cover crops
- e. Crops grown in association

STONE RETAINING WALLS

This is a very common practice in places where stones are abundant. Stone walls of up to .5 meters high and .4 meters wide are constructed following the contour of the land. The maximum recommended slope of the terrace is 15%. These walled-terraces slow water run-off and retain soil. Maintenance is necessary to avoid the collapse of a wall which could result in channeling large volumes of run-off onto lower terraces and destroying them.



FORMULA FOR CALCULATING DISTANCE BETWEEN TERRACES:

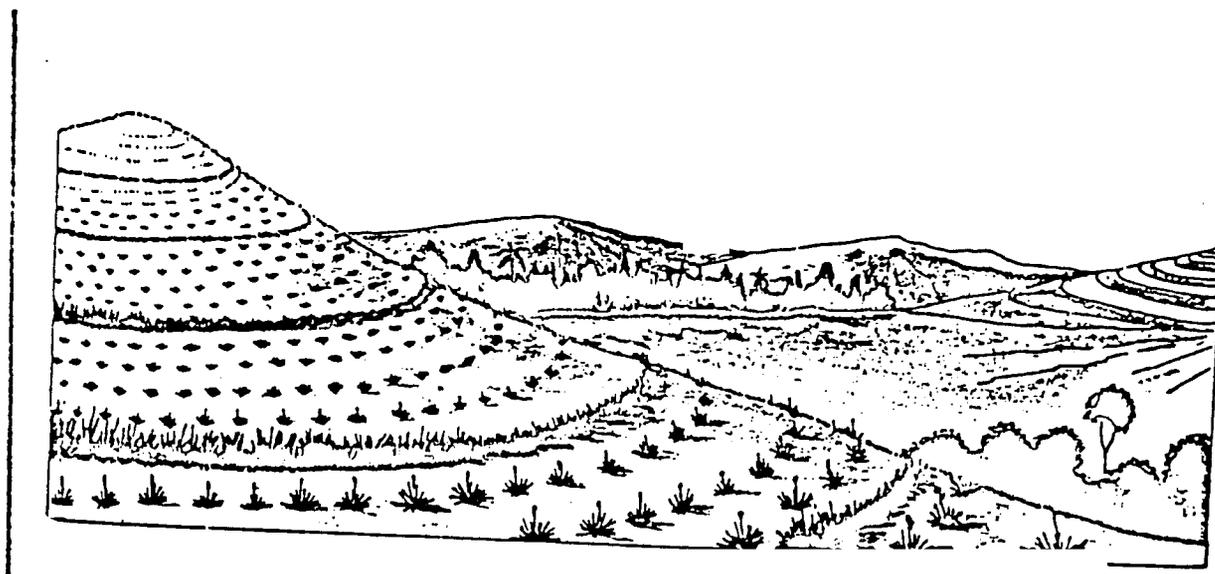
$$VD = \frac{S + 4}{10} \qquad HD = \frac{VD \times 100}{S} = \text{distance between walls in meters}$$

Where:

VD= Vertical Distance
 HD= Horizontal Distance
 S= Slope of plot in %

LIVE BARRIERS

Live barriers consist of closely planted rows of certain perennial plants, having dense growth and good drought-resistant qualities. These live barriers are planted following the contour of the land. They are planted for the purpose of preserving soil moisture and minimizing soil erosion. In the course of time, they tend to form natural bench terraces.



RECOMMENDED VEGETATION

- a. Lemon grass (Cymbopogón citratus)
- b. Elephant grass (Pennisetum purpureum)
- c. Bermuda grass (Cynodon dactylon)
- d. Piñuela (Bromelia karattas)
- e. Izote (Yuca elephantipes)
- f. Curarine (Sansevieria sp.)

✓519-0256

CONTRATO DE ENMIENDA No. 1
AMENDATORY AGREEMENT No. 1

AL
TO

CONTRATO DE PROYECTO DEL PRESTAMO Y DONACION
PROJECT LOAN AND GRANT AGREEMENT

GENERACION DE EMPLEO DEL SECTOR PUBLICO
PUBLIC SECTOR EMPLOYMENT PROJECT

ENTRE
BETWEEN

LA REPUBLICA DE EL SALVADOR
THE REPUBLIC OF EL SALVADOR

Y
AND

LOS ESTADOS UNIDOS DE AMERICA
THE UNITED STATES OF AMERICA

Agencia para el Desarrollo Internacional
Proyecto de la A.I.D. No. 519-0256
Préstamo de la A.I.D. No. 519-T-024
Préstamo de la A.I.D. No. 519-W-025

Agency for International Development
A.I.D. Project No. 519-0256
A.I.D. Loan No. 519-T-024
A.I.D. Loan No. 519-W-025

San Salvador, El Salvador
30 de septiembre de 1980

Proyecto de la A.I.D. 519-0256
Préstamo de la A.I.D. 519-T-024
Préstamo de la A.I.D. 519-W-025

Contrato de Proyecto del Préstamo y
Donación
Acuerdo de Enmienda No. 1

Fecha: Septiembre 30, 1980

Este Acuerdo de Enmienda No. 1, fechado a los 30 días del mes de septiembre de 1980 entre la República de El Salvador (Prestatario/Donatario) y los Estados Unidos de América, actuando a través de la Agencia para el Desarrollo Internacional ("A.I.D.") enmienda el Contrato de Proyecto del Préstamo y Donación del Proyecto de fecha 28 de marzo de 1980 y designado Proyecto de la A.I.D. No. 519-0256, entre el Prestatario/Donatario y la A.I.D., de la siguiente manera:

1. Sección 3.1. del Artículo III se suprime por completo y se sustituye como sigue:

SECCION 3.1. La Donación; el Préstamo. Para asistir al GOES en el financiamiento de los costos para la realización del Proyecto, A.I.D., de conformidad con el Acta de Asistencia al Exterior de 1961 y sus enmiendas, conviene en otorgar una donación al GOES bajo los términos de este Contrato, que no excederá de ciento veinticinco mil ("U.S.") dólares americanos (\$125,000) ("Donación") y otorgar un préstamo al GOES bajo los términos de este Contrato, que no excederá de Catorce Millones de ("U.S.") dólares americanos (\$14,000,000) ("Préstamo"). El monto total de los desembolsos efectuados con cargo al Préstamo se denominará en adelante "El Capital". El Préstamo y la Donación conjuntamente se refieren como la "Cooperación"

La Cooperación puede ser utilizada para financiar costos en moneda extranjera, de acuerdo a la definición de la Sección 7.1., y costos en moneda local, de acuerdo a la definición en la Sección 7.2., de bienes servicios requeridos para el Proyecto.

A.I.D. Project No. 519-0256
A.I.D. Loan No. 519-T-024
A.I.D. Loan No. 519-W-025

Project Loan and Grant Agreement
Amendatory Agreement No. 1

Dated: September 30, 1980

This Amendatory Agreement No. 1, dated the 30th day of September, 1980, between the Republic of El Salvador ("Borrower/Grantee") and the United States of America, acting through the Agency for International Development ("A.I.D.") amends the Project Loan and Grant Agreement dated March 28, 1980 and designated A.I.D. Project No. 519-0256 between the Borrower/Grantee and A.I.D., as follows:

1. Section 3.1. of Article III is deleted in its entirety and the following is substituted therefore:

SECTION 3.1. The Grant; The Loan. To assist the GOES to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the GOES under the terms of this Agreement not to exceed One Hundred and Twenty Five Thousand (\$125,000) United States ("U.S.") dollars ("Grant") and to lend the GOES under the terms of this Agreement not to exceed Fourteen Million U. S. Dollars (\$14,000,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal". The Loan and the Grant together are referred to as the "Assistance".

The Assistance may be used to finance foreign exchange costs, as defined in Section 7.1., and local currency costs, as defined in Section 7.2., of goods and services required for the Project.

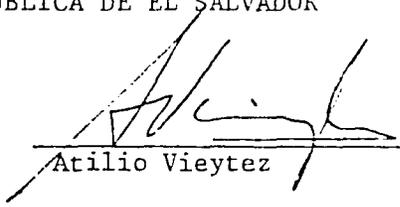
2. El anexo de este Acuerdo de Enmienda No. 1 reemplaza Artículo D. del Anexo I de este Convenio de Proyecto de fecha 28 de marzo de 1980.

3. A excepción de lo enmendado anteriormente, todos los términos y condiciones del Convenio de Donación de Proyecto permanecen plenamente en vigor y efecto.

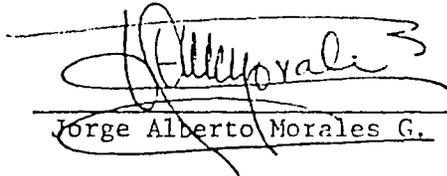
Este Acuerdo de Enmienda será efectivo a partir de la fecha de su ejecución.

EN FE DE LO CUAL, el Donatario y la A.I.D. cada cual actuando a través de su representante debidamente autorizado, celebran y entregan el presente Convenio en el día y año indicados al principio del mismo.

REPUBLICA DE EL SALVADOR

Por: 
Atilio Vieytez

Título: Ministro de Planificación

Por: 
Jorge Alberto Morales G.

Título: Ministro de Obras Públicas

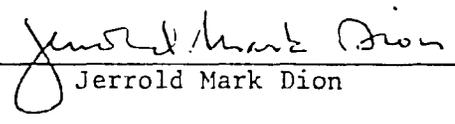
2. The annex to this Amending Agreement No. 1 supersedes Article D. of Annex I to the Project Agreement dated March 28, 1980.

3. Except as herein amended all other terms and conditions of the Project Grant Agreement remain in full force and effect.

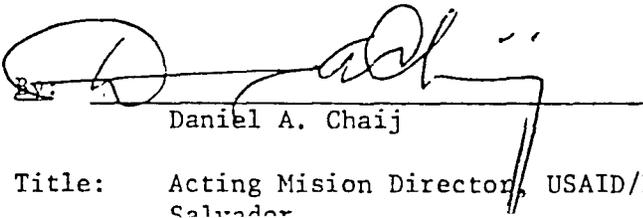
This Amending Agreement is to be effective as of the date of its execution.

IN WITNESS WHEREOF, Grantee and A.I.D. each acting through its respective duly authorized representatives, have caused this Amending Agreement to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA

By: 
Jerrold Mark Dion

Title: Chargé d'Affaires a.i.

By: 
Daniel A. Chaij

Title: Acting Mission Director, USAID/El Salvador

SUMMARY COST ESTIMATE FOR AMENDATORY AGREEMENT NO. 1
 RESUMEN ESTIMADO DE COSTOS PARA EL CONVENIO DE ENMITIDA NO. 1
 (En Miles de U.S. Dólares)

ANEXO NO.
ANNEX NO.

ACTIVITY ACTIVIDAD	A.I.D.				TOTAL AID FUNDS TOTAL FONDOS AID		GOES COUNTERPART CONTRAPARTIDA GOES	A.I.D.-GOES TOTAL PROJECT TOTAL PROYECTO A.I.D.-GOES
	FISCAL YEAR 1980 AÑO FISCAL 1980		FISCAL YEAR 1981 AÑO FISCAL 1981		LOAN	GRANT		
	LOAN PRESTAMO	GRANT DONATIVO	LOAN PRESTAMO	GRANT DONATIVO	LOAN PRESTAMO	GRANT DONATIVO		
EMERGENCY EMPLOYMENT FUND FONDO DE EMERGENCIA PARA GENERACION DE EMPLEO								
Urban Infrastructure Subprojects. Subproyectos Urbanos de Infraestructura	7,800	-	-	-	7,800	-	1,027	8,827
Rural Infrastructure Subprojects. Subproyectos Rurales de Infraestructura	2,900	-	800	-	3,700	-	941	4,641
Land and Conservation Subprojects. Subproyectos de Con- servación de Suelos.	2,900	-	200	-	3,100	-	532	3,632
Sub-Total								
Sub-Total	13,600	-	1,000	-	14,600	-	2,500	17,100
DESIGN AND MANAGEMENT IMPROVEMENT MEJORAMIENTO DE DISEÑO Y ADMINISTRACION MPW Special Resources Office Oficina de Recursos Especiales del MOP								
	200	-	-	-	200	-	650	850

ACTIVITY ACTIVIDAD	A.I.D.						GOES COUNTERPART CONTRAPARTIDA GOES	A.I.D.-GOES TOTAL PROGRAM TOTAL PROGRAM A.I.D.-GOES
	FISCAL YEAR 1980 AÑO FISCAL 1980		FISCAL YEAR 1981 AÑO FISCAL 1981		TOTAL AID FUNDS TOTAL FONDOS AID			
	LOAN PRESTAMO	GRANT DONATIVO	LOAN PRESTAMO	GRANT DONATIVO	LOAN PRESTAMO	GRANT DONATIVO		
Spare Parts Repuestos	200	-	-	-	200	-	-	200
Implementing Agency Management Administración de la Entidad Ejecutora	-	-	-	-	-	-	2,000	2,000
Sub-Total	400	-	-	-	400	-	2,650	3,050
3) STRENGTHENING OF PUBLIC WORKS SECTOR FORTALECIMIENTO DEL SECTOR DE OBRAS PUBLICAS								
Project Evaluation Evaluación de Proyectos	-	25	-	-	-	25	-	25
Technical Assistance and Training Asistencia Técnica y Adiestramiento	-	100	-	-	-	100	-	100
Sub-Total	-	125	-	-	-	125	-	125
GRAND TOTAL GRAN TOTAL	14,000	125	1,000	-	15,000	125	5,150	20,275

A.I.D. Project No. 519-0256

PROJECT LOAN AND GRANT AGREEMENT
BETWEEN
THE GOVERNMENT OF THE REPUBLIC OF EL SALVADOR
and the
GOVERNMENT OF THE UNITED STATES OF AMERICA
for the
PUBLIC SECTOR EMPLOYMENT PROJECT

DATED: March 28, 1930

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Loan and Grant Agreement

Dated: March 28, 1980

Between

The Government of the Republic of El Salvador ("GOES")

And

The Government of the United States of America, acting through the Agency for International Development ("A.I.D").

Article 1: The Agreement.

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the GOES of the Project described herein, and with respect to the financing of the Project by the Parties.

Article 2: The Project

Section 2.1. Definition of Project. The Project, which is further described in Annex 1, will in the short term, increase employment and income opportunities for unemployed and underemployed laborers by financing a variety of labor intensive sub-projects in both rural and urban areas, and thereafter, help to institutionalize a system through which the labor-intensive public works/infrastructure projects can absorb surplus labor and increase incomes.

Within the limits of the definition of the Project in Section 2.1 elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.3, without formal amendment of this Agreement. Annex 1 will identify those elements of the Project for which Grant financing will be employed, and those for which Loan financing will be employed.

Section 2.2. Incremental Financing of the Project.

A.I.D.'s contribution to the Loan portion of the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the

mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

Article 3: Financing.

SECTION 3.1. The Grant; The Loan. To assist the GOES to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the GOES under the terms of this Agreement not to exceed One Hundred and Twenty Five Thousand (\$125,000) United States ("U.S.") dollars ("Grant") and to lend the GOES under the terms of this Agreement not to exceed Ten Million U.S. Dollars (\$10,000,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal.". The Loan and the Grant together are referred to as the "Assistance".

The Assistance may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project.

SECTION 3.2. GOES Resources for The Project.

(a) The GOES agrees to provide or cause to be provided for the Project all funds, in addition to the Assistance, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the GOES for the Project will be not less than the equivalent of U.S. Five Million One Hundred Fifty Thousand Dollars \$5,150,000, including costs borne on an "in-kind" basis, further detailed in Annex I.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is March 5, 1982, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Assistance will have been performed and all goods financed under the Assistance will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Assistance for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be

received by A.I.D., or any bank described in Section 8.1, no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the GOES may at any time or times reduce the amount of the Assistance by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Loan Terms.

SECTION 4.1. Interest. The GOES will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement of the Loan hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be computed on the basis of a 365-day year. Interest will be payable no later than six (6) months after the first disbursement of the Loan hereunder, on a date to be specified by A.I.D.

SECTION 4.2. Repayment. The GOES will repay to A.I.D. the Principal within Twenty-five (25) years from the date of the first disbursement of the Loan in Thirty-one (31) approximately equal semiannual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the GOES with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D. C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the GOES may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms.

(a) The GOES and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of El Salvador, which enable the GOES to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.2, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.2, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under sub-section (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of the GOES' Ministry of Public Works of El Salvador.

SECTION 4.6. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the GOES and A.I.D. relating to the Loan provisions of this Agreement will cease. However, with respect to any obligations arising out of the expenditure of Grant funds, this Agreement will remain in full force and effect.

Article 5: Conditions Precedent to Disbursement.

SECTION 5.1. First Disbursement, Assistance. Prior to the first disbursement of the Assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the GOES will except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of the Attorney General of El Salvador, or other counsel acceptable to A.I.D., that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the GOES and that it constitutes a valid and legally binding obligation of the GOES in accordance with all of its terms;

(b) A statement of the name of the persons holding or acting in the office of the GOES specified in Section 9.3, and specimen signature of each person specified in such statement;

(c) Evidence that a Special Resource Office has been established within the Ministry of Public Works and staffed in accordance with the terms upon which the GOES and A.I.D. have agreed;

(d) Evidence that the Emergency Employment Fund has been established within the Central Reserve Bank of El Salvador and that a system exists to disburse funds from the Central Reserve Bank to the individual implementing Agencies.

SECTION 5.2. First Disbursement (Loan). Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the GOES will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., a list of sub-projects selected for implementation during the first three months of the project, and shall include a statement of the estimated cost of labor, materials and equipment, location of the sub-projects, Implementing Agencies, estimated construction or execution time, and procedures for and frequency of expected field supervision and inspections.

SECTION 5.3. Disbursement for Natural Resources Sub-Projects. Prior to disbursement under the Loan, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made for reforestation, soil conservation and water reservoir activities, the GOES will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., detailed implementation plans for such sub-projects which shall include an analysis of the institutional support, materials, equipment and recurring cost requirements.

SECTION 5.4. Additional Disbursement. Prior to disbursement under the Loan, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made in excess of Ten Million United States Dollars (\$10,000,000) the GOES will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., a detailed list of sub-projects which meet the sub-project selection criteria to which the GOES and A.I.D. agreed and which are proposed for funding under Phase II of the Project. The list shall include a statement of the estimated cost of labor, materials and equipment, location of the sub-projects, Implementing Agencies, and estimated construction or execution time.

SECTION 5.5. Notification. When A.I.D. has determined that the conditions precedent specified in Sections 5.1, 5.2 and 5.3 have been met, it will promptly notify the GOES.

SECTION 5.6. Terminal Date for Conditions Precedent.

If all of the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the GOES.

SECTION 5.7. Reimbursement. Upon compliance with the conditions precedent to disbursement by the GOES, A.I.D. may disburse Loan or Grant funds to reimburse eligible costs incurred on or after February 16, 1980, provided that evidence of such costs is furnished to A.I.D. in form and substance satisfactory to A.I.D.

Article 6: Special Covenants.

SECTION 6.1. Project Evaluation. (1) The Parties agree to establish an evaluation program as an integral part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems, in this or other project; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

(2) The GOES further covenants and agrees that prior to disbursement from the Emergency Employment Fund for any sub-project activity: (a) The Special Resources Office will have certified that the sub-project meets the sub-project selection criteria. (b) The Special Resources Office will have certified that the land upon which any new facility is to be constructed, and financed with A.I.D. funds, is owned by the GOES and that all Project Activities financed with A.I.D. funds will be conducted on publically owned property.

(3) For all sub-projects which Project consultants or the Special Resources Office indicate might cause potentially significant environmental effects, the GOES will submit to A.I.D. the findings with regard to such effects and obtain approval prior to the financing of any such sub-Project.

Article 7: Procurement Source.

SECTION 7.1. Foreign Exchange Costs. Disbursements under the Loan pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book in effect at the time orders are placed or contracts entered into

for such goods and services. Disbursements under the Grant pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in The United States Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services. ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Standard Provisions Annex, Section C.1 (b) with respect to marine insurance.

Ocean Transportation Costs will be financed under the Loan only on vessels under the flag registry of the United States or of Countries that are members of the Central American Common Market. Except as A.I.D. may otherwise agree in writing.

Ocean Transportation Costs will be financed under the Grant on vessels under the flag registry of the United States. Except as A.I.D. may otherwise agree in writing.

If A.I.D. determines either that there are no vessels under flag registry as described above generally available for ocean transportation, or that the Republic of El Salvador has no access to U.S. flag service, A.I.D. in a Project Implementation Letter may agree to finance under the Assistance transportation costs on vessels under flag registry of any country included in A.I.D. Geographic Code Book 941.

SECTION 7.2. Local Currency Costs. Disbursements for activities pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in member countries of the Central American Common Market. ("Local Currency Costs").

Article 8: Disbursements.

SECTION 8.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of conditions precedent, the GOES may obtain disbursements of funds under the Loan or the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (i) requests for reimbursement for such goods or services, or (ii) requests for A.I.D. to procure commodities or services in the GOES' behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (i) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services, or (ii) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

SECTION 8.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the GOES may obtain disbursements of funds under the Loan or the Grant for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase; or from local currency already owned by the U.S. Government; or

(2) by A.I.D. (i) requesting the GOES to make available the local currency for such costs, and (ii) thereafter making available to the GOES through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the GOES an amount of U.S. Dollars equivalent to the amount of local currency made available by the GOES which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U. S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b) (2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.

SECTION 8.3. Other Forms of Disbursement. Disbursements of the Loan or the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 8.4. Rate of Exchange. Except as may be more specifically provided under Section 8.2, if funds provided under the Loan are introduced into El Salvador by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the GOES will make such arrangements as may be necessary so that such funds may be converted

into currency of El Salvador at the highest rate of exchange which, at the time the conversion is made, is not unlawful in El Salvador.

SECTION 8.5. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the GOES or to a bank, contractor or supplier pursuant to a Letter of Commitment, or credit; (b) on the date on which A.I.D. disburses to the GOES or its designee local currency acquired in accordance with Section 8.2 (b) (1); or (c) if local currency is obtained in accordance with Section 8.2 (b) (2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

Article 9: Miscellaneous.

SECTION 9.1. Investment Guaranty Project Approval. Construction work to be financed under this Agreement is agreed to be a project approved by El Salvador pursuant to the agreement between it and the United States of America on the subject of investment guaranties, and no further approval by El Salvador will be required to permit the United States to issue investment guaranties under that agreement covering a contractor's investment in that project.

SECTION 9.2. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To the GOES:

Mail Address:

Mr. Minister
Ministry of Public Works
Palacio Nacional
San Salvador, El Salvador, C. A.

To A.I.D.:

Mail Address:

Director, USAID/Mission to El Salvador
American Embassy,
San Salvador, El Salvador, C. A.

Alternate address for telegrams:

USAID
American Embassy
San Salvador, El Salvador, C. A.

All such communications will be in English and Spanish, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The GOES, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D.

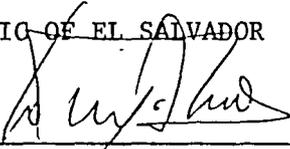
SECTION 9.3. Representatives. For all purposes relevant to this Agreement, the GOES will be represented by the individual holding or acting in the office of Minister of Public Works and A.I.D. will be represented by the individual holding or acting in the office of Mission Director, USAID Mission to El Salvador, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Borrower with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 9.4. Standard Provisions Annex. A "Combined Loan and Grant Standard Provisions Annex" (Annex II) is attached to and forms part of this Agreement.

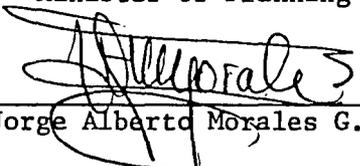
SECTION 9.5. Language of Agreement. This agreement is prepared in both English and Spanish. In the event of ambiguity or conflict between the two versions, the English language version will control.

IN WITNESS WHEREOF, the GOES and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

THE REPUBLIC OF EL SALVADOR

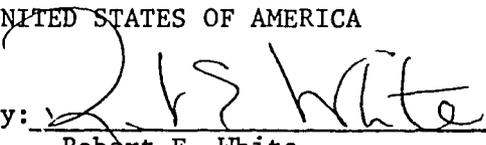
By: 
Roberto Salazar Candell

Title: Minister of Planning

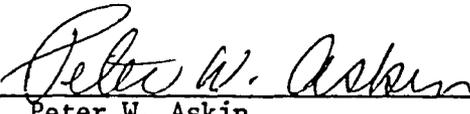
By: 
Jorge Alberto Morales G.

Title: Minister of Public Works

UNITED STATES OF AMERICA

By: 
Robert E. White

Title: Ambassador

By: 
Peter W. Askin

Title: Acting Director, USAID/El Salvador

Project Description
Annex I

A. Purpose

The specific purpose of the Employment Project is, in the short run, to increase employment and income opportunities for un- and under-employed laborers and to institutionalize the optimum use of labor-intensive public works sub-projects to absorb surplus labor and increase incomes.

B. Description

The Project consists of three elements: (1) the creation of an Employment Fund to finance the construction of labor-intensive sub-projects; (2) assistance in the design, management and implementation of sub-projects; and, (3) assistance in strengthening the labor-intensive public works sector.

To initiate the Project, an Emergency Employment Fund will be created in the Central Reserve Bank by the GOES to finance the costs of labor and materials required for the construction of sub-project activities. Implementation of the Project will then be undertaken by five major agencies -- two of these agencies are directly under the Ministry of Public Works (Directorate of Roads and the Directorate of Urbanization and Architecture, DUA); one is a semiautonomous agency which operates under the direction of the MPW (National Administration of Aqueducts and Sewers, ANDA); and two are directorates of the Ministry of Agriculture and Livestock, MAC (Directorate of National Renewable Resources, DGRNR) and (Directorate of Livestock, DGC). Overall coordination of sub-project execution by the respective agencies will be the responsibility of the Ministry of Public Works through the Special Resources Office (SRO).

The SRO will be staffed by a civil engineer administrator; two assistant engineers and one financial manager funded under the loan; five assigned construction inspectors; two accountants; three secretaries; and supporting personnel (drivers, messengers) for the life of the Project. Initially, two consulting engineers, and two social promoters will also be funded under this loan and provide required technical support for all SRO operations. Three additional engineer consultants will be employed at a later time. Planning liaison representatives from the Ministries of Planning, Public Health and Agriculture will be seconded to the unit as required.

The SRO will be responsible for all central planning requirements, including contingent needs for sub-projects being executed by elements

of other Ministries (i.e., Natural Resources and Livestock Divisions of the Ministry of Agriculture); assistance in the development of completed additional sub-project plans; and the monitoring and certification of sub-project implementation by each executing agency. Specifically, the SRO will:

- Review and authorize eligible sub-projects prior to execution.
- Monitor and conduct in-progress work on sub-projects.
- Assess and certify completed sub-project activities for reimbursement.
- Manage emergency employment fund revolving account.
- Evaluate and recommend modification of sub-project procedures and practices where appropriate.

Following establishment of the SRO, it will select sub-project activities ready for immediate implementation which have high priority and for which there is an expressed demand. In general, sub-projects will comprise urban streets and drainage improvement, rural and urban water supplies and storage, rural access roads, small access bridges, food storage facilities, reforestation and soil conservation. Prior to authorizing the execution of sub-projects, they will be evaluated against the following selection criteria:

- Local labor content. No sub-project with less than a 40% labor/total cost ratio can be financed. Sub-projects with the highest labor content will be given priority.
- Development priority and socio-economic benefits.
- Environmental benefits.
- Revenue producing and/or maintenance saving potential.
- Readiness for implementation.
- Non-duplication with other donor or AID projects.

In order to spread potential benefits as widely as possible, sub-projects have been identified throughout the country. Approximately 60% of the infrastructure sub-projects are expected to be in urban areas (including small urban core areas of rural market towns) with the remaining 40% in rural areas outside of urban areas. An estimated 30% of the urban sub-projects will be carried out in the San Salvador metropolitan area.

Loan-financed technical assistance together with the GOES budget and staff support will strengthen the institutional capacity of the MPW and MAG and assure timely Project implementation and disbursement. This technical assistance, combined with the professional expertise of the respective ministries, will permit the SRO to effectively carry out its full range of implementation responsibilities. Assistance is also provided for the procurement of essential spare parts for equipment and vehicles of the MPW and MAG to avoid implementation delays posed by down equipment.

Grant funds are provided to the for technical assistance and training related to (a) the long-run role of labor-intensive public works programs in the country's employment strategy, (b) the design and management of labor-intensive public works programs, (c) the choices of alternative technologies and, (d) evaluation of the Project. The grant will enable the GOES to expand its capacity and knowledge in these areas and develop an appropriate labor-intensive public works program as a long term employment effort.

C. A.I.D. and GOES Commitments

AID will provide loan and grant funds in support of the Project which will be used for:

- (i) creation of an Emergency Employment Fund to finance high priority, labor intensive public infrastructure and land improvement/conservation sub-projects;
- (ii) equipment and vehicle spare parts;
- (iii) approximately 12 person months of technical assistance and 6 person months of training for staff in the Ministries of Planning, Public Works, and Agriculture for development of long-term labor intensive public works programs, limited assistance in the preparation of detailed sub-project plans and Project evaluation; and
- (iv) approximately 120 person months of technical consultant services to the Special Resources Office (SRO) for sub-project construction, implementation and work certification assistance.

The GOES will create the Emergency Employment Fund in the Central Reserve Bank and will establish the SRO and provide for its necessary staffing, administration and salary of all GOES personnel working in the SRO. The GOES will also provide all Project vehicles and equipment, and support costs to include fuel, lubricants and maintenance.

The Fund will be financed by both A.I.D. Assistance and counterpart resources. \$15.0 million in A.I.D. Loan resources and \$125,000 in A.I.D. Grant resources are allocated to the Fund, \$10.0 million of the Loan and the full \$125,000 in grant of which are obligated by the Agreement, and \$5.0 million which are planned for obligation at a later date, subject to the availability of funds to A.I.D. and to the mutual agreement of the Parties, at the time of the subsequent increment, to proceed. \$5.15 million in counterpart resources are allocated to the Fund, \$3.43 million of which are obligated by the Agreement and the remaining \$1.72 million of which are planned for obligation at the time A.I.D. obligates the subsequent loan increment. The Fund will thus total \$20.275 million over the life of the Project as shown in the following table.

D. SUMMARY COST ESTIMATE (In US \$000)

	A.I.D.			GOES Counter part	TOTAL
	Loan	Grant	Total		
<u>Emergency Employment Fund</u>					
Urban Infrastructure Subprojects	7,800	--	7,800	1,027	8,827
Rural Infrastructure Subproject	3,700	--	3,700	941	4,641
Land and Conservation Subprojects	3,100	--	3,100	532	3,632
SUB-TOTAL	14,600	--	14,600	2,500	17,100
<u>Design and Mgmt. Improvement</u>					
Min. of P.W. Special Resources Office	200	--	200	650	850
Spare Parts	200	--	200	--	200
Implementing Agency Management	--	--	--	2,000	2,000
SUB-TOTAL	400	--	400	2,650	3,050
<u>Strengthening of Public Works Sector</u>					
Project Evaluation	--	25	25	--	25
Tech. Assistance and Training	--	100	100	--	100
SUB-TOTAL	15,000	125	15,125	5,150	20,275

*Phase I of this Project consists of up to \$10,000,000 of A.I.D. Loan funds and corresponding counterpart. Phase II consists of A.I.D. funding in excess of \$10,000,000 Loan funds and corresponding counterpart, subject to the availability of funds as stated in Section 2.2 of the Agreement.

ANNEX II

STANDARD PROVISIONS

Combined Loan and Grant Project Standard Provisions

Annex II

Definitions: As used in this Annex, the "Agreement" refers to the Project Loan and Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters. To assist in the Implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants.

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The GOES will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Assistance, will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Assistance, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation.

(a) This Agreement and the Assistance will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the GOES.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the GOES and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Assistance are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the territory of the GOES, the GOES will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Assistance.

SECTION B.5. Reports, Records, Inspections, Audit. The GOES will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Assistance. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Assistance.

SECTION B.6. Completeness of Information. The GOES confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Assistance, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement, and

(b) that it will inform A.I.D. in a timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. GOES affirms that no payments have been or will be received by any official of the GOES in connection with the procurement of goods or services financed under the Assistance except fees, taxes, or similar payments legally established in the country of the GOES.

SECTION B.8. Information and Marking. The GOES will give appropriate publicity to the Assistance and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions.

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the GOES will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Assistance will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

(d) Transportation by air, financed under the Grant, of property or persons (and their personal effects) will be on carriers holding United States certification, to the extent services by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Assistance which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The GOES will furnish to A.I.D. upon preparation:

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the assistance, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Assistance are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a) (2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Assistance will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Assistance for engineering and other professional services, for construction services, and for such other services, equipment, or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the GOES for the Project but not financed under the Assistance the scope of their services and such of

their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the GOES for the Project but not financed under the Assistance shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Assistance. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Assistance the GOES will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of the GOES may not be financed under the Assistance if transported either:

(1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or

(2) on an ocean vessel which A.I.D., by written notice to the GOES, has designated as ineligible; or

(3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Assistance, if such goods or persons are carried:

(1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or

(2) on an ocean vessel which A.I.D., by written notice to the Cooperating Country, has designated as ineligible; or

(3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels:

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels; and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipment financed by A.I.D. and transported to the territory of the GOES on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels.

Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both any cargo transported from U.S. ports and also any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Cooperating Country may be financed as a Foreign Exchange Cost under this Agreement provided:

(1) such insurance is placed at the lowest available competitive rate, and

(2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the GOES by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the GOES financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the GOES will insure, or cause to be insured, goods financed under the Assistance imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the GOES under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the GOES for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property. The GOES agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Assistance, should be utilized. Funds under the Assistance may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Cancellation by GOES. The GOES, may, by giving A.I.D. 30 days written notice, cancel any part of the Loan or the Grant which has not been disbursed or committed for disbursement to third parties.

SECTION D.2. Events of Default; Acceleration. It will be an "Event of Default" if the GOES shall have failed:

(a) to pay when due any interest or installment of Principal required under this Agreement, or

(b) to comply with any other provision of this Agreement, or

(c) to pay when due any interest or installment of Principal or other payment required under any other loan, guaranty or other agreement between the GOES or any of its agencies and A.I.D. or any of its predecessor agencies. If an Event of Default shall have occurred, then A.I.D. may give the GOES notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

(1) such unrepaid Principal and accrued interest hereunder will be due and payable immediately, and

(2) the amount of any further disbursements made pursuant to the outstanding commitments to third parties or otherwise will become due and payable as soon as made.

SECTION D.3. Suspension. If at any time:

(a) an Event of Default has occurred; or

(b) an event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Assistance will be attained or that the GOES will be able to perform its obligations under this Agreement; or

(c) any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(d) the GOES shall have failed to pay when due any interest, installment of principal or other payment required under any other loan, guaranty, or other agreement between the GOES or any of its agencies and the Government of the United States or any of its agencies;

Then A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the GOES;

(2) decline to issue additional commitment documents or to make disbursements other than under existing ones; and

(3) at A.I.D.'s expense, direct that title to goods financed under the Assistance be transferred to A.I.D. if the goods are from a source outside El Salvador, are in a deliverable state and have not been offloaded in ports of entry of El Salvador. Any disbursement made under the Loan with respect to such transferred goods will be deducted from Principal.

SECTION D.4. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Assistance that is not then disbursed or irrevocably committed to third parties.

SECTION D.5. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder.

SECTION D.6. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the GOES to refund the amount of such disbursement in United States Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of the GOES to comply with any of its obligations under this Agreement has the result that goods or services financed under the Assistance are not used effectively in accordance with this Agreement, A.I.D. may require the GOES to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d)

(1) Any refund under the preceding subsection, or

(2) any refund under Subsection (a) or (b) or (3) any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Assistance which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will:

A. be made available first for the cost of goods and services required for the Project, to the extent justified, and

B. the remainder, if any, (i) if derived from Loan funds, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder, and (ii) if derived from Grant funds, will be applied to reduce the amount of the Grant.

C. Any interest or other earnings on Grant funds disbursed by A.I.D. to the GOES under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the GOES.

SECTION D.7. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

SECTION D.8. Assignment. The GOES agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the GOES in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.