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

EL SALVADOR
PROJECT PAPER
AGRARIAN REFORM CREDIT

AID/LAC/P-051

Project Number: 519-0263
Loan Number: 519-T-028

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete A	Amendment Number <hr/>	DOCUMENT CODE 3
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2. COUNTRY/ENTITY EL SALVADOR	3. PROJECT NUMBER 519-0263
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4. BUREAU/OFFICE LAC	05	5. PROJECT TITLE (maximum 40 characters) Agrarian Reform Credit
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09/30/82	7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY 80 B. Quarter 3 C. Final FY 80
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	380	9,620	10,000	380	9,620	10,000
(Grant)	(380)	(120)	(500)	(380)	(120)	(500)
(Loan)	(-)	(9,500)	(9,500)	(-)	(9,500)	(9,500)
Other U.S.						
1.						
2.						
Host Country	-	2,000	2,000	-	3,500	3,500
Other Donor(s)	-	-	-	-	-	-
TOTALS	380	11,000	12,000	380	13,120	13,500

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	230	030	044	-	-	500	9,500	500	9,500
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 055 011 031	11. SECONDARY PURPOSE CODES 130
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12. SPECIAL CONCERNS CODES (maximum 5 codes of 4 positions each)				
A. Code	BR	COOP	EQTY	PART
B. Amount	10,000	9,500	9,500	

13. PROJECT PURPOSE (maximum 480 characters)

To increase both the availability of credit to the agrarian reform sector and capacity of the Agricultural Development Bank (BFA) to provide such credit.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 09/81 09/82	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input checked="" type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY	Signature Charles J. Stockman Title Director, USAID/El Salvador	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY 06/04/80
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PROJECT AUTHORIZATION

Name of Country:	El Salvador
Name of Project:	Agrarian Reform Credit
Number of Project:	519-0263
Loan Number:	519-T-G28

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agrarian Reform Credit project for El Salvador (the "Cooperating Country") involving planned obligations of not to exceed Nine Million Five Hundred Thousand United States Dollars (\$9,500,000) in loan funds ("Loan") and Five Hundred Thousand United States Dollars (\$500,000) in grant funds ("Grant") over a one-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 currency and local currency costs for the project.

2. The project ("Project") will increase the availability of credit for beneficiaries of the Salvadorean Agrarian Reform and help to strengthen the capability of the Banco de Fomento Agropecuario (BFA) to provide for the special credit requirements arising from the Agrarian Reform.

3. The Project Agreements, 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 (Loan)

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 that are members of the Central American Common Market or in countries included in A.I.D. Geographic Code 941, 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 of Goods 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 and 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 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 to Disbursement by the Cooperating Country, A.I.D. may disburse loan funds as reimbursement for costs of credit, and Grant funds as reimbursement for costs of technical assistance and other eligible costs, provided that evidence is furnished to A.I.D. in form and substance satisfactory to A.I.D. that such costs were incurred subsequent to the Project Authorization date.

e. Conditions Precedent to Disbursement (Loan)

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

(1) Evidence that a Special Cooperative Association Line of Credit has been legally established, which can be used for:

- (a) Crop production credit beyond that which is available from other institutional lenders,
- (b) Medium and long-term investment requirements,
- (c) Hacienda administrative expenses, and

(2) A Description of how the Special Cooperative Association Line of Credit will work, including interest rate and terms to be applied, application procedures, and relationship to other sources of credit.

f. Condition Precedent to Disbursement of Loan Funds for the Special Cooperative Association Line of Credit

Prior to any disbursement, or issuance of specific commitment documents under the Project Loan Agreement to finance credit for the BFA, the Cooperating Country shall cause the BFA to submit to A.I.D. a financial plan summarizing

AGRARIAN REFORM CREDIT PROJECT PAPER

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II. PROJECT EXHIBITS

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I. SUMMARY AND RECOMMENDATIONS

A. Face Sheet

See attached.

B. Recommendations

1. USAID/El Salvador recommends authorization of a \$9,500,000 Development Loan and \$500,000 Development Grant for an Agrarian Reform Credit Project. The loan should be repaid to AID 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.

2. Also, because of serious resource constraints in El Salvador and the need to increase the availability of agricultural credit immediately while crops are still being planted, USAID/El Salvador recommends that it be authorized to reimburse the GOES for eligible expenditures from June 1, 1980 rather than from the date of the Project Authorization.

C. Borrower/Grantee

The Borrower will be the Government of El Salvador. The Central Reserve Bank (BCR) of El Salvador will use the AID dollar loan to make a local currency capital contribution to the Agricultural Development Bank (BFA). The major implementing agencies will be the BFA and the Salvadoran Agrarian Transformation Institute (ISTA).

D. Project Summary

The project, although it has been designed in great part to respond to an immediate requirement for agricultural credit in the new agrarian reform sector, has longer term institutional objectives as well. Its purpose is to increase both the availability of credit to the agrarian reform sector and the capacity of the Agricultural Development Bank (BFA) to provide such credit. The project was originally proposed as part of the Agrarian Reform Sector -- Phase I PID. However, because of the need for additional credit resources immediately, the credit component was accelerated and made into a separate project. Complementary assistance to the new agrarian reform sector, perhaps including additional credit funds, will be provided through the Agrarian Reform Sector I Project which will be submitted to Washington in July, 1980.

There are two major activities in this credit project: (1) establishment and operation of a Special Cooperative Association Line of Credit, and (2) technical assistance for organization of a new credit system to meet the needs of the agrarian reform sector. The Special Line of Credit will be capitalized initially at \$13 million -- \$9,500,000 of AID Development Loan funds and \$3,500,000 from the GOES. Credit from

This BFA line will be used to cover needs above and beyond normal Central Bank crop production lines of credit. These are needs that, prior to expropriation, would have been met by the former property owner out of his working capital resources. The new cooperative associations and their members do not have these resources. More specifically, the Special Credit Line will be used for incremental crop production credit (i.e., above limits allowed under Central Bank lines); medium and long term farm maintenance and equipment needs; and general farm administrative and working capital requirements not covered by other sources of credit. Farm financial and credit plans will be prepared for all of the approximately 250 or so properties intervened during 1980. These plans will outline total credit requirements and will serve as the basis for formal applications to open crop production lines of credit in the commercial banks and special requirements lines in the BFA.

The project also includes \$500,000 of Development Grant funds for technical assistance relating to farm and financial planning for the cooperatives and to the organization of a credit system which meets the unique demands of the new cooperative associations. This technical assistance will include two long-term contract consultants for two years each — one Farm and Credit Management Specialist and one Bank Management Specialist — and fourteen months of short-term technical assistance in such areas as accounting, information management, systems analysis, farm planning, credit supervision, etc.

In summary, AID and GOES funds will be used as follows (000s):

	<u>A.I.D.</u>		<u>GOES</u>
	<u>Loan</u>	<u>Grant</u>	
1. <u>Special Line of Credit</u>			
Capital Contribution.	9,500		3,500
2. <u>Institution Building</u>			
Technical Assistance.500	
	<u>9,500</u>	<u>500</u>	<u>3,500</u>

E. Project Issues

The DAEC review of the Agrarian Reform Sector — Phase I PID raised several issues relevant to this Agrarian Reform Credit Project. The first of these, questions relating to how the campesino enterprises are organized and how they will operate, are discussed in the Institutional and Social Analyses. The second major issue raised during PID review, the demand for credit, is discussed in the Economic Analysis Section. In brief, the demand during agricultural year 1980/81 for special agrarian reform credit requirements which cannot be met through existing financial mechanisms, is approximately \$26.6 million, \$13 million

of which will be provided immediately through this project. Thirdly, AID/W expressed concern about the capability of various institutions in the agricultural sector to support the new agrarian reform beneficiaries. The Institutional and Financial Analyses discuss the BFA in some detail and demonstrate that it can play the role envisioned for it.

F. Conditions, Covenants, and Waivers

Other than standard conditions and covenants, the Mission recommends that the Project Authorization include the following:

1. Condition Precedent to First Disbursement of Loan Funds

Prior to any disbursement...the Cooperating Country shall cause the Executing Agency (Banco de Fomento Agropecuario) to furnish...to AID (a) evidence that a Special Cooperative Association Line of Credit, which can be used for (i) crop production credit beyond that which is available from other institutional lenders, (ii) medium and long-term investment requirements, and (iii) hacienda administrative expenses, has been legally established; and (b) a description of how the Special Cooperative Association line of credit will work, including interest rate and terms to be applied, application procedures, and relationship to other sources of credit.

2. Condition Precedent to Disbursement of Loan Funds for the Special Cooperative Association Line of Credit

Prior to any disbursement of AID loan funds...the Cooperating Country shall cause the Banco de Fomento Agropecuario to submit to AID a financial plan summarizing the total credit requirements to each hacienda, including the amount to be financed through the Special Cooperative Association Line and all other institutional sources, for which the BFA is requesting the disbursement of AID funds.

3. Special Covenants

- a. The Cooperating Country shall covenant to make a capital contribution of at least \$3.5 million equivalent in colones for the Banco de Fomento Agropecuario's Special Cooperative Association Line of Credit during the life of the Project.
- b. The Cooperating Country shall covenant to make available adequate crop production credit to the Agrarian Reform Sector through the banking system.
- c. The Cooperating Country shall cause the Banco de Fomento Agropecuario to covenant to hold open the Special Cooperative Association Line of Credit for a minimum of seven years and to return all reflows as capital to the aforementioned Special Line.

- d. The Cooperating Country shall cause the Banco de Fomento Agropecuario, at such time that AID and Cooperating Country mutually agree in writing that there is no longer a need for the Special Line, to covenant to contribute all reflows generated by the Special Cooperative Association Line of Credit for use in the BFA's normal small farmer agrarian reform credit programs.
- e. The Cooperating Country shall covenant to ensure that the Banco de Fomento Agropecuario is given at least equal priority when repayments of Cooperative Association loans from the commercial (mixed) banks and the BFA are due.

4. Waivers

The Mission is requesting one source and origin waiver and an increase in its contracting authority.

a. Increase in Mission Contracting Authority

The Mission has been redelegated authority to enter into contracts which do not exceed \$100,000. However, as explained in Section V of this Project Paper, there is an urgent need to procure technical assistance services for the BFA as quickly as possible. Unfortunately, neither the BFA nor the GOES has the capability to move quickly in executing a contract. Therefore, AID has determined that direct AID contracting is the most appropriate mechanism to use under these circumstances. In order to further expedite contracting procedures, AID is exploring the possibility of using a qualified 8(a) firm. It is expected that AID will enter into an institutional contract to cover the costs of two long-term advisors for two years each and several short-term consultants at an estimated cost of \$450,000. In the interest of expediting the procurement of technical assistance and ensuring that these urgent services are provided when most needed (i.e., by July 1980), the Mission requests that its contracting authority be increased to \$450,00 for this project, or that the Regional contracting officer be allowed to serve as the authorized AID representative and sign the contract in question.

b. Source and Origin Waiver

The project includes \$50,000 of Grant funds for additional short-term technical assistance in such areas as agrarian reform credit, accounting, information management, farm and financial planning, systems analysis, and credit management. In identifying technical assistance sources, the Mission and GOES will look for consultants experienced in the

intricacies of agrarian reform credit. It is highly probable that many of the best qualified, most relevant, and most readily available short-term experts will be found in Latin America, particularly Central America. The Project Authorization therefore permits the use of grant funds to procure goods and services from the U.S. and member countries of the Central American Common Market. If experts from other Code 941 countries are required, the Mission will process source and origin waivers as appropriate.

II. BACKGROUND

A. Political and Economic Framework

1. Political Environment

On October 15, 1979, a new reform-minded civilian-military junta took control in El Salvador. Although there have been changes in its composition, the Junta Revolucionaria de Gobierno (JRG) remains a progressive and "centrist" government which is trying to carry out fundamental economic reforms at the same time that it asserts its authority and tries to achieve some level of domestic tranquility.

The economic program of the revolutionary government, as announced at its inception in October 1979, is to "adopt measures that lead to an equitable distribution of the national wealth, increasing at the same time in accelerated fashion the national product." Major economic measures taken thus far by the Government have included nationalization of the private banking system and of exports of major agricultural products. The cornerstone of the Government's policy is, however, agrarian reform — i.e., the redistribution of large hacienda properties to the currently landless and the transfer of property rights to small farmers of land they are presently renting. Successful implementation or at least successful initiation of the agrarian reform is also the most important single factor in legitimizing the current government. Conversely, a failure to implement the agrarian reform may well lead to a more radical political future — either right or left.

2. Economic Environment

All of these reforms are being introduced in an extremely difficult economic environment, some of which is due to traditional or systemic problems and some to new problems which have arisen during the past year. The traditional causes of economic stress have been apparent for a number of years. These include a rapidly growing population relative to a small land base, a land ownership pattern under which most land was held by a few, insufficient industrial development to relieve the pressure of population growth on the land, continued expatriation of the country's wealth by a relatively small elite, and high levels of un- and underemployment. The country's economic problems have compounded during the past year as political violence and turmoil have increased. The result has been declining private investment and production, capital flight and declining foreign exchange reserves, declining revenues and increasing public sector deficits, a near suspension of private sector construction, growing shortages of consumer and investment goods, and rapidly increasing unemployment.

In cold economic terms, GDP declined by 1.5% in 1979, and the Government is estimating a decline in 1980 of at least 5%. The decline will be distributed among all sectors, with the greatest impact expected in

the agriculture, construction, manufacturing, and commerce sectors. There are no official data on unemployment, although it is estimated, for example, that at least 29% of the labor force previously employed in large and medium-sized manufacturing firms have lost their jobs during the past year. Budget deficits and inflation are also increasing. The consumer price index increased by 12% in 1977, 13% in 1978, and 15% in 1979, and during the first quarter of 1980, it reached an annual rate of 22%. Given the significant GOES budget deficit which is expected in 1980 — some Q355 million (\$142 million) or 10 times the 1979 level — as well as exchange controls, declining imports and production, inflationary pressures will undoubtedly continue to mount.

Beyond these problems of deteriorating production, increasing un- and underemployment, and accelerating inflation, the Government of El Salvador is facing severe balance of payments pressures. USAID projections of the 1980 and 1981 balance of payments are detailed in Annex II.C. They assume reduced exports in both years primarily because of reduced planting and/or care which may occur in both the reformed and non-reformed sectors. Assuming decreases in exports and real imports in both years, the Mission projects balance of payments deficits of some \$220 million in both 1980 and 1981.

If deficits of this magnitude occur, the GOES will face two major alternatives: to apply for additional IMF credits (second and third tranches) which would likely involve difficult restrictions or conditions that impede implementation of the various reforms, or to sell or borrow further against its gold stock. (The GOES has already borrowed \$90 million against approximately one-third of its gold stock.) Neither is a completely satisfactory option, and it is probable that the GOES will face a serious foreign exchange crisis next year.

B. Structure of Agricultural Sector Before Agrarian Reform

1. Land and People

Approximately 1,450,000 hectares (70%) of El Salvador's total land area of 2,098,000 hectares is in farms. Of the farmland about 662,000 hectares are in crops, 553,000 in pastures, and the balance in mountains, woods, and other uses. Except for urban land, non-farm land is primarily mountainous, some of which is forested.

The national population is approximately 4,500,000 of which about 2,700,000 people (60%) are rural. Thus the available farm land (even allowing that some marginal land might be brought into farms) is approximately two-thirds of a hectare per rural inhabitant. In terms of crop land, there is less than a quarter hectare per rural inhabitant.

The ownership of this limited land has been highly concentrated in the hands of a small number of proprietors. The Government, for example, estimates that the approximately 2,500 holding over 100

hectares which are to be expropriated during the agrarian reform cover more than 600,000 hectares or approximately 40% of the farm area of the country. Data also show a strong correlation between farm size and ownership.

TABLE I

Land Ownership as a Function of Farm Size

Size of Holding (has.)	Percentage of Farm Units Completely Owned
Less than 2.0	24.9
2.0 to 4.9	53.2
Over 5.0	79.5
All farms	39.9

SOURCE: Derived from 1971 Agricultural Census

The most recent agricultural census (1971) verifies the highly skewed land distribution system. As of that date, 70.7% of the nation's farms covering 10.4% of farm area were smaller than 2.0 hectares, and 86.7% smaller than 5.0 hectares. On the other end of the spectrum, the 1,941 farms at that date which were larger than 100 hectares (0.7% of all farms) covered 28.2% of all farms lands. Small size, moreover, is compounded by the predominance of tenure forms other than simple ownership, especially among smaller farms (see Table 1). Land rental was the most common non-ownership tenure form in 1971. Colonia, a system under which large land owners permit farm workers living on the land to grow what is usually a small subsistence plot in exchange for services and/or a share of the crop, was still an important tenure form in 1971 (6.3% of farms), but less important than in the past. 1/

Simple renting, alone, or in combination with an owned plot, was in 1971 the most common tenure form for farms smaller than 5.0 hectares. Maximum rents are regulated by decree and the conditions of lease by law.2/ A March, 1978 decree, for example, fixed rents for Class II and III land at \$86/Ha. for eight month's use, rice land rent average around \$71/Ha. Rental rates were most recently adjusted by Decree 44 which lowered rental costs and established other conditions considered necessary as a prelude to under taking agrarian reform.

1/ In the 1961 Census, Colonia was the tenure form for 24.6% of farms. Other forms such as free use and simple rental have apparently increased at the expense of Colonia.

2/ The provisions of that law require, for example, that a written three-year automatically renewable lease be executed. The law is widely ignored.

2. Economic Use of the Land

Coffee is by far the major agricultural crop of El Salvador and the size of the coffee crop and its price on the international market are the principal determinants of gross and net agricultural income. As shown in Table 2, coffee accounted for 65% of gross agricultural sector production in 1977 and 55% in 1978. This was produced on approximately 10% of the country's farm lands.

Basic grains (maize, sorghum, rice) and beans account for use of somewhere between 25% and 30% of the land in farms ^{3/}, but for only 14% of the value of product. Most farmers, including practically all those constituting part of the rural poor, have some basic grain crops. Sugar cane and cotton cover 3% of the land and produce 14% of the gross product; livestock accounts for 38% of the farmland (natural and improved pasture) and 8% of the gross product.

TABLE 2
Gross Agricultural Sector Production
(Millions of Colones -- Current Prices)

	1 9 7 3	1 9 7 4	1 9 7 5	1 9 7 6(r)	1 9 7 7(r)	1 9 7 8(p)
AGRICULTURE	711,908	776,862	782,165	1,335,918	2,053,395	1,804,721
1. Coffee	358,177	423,092	286,949	899,909	1,509,974	1,157,275
2. Cotton	83,187	92,565	101,177	124,111	155,289	153,532
3. Maize	80,679	65,134	93,556	64,071	110,077	173,252
4. Beans	24,194	23,064	21,809	26,080	25,148	40,133
5. Rice	9,788	11,495	29,104	12,513	16,980	30,157
6. Sorghum	39,746	21,381	48,069	26,471	48,700	46,492
7. Sugar Cane	35,420	46,952	101,854	82,328	85,356	87,183
8. Brown Sugar	2,642	1,980	2,222	4,888	1,562	5,175
9. Tobacco	3,548	3,884	5,016	7,144	8,001	10,368
10. Cotton Seed	18,455	24,145	31,581	27,756	31,390	34,905
11. Henequen	2,075	3,777	3,898	4,008	3,149	4,477
12. Kenaf	1,881	1,653	3,924	3,338	4,136	5,159
13. Other (1)	51,116	52,740	53,006	53,301	53,633	56,613
CATTLE	111,640	116,703	130,085	159,272	157,740	167,371
SILVICULTURE	24,109	26,821	31,045	31,390	32,854	32,500
FISHERIES	24,948	24,630	27,176	31,259	29,447	31,252
APICULTURE	3,723	2,989	2,731	4,490	3,556	4,300
AVICULTURE	46,084	50,996	54,965	52,080	53,019	65,988
T O T A L	992,411	999,002	1,028,167	1,614,409	2,330,011	2,106,132

(r) revised figures - (p) provisional figures

(i) includes fruits and vegetables, nuts and others.

^{3/} Duplication resulting from two or more plantings and association of one or more crops makes it difficult to calculate a precise and meaningful percentage in basic grains.

These figures suggest that there are ways to improve land use in El Salvador in order to expand production, rural employment, and incomes. It is estimated that there are some 140,000 hectares of good tillable land now either unutilized or marginally utilized for pasture. There is also much land too steep for efficient production of annual crops (though some is used for them) that would be better suited for coffee and other tree crops. There are also opportunities to improve the use of land through irrigation and other land improvement programs. Land reform, therefore, will involve more than taking over existing production; it will be an opportunity to intensify the use of land, increase the national product, and incomes for small farmers, and expand employment opportunities.

3. Effects of Pre-Reform Land Patterns

Limited access to land, small farm sizes, insecure and costly tenure, and poor land quality have been important factors in keeping the country's 2.1 million rural poor in poverty. For example:

- Small farms cannot absorb available family labor. The USAID/El Salvador Agricultural Sector Assessment points out that high structural (and not only seasonal) labor underutilization occurs on farms smaller than 10 has. and that the smaller farms are, the greater the underutilization. According to an ILO study cited in the USAID Assessment, El Salvador has the highest rural labor under utilization in Latin America, 47%.
- Insecure tenure and land renting are obstacles to capitalizing the small farm. Although permanent and specialty crops offer a much higher return per hectare than do the traditional basic grains, the larger investment generally involved in establishing them cannot be justified if tenure is insecure, even if a small producer could afford to pull land out of production on an already small farm until permanent crops generate income.
- Numerous attempts to extend credit, technical assistance, or public services to a larger percentage of farms have been frustrated by small farm size or tenure relationships. Servicing larger farms with services related to production is generally institutionally more cost-effective than servicing smaller ones. Tenancy may also pose problems. For example, on many of the large haciendas in El Salvador which have resident tenants, public services such as electricity, potable water, schools, and clinics have not been extended. On most, because of the concentration of large tenant populations, these services could have been provided in a cost-effective manner. Yet because their provision was seen as the responsibility of the patrón, the Government did not provide them.

C. The Salvadoran Agrarian Reform

1. Pre-1980 Efforts

The Government of El Salvador has long been aware of land tenure as a social and political issue. An agrarian reform agency was established in 1932 in the aftermath of a large-scale campesino revolt whose suppression resulted in a very large number of campesino deaths. The agency has since gone through several changes of name, organizational structure, and operational methods. The present organization, created on June 6, 1975 is called the Salvadoran Institute of Agrarian Transformation (ISTA). ISTA's general objectives are to raise the social and economic level of the small farmer through the provision of land, technical assistance, credit and other benefits as well as to increase agricultural production and productivity in general. USAID/ES attempted in the middle 1970's to develop a project to support the newly created ISTA in its land acquisition and settlement program. ISTA's predecessors had acquired 67,711 hectares of land, 80% of which was adjudicated to 10,700 families over a period of 43 years. In 1976 when ISTA announced that it planned to expropriate some 56,000 Has. of good land in the Usulután area, resistance developed and the GOES legislature curtailed ISTA's legal expropriation powers for the project. AID at that point stopped actively "pushing" an agrarian reform program but continued to be alert to possible forms of supporting a reform effort. ISTA, on the other hand, continued to acquire properties through voluntary sales and by June of 1979 it had acquired nearly 14,250 has. From 1932 through June of 1979 ISTA and its predecessor agencies had acquired 82,165 has. of land of which 61,550 has. was distributed to 14,563 beneficiaries.

2. The 1980 Agrarian Reform

a. Scope of Reform

On March 6, 1980, Decree 153, the Basic Law of Agrarian Reform (Annex II.A.1) was issued and subsequently modified by Decree 222 in May, 1980. This law declares the fundamental social purpose of land and of the reform, and provides for expropriation with compensation of all farm land owned by individuals or legal bodies in excess of established land holding ceilings —either 100 or 150 hectares depending upon land classifications. This law was supplemented by Decree 154 which authorized Phase I of the reform and expropriation of all properties more than 500 hectares. This was followed on April 28, 1980 by Decree 207 (Land-to-the-Tiller) which expropriated virtually all cultivated land not worked directly by the owner and provided for property rights to the current renter-cultivator.

The program has been designed in three phases which do not necessarily follow one another sequentially: Phase I calls for expropriation of all farms more than 500 hectares; Phase II calls for expropriation of all farms between 100 or 150 hectares and 500 hectares; and Phase III calls for transfer of land ownership to the tiller/renter. This com-

prehensive program contemplates expropriation of (a) 626,000 hectares of large landholdings (Phases I and II) to be operated by peasant associations/cooperatives and (b) approximately 175,000-250,000 hectares of land now farmed under various rental or share-cropping arrangements (Phase III). Because of some overlap between the Phase I and II estates and the tenant farms and the rights of reserve (100-150 hectares) which hacienda owners will eventually be able to claim, the total area to be involved in the agrarian reform will drop to some 550,000 to 650,000 hectares or some 35%-45% of the country's current farm land.

Varying kinds and qualities of land will pass to the campesinos, ranging from the most highly developed and productive to the most marginal. It will include a significant proportion of the country's agricultural exports -- e.g., based on data from the first 144 properties intervened, the expropriated first phase lands are projected to contain around 16% of the coffee hectareage, 35% of cotton, 28% of cane, 43% of rice, 15% of corn, 6% of sorghum, and 8% of bean. Following Phase II, the reform sector will become by far the major sugar and cotton producer. The Land-to-the-Tiller program will primarily involve lands currently producing basic food grains, although it is expected that the transfer of ownership will bring about changes of land use over time -- e.g., to higher value crops which require a larger investment and a longer pay-off period.

b. Phase I

The expropriation of Phase I haciendas larger than 500 hectares began immediately after the issuance of Decrees 153 and 154 on March 6, 1980. Three hundred and seventy-six properties owned by 244 landlords covering an estimated 224,000 hectares were initially identified for expropriation by the first of May, the beginning of the new agricultural year and the planned end of the Phase I interventions.^{4/} Field and office staffs of CENITA (Agricultural Extension and Research Institution), various directorates of the Ministry of Agriculture (MAG), and promoters from the Community Development Organization (DIDECO) were detailed to ISTA for the initial intervention, including expropriation of land in the name of ISTA and subsequent formation of campesino associations. By the end of April, ISTA had intervened 251 haciendas (230,645 hectares); it is estimated that approximately 12 additional haciendas greater than 500 hectares will be expropriated during Phase II. ISTA has organized cooperative agricultural associations, primarily composed of the colonos and paid laborers who worked on the haciendas, and has provided interim management and technical assistance. In most cases, existing managers have been employed by the cooperative or a new manager(s) identified by ISTA. ISTA intends, as soon as possible, to withdraw from its direct involvement, and total responsibility for management will be placed on the juntas directivas of the new cooperative associations. ISTA estimates that approximately 62,000 families (372,000 people) are already benefitting from Phase I of the reform as residents on the intervened haciendas and prospective members of the cooperative associations.

^{4/} During the expropriation process, it was discovered that the 376 figure was an overestimation -- i.e., that because of defective cadaster maps, it counted as two or more properties a number of haciendas which are intersected by roads or rivers.

Compensation to former owners will be paid based on the average values declared by the landholder in his property tax declarations for 1976 and 1977 or, if he failed to declare value through a process of negotiation with ISTA. Owners of properties over 500 hectares will be paid solely with agrarian reform bonds. (See Annex II.A.3 for a translation of Decree 220 which describes bond terms and the purposes for which they can be used.) Owners also have the right to retain land equivalent to the land holding ceiling — 100 or 150 hectares depending upon classification — although this right must be exercised within one year. This right is also subject to forfeiture if the owner attempts to subvert the agrarian reform law by damaging or decapitalizing land and other farm assets.

c. Phase II

This phase will not begin this planting season. It will involve the acquisition of an additional 1,500-2,000 farms covering an estimated 346,000 hectares. One major difference between it and Phase I will be in compensation — the former owner will receive cash for livestock and improvements, 25% cash for land, and 75% agrarian reform bonds for land. The GOES recognized that the logistic and institutional problems it is going to face in implementing Phase II are going to be far more serious than it faced in Phase I — and that its capabilities were strained to their limit during Phase I which involved one-seventh the number of haciendas. Implementation of Phase II may, therefore, have to be substantially different than Phase I. Although precise numbers are unknown it is expected that at least 60,000-70,000 families will directly benefit from Phase II.

d. Phase III

The land-to-the-Tiller Program was announced on April 28, 1980, at which time Decree 207 provided for the immediate transfer of title of rented land to ISTA and of proprietary rights for up to seven hectares to the renter-cultivator. As presently perceived, formal title on all of these lands will eventually be transferred to the individual renter-cultivators who will pay for the lands over a 30 year period. During these 30 years, they will be unable to sell the land acquired under Decree 207. Implementing regulations have not yet been formulated for Decree 207, and it is not even clear which GOES institution will have primary implementation responsibility — ISTA, the Corporación Financiera de Tierras Agrícolas (COFINA), or some other organization. There is also some confusion about which farms are affected, although it appears that the law applies to all sizes of farms, except possibly those which have already been intervened under Decree 154. It is estimated that some 150,000 tenant families will benefit directly from this Decree.

Compensation for most landlords will be more generous than under either Phase I or II — i.e., owners of less than 100 hectares of land expropriated under Decree 207 will be paid 50% in cash and 50% in bonds. Those with larger exploitations will be paid according to Decree 153.

All rents from the land received by the owner during the current year will be deducted from this compensation.

D. Complementary AID and Other Donor Assistance

1. A.I.D.

Because of its importance in helping to improve the well-being of the rural poor and in legitimizing and strengthening the capabilities of the government to institute fundamental socio-economic reforms, the AID Mission attaches the highest priority to supporting the agrarian reform in El Salvador. This priority will be exemplified primarily through a proposed Agrarian Reform Sector Program which will follow-on shortly after this Agrarian Reform Credit Project. The Sector Program will begin in late FY 80 and carry through several fiscal years. It will draw upon a variety of AID resources — Development Assistance, Economic Support Funds (ESF), and PL-480 — in support of the Government's agrarian reform program. It will help to finance operational support costs and credit needs, as well as longer-term requirements for institutional development, training, research and extension, planning, and evaluation. Although levels have not yet been determined, the Mission is anticipating combined resource levels of some \$50 million per year during the period 1981-82. Support for the agrarian reform sector will continue after 1982, but at a lower level.

Besides its major Agrarian Reform Sector Program, a number of on-going or imminent Mission programs will be used in the short-term to support the agrarian reform and this credit project in particular. These include:

- an ESF transfer of \$750,000 to the Agriculture Development Bank (BFA) to provide capital which it will lend for crop production in the reform sector;
- a \$3 million Title I program for which the local currency proceeds of wheat sales will be used to finance agrarian reform credit needs;
- a \$9.5 million Small Producer loan which will provide capital to FEDECACES and FEDECREDITO for relending to individuals and cooperatives. Some will be used for non-basic grain agricultural credit. Many of the small farmers participating or potentially participating in this program will be reform beneficiaries.
- an ESF transfer of \$2.5 million to MAG-ISTA to help defray the operational costs of the Phase I interventions;
- an OPG of \$1 million to the American Institute for Free Labor Development (AIFLD) to support Union Communal Salvadoreña (UCS) agrarian reform activities, e.g., legal assistance, campesino training, and campesino organization;

- a technical assistance grant of \$250,000 to support some of the reform's immediate planning and organizational needs. Already financed under this grant are short-term TA from IICA for agrarian law, campesino organization, planning, insitutional organization, campesino training, and campesino enterprise management; and
- a Marginal Community Improvement loan which includes \$8 million for community infrastructure improvements, some of which will be used on the new reform haciendas, and \$2 million for the BFA's small enterprise credit line.

2. Other Donors

Neither of the major two donors to El Salvador — the Inter-american Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD) — has firm plans to assist the GOES in the Agrarian Reform Sector. Both, however, do recognize the importance of agrarian reform and the need for significant external assistance. As a first step, the IDB is expected to send a Mission to El Salvador, in part to define its possible future support to the reform sector. In addition, the IDB is reviewing its existing portfolio to determine the extent to which undisbursed funds can be used to support the reform, either directly or indirectly. The most likely candidates are the Cattle Development/Animal Health Loan (undisbursed balance of \$16.3 million as of 3/31/80), the Rural Roads Development Loan (undisbursed balance of \$4.5 million as of 3/31/80), the Northwest Rural Development Loan (undisbursed balance of \$12.7 million as of 3/31/80), and the Agriculture Credit Loan (undisbursed balance of \$2.3 million as of 3/31/80). In addition, the IDB approved a \$16.5 million Agriculture Credit Loan to the BFA which has not yet been authorized or signed because of delays in the IDB's fifth replenishment. The BFA has also not yet met Conditions Precedent for this loan; therefore, there may be some delay even after funds become available.

The AID Mission and AID/Washington have been in close contact with the IBRD and IDB regarding external assistance needs for the Agrarian Reform Program. Efforts will be made to maximize their participation, as well as to ensure that there is close coordination among all of the major potential donors to the agrarian reform.

III. PROJECT RATIONALE AND DESCRIPTION

A. Rationale

A Supplemental Report submitted to AID/Washington following review of the Mission's Agrarian Reform Sector-Phase I PID describes the major constraints to successful implementation of the Government's agrarian reform program. These constraints fall into several categories -- planning and procedural weaknesses, institutional weaknesses, and inadequate financial resources. The first of these, planning and procedural weaknesses, is due in great part to the speed at which the reform was initiated. The Government began with far from perfect information on properties, tenancy arrangements, and even probable beneficiaries. In part because of this imperfect information base, implementing regulations have not yet been issued, although they are being drafted and should become public in early June of this year. However, even after these regulations are decreed, procedures relating to such issues as titling, claiming of reserve lands, compensation, management of cooperative associations, etc. will still need to be detailed. Beyond these planning and procedural problems, the Government must strengthen its institutional capacity to move forward with the reform. For example, both MAG and ISTA resources were fully occupied and strained to the limit during Phase I which involved the expropriation of only 251 haciendas. To proceed with Phase II, ISTA will need additional resources -- e.g., besides staff increases, it will need many more than the 27 vehicles it was able to assign to Phase I implementation. Further complicating all of these problems is the Government's inadequate financial base. As described in Section II.A.2, the country's economic situation has been deteriorating throughout the past year. With production falling, inflation increasing, and foreign exchange reserves dropping to crisis levels, it will be extremely difficult to proceed with a comprehensive agrarian reform unless there is also substantial external assistance.

All of these constraints will be described in greater detail in the Mission's upcoming Agrarian Reform Sector I Project Paper which will look at the broad requirements of the Salvadoran agrarian reform and lay out a strategy for long-term AID support. However, in the interim, there is one crucial constraint to implementation of the agrarian reform program which cannot be ignored or delayed until authorization of the Sector I Project -- that is, agricultural credit. As described in more detail in Section IV.B., Phase I has introduced new credit requirements which cannot be dealt with through existing commercial bank or BFA lines of credit. The expropriated estates have thus far dealt with this need through an interim system under which ISTA opens an account in the BFA for each estate in the name of "ISTA-Hacienda x." By agreement between the BFA and ISTA, the latter has been allowed to overdraw this account to finance the work plans of the haciendas, including salaries and the costs of some inputs. By the end of May 1980, approximately Q30 million (\$12 million) had been provided through this overdraft mechanism.

The Government recognizes that this interim mechanism is inadequate and that a permanent credit mechanism will have to be developed to meet the special requirements of the cooperative associations/reform haciendas. This project will help the GOES to develop such a mechanism, and therefore simultaneously help to maintain both employment and production on the expropriated haciendas at the highest possible levels. In financial terms, this need is essentially for credit to replace working capital formerly supplied by individual owners. In human and institutional terms, it involves organizing an effective credit system that will respond quickly and efficiently to the needs of the expropriated estates.

The demand for such credit in Phase I alone has been estimated at \$26.6 million. As the Agrarian Reform Sector I Project is designed, additional credit requirements for Phases I and II will be assessed. If deemed necessary, the Sector I Project may include as much as \$5-10 million more for credit. Special requirements for Phase III (Land-to-the-Tiller) will also be assessed and resources included in the Sector Project, if needed. It is, however, hoped that the bulk of this "Land-to-the-Tiller" credit will be provided through existing BFA lines of credit and that external assistance needs will be met by the IDB -- e.g., in part through its approved but not yet authorized \$16.5 million Agricultural Credit Loan.

B. Project Description

1. Goal and Purpose

Although this Agrarian Reform Credit Project has been designed in great part to respond to an immediate requirement for agricultural credit in the reform sector, it also has longer term institutional objectives. Its purpose therefore is to increase both the availability of credit to the agrarian reform sector and the capacity of the Agricultural Development Bank (BFA) to provide such credit. By the end of this two year Project, we will expect the following conditions to have been achieved:

- a Special Cooperative Association Line of Credit of at least \$13 million will be operating within the BFA serving the needs of Phase I and II haciendas;
- the BFA will have institutionalized a multi-purpose farm and financial planning system applicable for all cooperatively owned enterprises expropriated in Phase I and II of the reform;
- the BFA will have an expanded outreach capability to help serve special needs of the agrarian reform sector; and

- the cooperative associations on haciendas expropriated in Phase I will be preparing their own farm financial plans, with assistance from ISTA and BFA, and submitting them to the BFA and commercial banks as credit requests.

By meeting the immediate need for credit resources and by institutionalizing a credit system which takes into account the special requirements of the expropriated haciendas, this Project will help to maintain agricultural production on the Phase I and II properties. We will expect achievement of the sub-goal — maintenance of agricultural production and earnings — to be indicated by the following conditions:

- agricultural production on intervened farms will have been maintained;
- export earning on intervened farms will be at least equal to average levels during the five years prior to intervention; and
- the intervened farms/cooperative associations will be financially sound.

By helping to maintain production and earning capacity, this project will also contribute to the Mission's broader program goal of improving the economic and social well-being of the poor in El Salvador.

2. Detailed Project Description

There will be two project components: (a) establishment and operation of a Special Cooperative Association Line of Credit — \$9,500,000 of AID Development Loan funds and \$3,500,000 of GOES capital counterpart; and (b) technical assistance for organization of a credit system to meet the needs of the reform sector — \$500,000 of AID Development Grant funds.

a. Special Cooperative Association Line of Credit

(1) Amount and Uses of Line of Credit. The total amount required for the Special Line of Credit for Cooperative Associations for agricultural year 1980/81 is Q66.6 million, or \$26.6 million, a small amount of which has already been met through interim financial procedures developed by the GOES. (See Section IV.B. for a more detailed description of how the demand was determined). This Agrarian Reform Credit Project will provide a first tranche of capital to the Agriculture Development Bank (BFA) to cover immediate requirements. The first tranche will be Q32.5 million (\$13 million): \$9,500,000 of which will come from AID and \$3.5 million from GOES. Additional resources for the Special Line may be included in Agrarian Reform Sector I Project Paper.

The function of the Cooperative Association Line of Credit is to meet a new and urgent demand for credit from the cooper-

atives organized on the 251 estates expropriated in 1980 under the land reform program. The need is for credit beyond that provided through the normal lines of annual crop production credit (e.g., for coffee, sugar cane, cotton, etc.) supplied by the banking system. (See Annex II.B. 3 for a description of these lines of credit). Most of this need, prior to expropriation, would have been met by the former owner of the property out of his own working capital resources — resources that the associations and their members lack.

More specifically, credit may be granted and utilized under the Cooperative Association Special Line of Credit for the following purposes:

(a) additional credit for annual crop production expenses to the extent that the credit provided under the normal crop lines of credit established by the Central Bank does not fully cover such production expenses;

(b) farm maintenance and development needs, including replacement and repair of equipment, purchase of cattle, planting or replacement of coffee trees, improvement and maintenance of agro-industrial facilities such as coffee processing and sugar refining; and

(c) general farm administrative expenses not covered by annual crop production loans.

The Special Line will be used only by cooperative associations in the agrarian reform sector. The BFA will maintain the Line for a minimum of seven years for the uses described above. The longer run intent, however, will be to develop a system in which such a special line will be unnecessary. The BFA will therefore operate the Special Line of Credit by making loans directly to cooperative associations or by discounting loans issued by commercial banks; similarly, the commercial banks will be able to discount BFA loans. This flexibility is intended to make it possible to evolve toward a system whereby a cooperative association will be able to do all of its banking with a single institution rather than depend upon a commercial bank for normal annual production credit and the BFA for special credit. At the time that a special line of credit is no longer required, the roll-over funds generated through this loan will be utilized by the BFA in its normal small farmer development and agrarian reform lending programs.

(2) Credit Procedures. The system of providing credit to expropriated estates through ISTA overdrafts was discontinued on May 31, 1980 and a regularized credit system initiated. The overdraft system will be replaced by an integrated credit system which deals with the crop production and special credit needs of the new cooperative associations. However, before the new system can be fully operational, the cooperative associations have to complete registration procedures and receive their official "personerfa jurídica". All legal barriers to this were overcome

with announcement of Decree 221, and the process should be completed within a month. As an interim measure, the Central Bank has opened a temporary line of credit ("anticipo") to meet immediate crop production and special credit requirements. The procedures used in setting up the hacienda accounts under this temporary credit line will be in the same as described below for this project, and all cooperative associations will co-sign the loan applications. As soon as "personería jurídica" is formally received, the crop production lines of credit will be transferred to the commercial banks who have traditionally served these haciendas, and the working capital and medium and long-term equipment and maintenance lines to the Special Line of Credit for Cooperative Associations. Once these accounts are transferred to the Special Line, AID will reimburse the BFA for eligible draw downs made after June 1, 1980.

More specifically, the Special Line will operate as follows:

(a) Financial Plans. Each cooperative association on an expropriated estate is preparing, in collaboration with ISTA and the BFA, a plan of production and financing for the 1980/81 agricultural year. As of the end of May, 160 plans had been prepared. These plans include needs for normal crop production credit and for special credit. During 1980/81, the plans will be relatively simple because of time limitations. The procedure will become more refined beginning with agricultural year 1981/82 as the more sophisticated farm planning and credit delivery systems contemplated in the technical assistance component of this project are developed and implemented.

(b) Applications for Credit. The financing plans will be the basis for credit applications which are submitted by the campesino associations and approved by ISTA, as the guarantor, and BFA, as the lender. There will be two credit applications: one for normal crop annual production credit, and one for special credit. In most cases the BFA will refer the former to the commercial bank that would normally finance the hacienda (e.g. the bank that financed the former owner). The commercial bank will be informed of the action taken by BFA and will be requested to confirm to BFA its acceptance of the application for normal crop credit. The two banks will exchange information, and may provide correspondent bank services as necessary or desirable to facilitate operations and control. Simultaneously, the BFA will open a line of credit for the "special credit". In exceptional circumstances, the BFA will open both lines of credit.

Each cooperative association will open a current account in BFA (and/or in the commercial bank) through which all receipts and payments of the association (other than petty cash) must be made. This is of key importance for purposes of control and assuring repayment of loans.

(c) Administration of Normal Crop Production Credit.

The cooperative associations will use normal production credit in the same way as other agricultural borrowers. That is to say, they will draw down on the loan for each crop according to the amounts allowed for each stage in the production process.

(d) Administration of Special Credit. The Special Line of Credit granted by BFA to each association will be administered with considerable flexibility. It may be drawn upon at any time for farm production or production improvements set forth in writing and approved by the ISTA representative. The harvest or other source of income from which repayment will be made must be specified in the written request to draw down funds. This will allow the association to respond to emergencies and changes in farm plans and needs without having to renegotiate the credit. When required, an association can apply for an increment to its credit line.

The BFA will normally grant credit for any purpose approved by the ISTA representative that is related to the farm's management and production. Credit will normally be granted for any period up to the expected time of sale of the harvest from which the association agrees to repay the loan. In the case of capital development loans, the BFA shall establish a payment schedule with maximum terms of five years.

(3) Interest Rates Under Special Line of Credit. Loans under the Special Line of Credit will bear a uniform interest rate. A final decision on the interest rate will be made by the Junta Monetaria when the Line is established. Under no circumstance will it be less than 13%. The importance of a 13% floor is to ensure that the Special Line does not have a lower rate than the normal crop production lines and that its resources are retained for the special requirements of the associations. Interest payments to the BFA will be attributed as follows:

- 10% for covering administrative costs in the BFA, including institutionalization of the farm financial plan and supervised credit functions anticipated under this project;
- 3% for creation of a reserve fund for bad debts.

To the extent that interest earnings are not required for these purposes, they will be used for further capitalization of the Special Line.

b. Technical Assistance

AID will contribute \$500,000 of Development Grant funds to finance technical assistance relating to (1) farm and financial planning for the cooperative associations, and (2) the organization of a credit system to serve cooperative associations. Two long-term advisors will be financed for two years each; in addition, funds are allocated for approximately 14 person months of short-term assistance. Additional technical assistance may be provided through the follow-on Agrarian Re-

form Sector I Project.

(1) Farm Planning. The objective of this activity is to make a first step toward developing and institutionalizing a system of farm planning in the cooperative associations. The BFA will take the lead because of the importance of such plans in preparing financial plans and credit applications. It is expected, however, that technical personnel of ISTA and MAG will also be associated, as appropriate in developing and implementing farm planning techniques in the respective expropriated haciendas.

At the outset, the farm plans will be relatively simple and oriented primarily to the coming crop year. This is particularly true with respect to the 1980/81 plans for the Phase I haciendas and for the initial years of the Phase II haciendas. These early plans will emphasize maintenance of production. The intent, however, is to work toward more sophisticated plans which include multi-year objectives such as the more intensive use of expropriated lands and the generation of increased employment and higher income levels for the beneficiary families. These plans may call for changes in cropping patterns, planting of permanent crops, increases in land area under cultivation, acquisition or construction of facilities, or whatever may be appropriate to maximize long-term returns.

This project will finance one long-term Farm and Credit Management Advisor (2 years) and approximately six person months of short-term consultants. Initially, the advisor will concentrate his/her attention on upgrading the Bank's capability to deliver a service to the associations. Over time, greater attention will be given to the associations themselves -- i.e., to helping them develop plans for themselves. Short-term consultants will be provided in such areas as farm planning, accounting, and data and information management, in part to determine if a uniform accounting/data management system could be used for the cooperative associations.

(2) Organization of a Credit System to Serve Cooperative Associations. The objective of this activity is to develop an effective long run solution to the financing of the new campesino cooperative associations. A major aspect of the work will be to assist the BFA in modifying and improving its own procedures in dealing with the provision of credit to the associations. This will take into account such matters as internal bank organization at the central office, regional and agency levels; loan application and processing procedures; credit supervision; loan collections and the handling of delinquent loans; and the relationship of BFA lending programs to activities of ISTA, MAG, commercial banks, etc.

Particular attention will be given to the relationship between BFA and the commercial banks, and how in the short-run they should work together (or divide the work and risks) in serving the cooper-

tive associations, and how in the long-run, a system can be designed in which a single financial institution can handle all the financial needs of a particular association.

The Project will finance one long-term Bank Management Advisor (2 years) to the BFA and approximately eight person months of short-term assistance in such areas as data management, systems analysis, accounting and farm credit management.

In order to protect against agro-chemical/environmental abuses, particularly on haciendas which include cotton production, special short term technical assistance in pesticide management and environmental protection will also be provided to the BFA. At least one month of short term technical assistance will be financed under this project; an additional month will be provided by the Regional Pest Management Expert who is based at ROCAP. These consultants will help the BFA to initiate procedures to minimize the risks inherent in pesticide distribution and use. The consultants will also help to do an environmental assessment of pesticide use on Phase I haciendas as part of the project.

IV. PROJECT ANALYSES

A. Financial Analysis

1. Financial Plan and Summary

The overall financial plan for AID Development Loan and Development Grant funds and the GOES counterpart is presented below:

<u>Financial Plan</u> <u>In US\$000</u>				
<u>Use of Funds</u>	<u>AID/DL</u>	<u>AID/DG</u>	<u>GOES</u>	<u>TOTAL</u>
AID/GOES Special Credit Fund	9,500	-	3,500	13,000
Technical Assistance		500		500
TOTAL	<u>9,500</u>	<u>500</u>	<u>3,500</u>	<u>13,500</u>

The total Project funding is US\$13.5 Million of which US\$9.5 Million in AID Development Loan funds and US \$3.5 Million of counterpart will be used to establish an AID/GOES Special Credit Fund within the Banco de Fomento Agrícola (BFA) to meet the immediate financing needs of the newly organized Campesino Cooperative Associations, and US\$500,000 in AID Development Grant funds for technical assistance. The fund will be used to provide credit lines to the Associations for crop production not financed by commercial banks, medium and long term financing needs for capital improvements and for working capital.

2. Special Credit Fund

The 1980/81 agricultural year credit needs identified above as eligible for Project Financing are approximately US\$26.6 Million. The \$13 Million in this Project is initial capitalization of this Fund. Additional funds may be added in the upcoming Agrarian Reform Sector I Project. The financing for production requirements are expected to be repaid in 12 months. The medium and long term financing for capital improvements is expected to be repaid over a period of 3 years and in some cases in 5 years. There will be some decapitalization of the fund to the extent that some loans will have a payback period longer than one year. No cash flow analysis is presented since the purpose of this Special Fund is to provide the immediate financing needs of the Cooperative Associations. In the long-run, it is expected that such a Special Fund will not be required and that the funds generated through this

project will be used for the BFA's normal small farmer and reform sector lending.

3. BFA Financial Statement Analysis

The BFA is the GOES institution under the Ministry of Agriculture and Livestock charged with providing agricultural development credit throughout El Salvador. It is funded principally by the Central Reserve Bank as well as deposits from other autonomous government institutions.

The balance sheets and income statements for BFA for the period 1975 through 1979 are shown in Tables IV, V, and VI, Annex II E.

An analysis of these statements shows that the loan portfolio has grown from \$39.6 Million to \$97.0 Million, an average of \$11.5 Million per year.

The consolidated net income appears low for the volume of operations, however the high profits from the Banking Division are offset against losses of the Development Division. The balance sheet shows a steady growth of reserves and special funds from \$7.3 Million in 1975 to \$15.6 Million in 1979.

Prior year adjustments for expense and income are for purchases and overtime salaries that were paid in one calendar year but were actually chargeable to the prior year accounts and for commissions due one calendar year but actually received the following year.

4. Interest Repayments

Interest rate payments for the Special Fund will be at least 13%, and probably 15%. The interest payment will be used as follows: 10% for BFA administrative expenses and 3%-5% for a bad debt reserve.

The Comparative Summary of the BFA presented in this Section shows that the BFA's administrative expenses as a percentage of the loan portfolio were 5.5%, 7.5%, 7.6%, 7.1% and 5.7% in calendar years 1975 through 1979 respectively. The BFA will provide an additional 44 technicians in branch offices throughout El Salvador at an estimated cost of \$275,000 per year for salary alone. The Mission believes the 10% provided for administrative expenses is reasonable.

5. Technical Assistance

Approximately 4 person years (estimated at \$400,000) of long term technical assistance will be provided in the areas of Banking Administration and Farm and Credit Management. This assistance will be contracted by AID because of the immediate need for the assistance. The Mission is requesting authority to allow the Mission Director to enter into an institutional contract of approximately \$400,000 with an 8(a) firm.

The remaining \$100,000 will be used for approximately 14 person months of short term technical assistance for the institutional strengthening of the BFA.

6. Projected Expenditures by Fiscal Year

It is expected that the drawdowns of the Special Fund will begin immediately after authorization of the project. As discussed in the Disbursement Procedures, AID will advance up to \$5.0 Million, but actual disbursements will be based on the drawdowns on the credit lines established.

The Projected Expenditures by Fiscal Year are presented in Table II, Annex II E. Expenditures occurring in FY 80 are estimated at nearly 50% of the AID and GOES funding; most of the remaining expenditures will occur in FY 81, with a small technical assistance residual in FY 82.

Technical Assistance will be expended over FY 80, FY 81 and FY 82, with the long term technical assistance beginning in August of 1980 and ending in August of 1982 and two person months of short term technical assistance starting in August 1980 with the remaining twelve person months occurring in FY 81.

Local currency costs of the long term technical assistance will be funded from the Project but not included in the contracts, thus saving overhead charges on quarters allowances, local travel and shipment of household effects. It is estimated that local currency costs will amount to \$120,000.

7. Disbursement Procedures

The farm credit analyses prepared by ISTA and BFA will provide the necessary information on the total credit requirements for each farm, which include the traditional annual production credit requirements to be financ-

ed by commercial banks and those types of credit eligible under the Project, i.e. additional production credit not financed by the commercial banks, working capital requirements and equipment purchases.

The BFA will prepare and submit to AID as a condition precedent to first disbursement of funds a financial plan showing in summary the total credit requirements for each farm, the amount of commercial bank financing and the amount to be financed through the Special Fund. A projected drawdown schedule will be included in the plan.

Based on the financial plan, an advance of funds will be made equal to expected hacienda drawdowns over the first 90 days. It is expected that this may be as much as \$5.0 million.

This advance will be in U.S. dollars deposited into the Central Reserve Bank account in the Federal Reserve Bank of New York. Within 10 days of notification of the deposit in New York, the Central Reserve Bank will make a deposit for the total local currency equivalent of the dollar transaction to the Special Fund in BFA at the highest exchange rate not unlawful in El Salvador. A special covenant with the Central Reserve Bank will be made to cover this procedure.

BFA will present to AID on a monthly basis a reimbursement request showing the amount of drawdowns against the lines of credit financed by the Special Fund. These requests will be processed and local currency checks will be deposited to the Special Fund keeping the balance at no more than \$5.0 Million. When the reimbursement request reach \$5.0 Million the remaining \$5.0 Million will be processed as "no pay" vouchers and used to reduce the outstanding advance.

B. Economic Analysis

1. The Resource Gap

In this time of civic unrest when production and government income are falling, the gap is rapidly widening between resources needed and resources available to expropriate land, to assist campesinos in farming their new lands and in maintaining production levels and to compensate former owners. Nowhere is this more evident than in the case of credit.

Between January 1979 and January 1980, the deposits of commercial banks fell, while lending volumes increased. The increased lending was facilitated by a 120% increase in credit provided by the Central Bank. The BFA is facing particular difficulties, in large part because much of its portfolio is immobilized as owners of expropriated estates expect the bank to be paid out of proceeds of compensation for the expropriated land. Meanwhile, it is simultaneously trying to expand its small farmer loan program and to meet essential needs of the estates expropriated under land reform. This credit is now being supplied by the only quick source there is -- the Central Bank. There are, of course, limitations on how much credit can be supplied this way and how large a deficit the GOES can run before El Salvador is caught up in a spiral of inflation and devaluation.

Additionally the foreign exchange position of the country is very tight. There appears to be enough foreign exchange to finance agricultural inputs in 1980. However, needs in 1981 cannot be provided out of foreign exchange earnings without drastic rationing of imports. This would in turn inflict even further damage on the already sagging agriculture, industry, tourism, construction and service sectors. Even under existing circumstances, foreign suppliers of agricultural inputs are prepared to ship at best only on the basis of collection on delivery.

In order to move ahead with its reform program, the GOES must secure additional resources. This \$9.5 million loan for agricultural credit will make a small but useful contribution to the resource gap by providing some credit where it is most urgently needed (BFA), as well as easing somewhat the tight foreign exchange situation.

2. Agricultural Credit Demand for the Reform Sector

a. First Phase 1980 -- Farms of more than 500 hectares. The necessities of credit financing for the current agricultural year (May 1980-April 1981) for expropriated farms of more than 500 hectares have been calculated at ¢312 million (\$124.8 million). This figure is based on an expropriated total of 230,645 hectares (341,514 manzanas), and an area planted in crops of 127,374 hectares (184,600 manzanas). Credit needs have been calculated at the levels necessary to maintain pre-expropriation production levels.

The estimated total credit requirement does not include provision for any payment for the land or for any work done prior to the time the estimates were made (about May 1).

The \$124.8 million required for the expropriated haciendas is very substantial, amounting to 32.7% of the estimated 952.1 million (\$380.8 million) of agricultural credit provided by Salvadoran credit institutions in 1979.

A summary of the credit requirements by crop or purpose is presented in Table I.

The \$124.8 million estimated credit need for agricultural year 1980/81 for Phase I of the Agrarian Reform can be distributed by principal purpose as follows:

Purpose	<u>¢ Million</u>	<u>\$ Million</u> U.S \$1. = 2.50
Annual production credit (up to 90% of production costs, obtainable from normal lines of production credit provided by the Central Bank and other institutions)	245.4	98.2
Annual production credit (balance of 10% normally not obtainable from financial institutions).	27.3	10.9
Medium and long term expenses urgently needed to keep the farms operating rationally	30.3	12.1
General expenses of the farms	<u>9.0</u>	<u>3.6</u>
T O T A L	<u>¢312.0</u>	<u>\$124.8</u>

The cooperative associations operating the large estates expropriated under Phase I will be able, in the same way as any other producer, to secure normal production credit. This will be provided mainly through commercial banks and BFA pursuant to lines of credit of the Central Bank. (See Annex II.B.3 for descriptions of these lines) It appears, however, that these normal lines of production credit will cover only 90% of normal costs of production, exclusive of rent or other payment for the land and of interest on the loan. This is because there is a set amount allowed per crop per manzana; therefore, this type of credit cannot take into account individual differences of costs from farm to farm. In some cases, it will be adequate; in others not. The important point is that prior to expropriation, at least some part

of annual crop expenses could be paid by private owners out of their personal resources. They did not need 100% financing because they had other resources. The cooperative associations and their members are in a different position; they begin operating without the former owner's bank account and without any working capital resources of their own. The estimated total requirement for this supplemental production credit is \$10.9 million during 1980/81.

Although the BFA and other institutions have a certain amount available to make medium and long term loans, a good deal of this is currently frozen by the slow rate of recovery on loans which has arisen because of the economic conditions in the country. Borrowers will not make payment, for example, on machinery that has been or soon will be expropriated. Accordingly, it would be difficult for the new cooperative associations to look to the normal resources of the banking system for immediate medium and long-term credit needs. These medium-term needs are of several types — first, to replace or repair machinery carried off or left in unusable condition by the former owners; secondly, to enter into farm improvement programs already in process that need to be continued; and thirdly, to begin replanting some crops — i.e. coffee and sugar cane. The estimated requirement for these kinds of medium and long-term credit is \$12.1 million.

With respect to general farm expenses, most of the expropriated estates have management and other overhead expenses to pay, along with basic maintenance of the estate's infrastructure. On large estates it is normal and inevitable that there will be these and other expenses that are not attributable to a particular crop and therefore not covered by crop lines of credit. Again, these are the kinds of expenses that the former owner paid out of his working capital. The new peasant associations and their members do not have this resource. The estimated requirement for these working capital requirements is \$3.6 million.

This project is geared particularly to those needs which cannot be met by traditional crop production line of credit — i.e., the \$26.6 million for incremental crop credit, medium and longer term investment needs, and the general working capital requirements of the new farms.

b. Tentative Projection of Credit Needs to 1983. It is difficult to project satisfactorily at this time needs beyond this agricultural year. However, the following preliminary estimates give a general idea of how needs will be growing:

Tentative Projection of Credit Need for
Agricultural Sector of El Salvador

(In millions of 1979 colons for 1979; in millions of 1980 colons for 1980 and subsequent years)

<u>Sub-sector</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Small and medium sized farmers	234.8	258	320	400	500
Phase I Reformed Sector	-	312	394	454	454
Phase II Reformed Sector	-	-	104	264	454
Others	<u>717.3</u>	<u>382</u>	<u>437</u>	<u>392</u>	<u>280</u>
T O T A L	952.1	952	1255	1510	1688

These figures are based on relatively conservative assumptions. They consider the limiting factor to be the ability to administer and absorb credit rather than needs as determined technically by optimum quantities of inputs for farm production and development. In specific terms, the following assumptions were made:

- Small and medium-sized farmers includes eventual land to the tiller beneficiaries and lending to and through service cooperatives and pre-1980 production cooperatives. It is assumed that their credit needs will increase in real terms by 25% per annum, a conservative assumption since fewer than one-fifth of such farmers now receive credit from official sources.
- For Phase I sector, projections assume 50% increase in two years over 1980 level of 312 million. Increase primarily for farm improvements, especially more intensive use of land
- For Phase II sector, projection includes Phase I haciendas not taken over in 1980. It assumes expropriation of Phase II haciendas over three year period, and that total hectareage is about the same as expropriated in Phase I (after deducting reserves and land to the tiller transfers). Per hectare credit requirements are based on same needs as for Phase I.
- Decline in 1980 for "others" is because many of these borrowers were owners of haciendas now expropriated. Also, there has been some reduced demand by owners expecting to be expropriated in Phase II.

TABLE I
CREDIT REQUIREMENTS FOR AGRICULTURAL YEAR 1980/81
IN FARMS OVER 500 HECTARES EXPROPRIATED
UNDER THE AGRARIAN REFORM

Crop or Purpose	Area in Manzanas	Credit Needs per Manzana	Total Thousands of Colones
Coffee <u>1/</u>	34,000	2,625	89,250
Cotton	40,000	2,274	90,960
Sugar Cane <u>2/</u>	20,000	1,169	23,380
Maize	40,000	826	33,040
Sorghum	11,600	334	3,874
Rice	8,400	1,234	10,366
Beans	6,400	698	4,467
Vegetables	600	1,398	839
Fruit	1,000	985	985
Reforestation	200	1,810	362
Farm Improvements	-	-	1,725
Other Crops	12,000	775	9,300
Agriculture Machinery	-	-	2,399
Cattle	-	-	18,228
Work Animals	-	-	433
Other Animals	-	-	4,000
Forage and Pasture	11,400	324	3,694
Miscellaneous	-	-	666
Agro-Industry	-	-	5,000
General Farm Expenses	-	-	9,000
T O T A L	184,600	-	311,968

1/ Includes financing for coffee in production and new planting

2/ It is estimated that 28% of the area is first year cane and 72% is two or more years. Financing includes transport and other expenses formerly financed by sugar refineries.

SOURCE: Projections based on data for 132 expropriated farms gathered by ISTA.

C. Institutional Analysis

1. Banco de Fomento Agropecuario (BFA)

a. Background

The Banco de Fomento Agropecuario (Agricultural Development Bank) was created in 1973 for the principal purpose of providing credit, especially medium and long term, to small and medium-sized farmers with limited resources. The law established three divisions of the bank, each with separate capital and accounting:

(1) Banking Division. This division provides loans on the same basis as a commercial bank to clients with assets of more than Q100,000 (\$40,000). Moreover, it receives deposits and performs other commercial banking operations.

(2) Division of Economic and Social Development. This division provides loans to small and medium-sized farmers.

(3) Fiduciary Division. This division administers trust funds.

Data on the BFA's financial position are included in the Financial Analysis Section of this Paper. However, in summary, the volume of Credit from the BFA has expanded rapidly: for example, the value of new loans increased from \$29.6 million in 1975 to \$83.2 million in 1979. In 1980, the Bank was projecting a lending program of \$101 million — 54% of which was to be financed from Central Bank resources, 37% from BFA resources, and 9% from external resources. Both sides of this projection have been altered significantly since agrarian reform began. First, the BFA's own resources are going to be much less than expected. They had been based on a 40% recovery rate on the portfolio, a satisfactory rate considering that half of the portfolio is medium to long-term. This 40% rate has not, however, been achieved. During the first four months of 1980, recoveries were a third lower than during the same period in 1979. This is in part due to instability following initiation of the reform, including a view by owners of some haciendas that have been or will be expropriated that the most advantageous way to discharge their debt would be for ISTA to pay it off as part of the compensation for expropriated property. In addition, external resources have been less than expected, particularly because of delays in authorization of the IDB's \$16.5 million Agricultural Credit Loan. Simultaneous with this reduction in resources is the increased demand for credit from the Phase I haciendas — including the need for \$26.8 of special credit requirements.

b. Institutional Capacity of BFA

The BFA has created a country-wide network of banking agencies and warehouses for sale of agricultural inputs. Presently, there are 28 agencies (including the central office) and 44 warehouses. Four new

regional offices were recently created. The objectives of this regionalization are: (1) to create administrative instruments needed to coordinate on a regional basis with the Ministry of Agriculture, Agrarian Reform Agency and other agencies of the State, especially on programs relating to land reform; (2) to make credit operations more timely and useful, to reduce costs of operations, and to provide assistance to agencies in their administrative problems; and (3) to make better use of human and other resources.

During 1979, BFA had 962 employees of which 352 were middle level and professional. The number has increased somewhat each year, the total in 1977 having been 865. Its professional staff includes 192 credit agents. Among these are agents specialized in various crops and in principal programs of the Bank. They operate in the agencies, offering technical assistance and participating in the Bank's committees of credit to pass on applications relating to their specializations. Under regionalization, some agents will be attached to regional offices in order to make better use of this resource.

The BFA is taking two steps to speed up credit operations. One is the regionalization of operations, and the other is to increase field office authority in approving loans. It is currently proposed that agencies be allowed to approve loans up to Q25,000 and regional offices up to Q75,000. Previously anything over Q15,000 has had to be sent to the central office.

c. Analysis of BFA's Capabilities and Constraints.

Analysis of data on BFA, coupled with discussions with its officials, indicates that BFA's effectiveness has been better than in other similar banks in Central America. Its staff has remained basically intact since the October change in government. The main problems created by governmental change, and more particularly by land reform, have been: (1) slowness in recovery of loans as they fall due, a situation which will probably persist until land reform compensation payments begin to be made, and (2) the necessity to serve the new and growing agrarian reform sub-sector. The first factor immobilizes a significant part of its resources, and the second demands resources it does not have. This situation is further aggravated by inflation and rising costs of inputs (fertilizer alone up 25% over last year), which require the average size of loans to be increased each year in order to support the same volume of activity as in the preceding year.

The temporary solution to the need for credit funds is for the Central Bank to provide the BFA with credit. There must, however, be some influx of external financial assistance as the Central Bank cannot expand credit indefinitely without stimulating serious inflationary pressures. The greatest need for foreign assistance is to the Development Division of the Bank, which needs further capitalization. This is the Division which must bear the burden of support to the expropriated estates under agrarian

reform, as well as expansion of credit to small farmers (including of course Decree 207 beneficiaries).

While the Bank has valuable experience in dealing with campesino groups, it has never had imposed upon it a program of the suddenness and dimensions of serving the credit needs of a sweeping agrarian reform. Accordingly its most critical need for technical assistance is for expertise in the design of a comprehensive program that will enable it, in conjunction with the commercial banks, to meet agrarian reform needs effectively while at the same time avoiding serious erosion of credit funds through unwise loans. Such a program needs to be well integrated with the program of ISTA to implant in the expropriated estates effective systems of farm planning that include the responsible use of credit.

2. Cooperative Associations

On the expropriated estates, ISTA is organizing the campesinos into associations called Asociaciones Cooperativas de Producción Agropecuaria (Cooperative Agricultural Associations).

A new Decree, No. 221, of May 9, 1980, creates a Departamento de Asociaciones Agropecuarias (Department of Agricultural Associations) within the Ministry of Agriculture to promote, organize, officially recognize and grant legal status to the associations. The decree permits an association to obtain legal status immediately upon its organization following intervention of an hacienda. Legal personality permits the Association to contract for credit. Decree 221 further states that the aval (guarantee) of ISTA will be used for the obligations of the associations.

Decree No. 221 does not include specific requirements as to the organization of an association. It does provide that within ninety days of registration an association must adopt statutes to be approved by the Department of Agricultural Associations. A "model statute" to be used in drafting statutes for the associations has been in circulation since before issuance of the decree. It is unlikely that major changes will be made in this model.

The associations resemble cooperatives, but have distinct features. Like a cooperative the ultimate authority is the General Assembly of all members. There is a Board of Directors including President, Vice-President, Secretary and Treasurer; there is also a "Junta Fiscalizadora" (watchdog committee over finances and administration). Only adults over 21 who are landless or have less than sufficient land to support their families can become members.

ISTA will initially form the groups. In this capacity, it will help to determine the number of members, acquisition of lands, and other matters relating to the agrarian reform process. Members will pay

the purchase price of land adjudicated under the agrarian reform and repay all loans. They will also be called upon to exploit the land efficiently in conformity with work plans agreed upon between ISTA and the association.

In addition to working, members will make capital contributions, though the model statute does not specify the amounts. Members are paid for their work. Profits (utilidades netas) are first to be applied to the legal reserve and to funds for social development and for capitalization of the association. The balance is to be distributed to members in accordance with their capital contributions.

The statutes provide that the Board of Directors may hire a manager and other administrative personnel and determine their duties and remuneration. The manager will be required to execute the resolutions and instructions of the General Assembly and Board of Directors as well as submit plans to the Board.

The model represents an obvious compromise between the desires of the State on the one hand to guide agrarian reform and on the other hand to create peasant groups capable of administering their own affairs. Cooperative purists will be disenchanting with the role reserved to ISTA. On the other hand, it is reasonable that in some form the beneficiaries of land reform engage to exploit the land in a manner consistent with the social and economic objectives for which the reform was intended. The statute does give very substantial power to the campesinos, including the right to select their own manager rather than the obligation to accept one appointed by the State.

Observations in the field suggest that cooperative associations are being successfully organized. The past experience of ISTA in organizing groups under earlier though smaller land reform programs has no doubt facilitated this process. However, there appears to be some variance as to whether the association is formed exclusively of residents and permanent workers of the expropriated estate or whether others are included. Keeping the membership small, of course, reduces the number of beneficiaries and means that many workers, especially those who perform short-term seasonal tasks, will continue to work solely for wages as before. The only difference is that the new patrón is the association. On the other hand, enlarging membership beyond the number for which considerable work can be provided can result in increasing labor costs to uneconomic levels. This in turn can lead to excessive borrowing to meet labor costs and to an inability to repay loans because costs exceed the value of production.

The most important need of the agrarian reform program with respect to the new associations is to organize as efficiently as possible a system of assistance to them in the planning and management of the expropriated estates. Such planning and management initially have to be directed primarily to the maintenance of annual production levels. However, if the full benefits of agrarian reform are to be achieved, it must be

shifted at an early date toward development of the estates in such a way as to intensify use of the land and to expand production and employment opportunities. Further, since the new associations must begin without working capital, it is especially important that this assistance take into particular account the necessity of plans that can serve as an effective basis for applications for credit and the generation of working capital through profitable operations. The technical assistance component of this project has been designed to provide expert assistance in these areas.

D. Technical Analysis

There are three major technical considerations relating to this credit program: (1) the availability of agricultural inputs, (2) the availability of technical expertise, and (3) the seasonability of credit requirements.

1. Agricultural Inputs

a. Fertilizer.

In a "normal" year, El Salvador would require approximately 395,000 metric tons of fertilizer: approximately 150,000 metric tons of complete mixes and the balance of ammonium sulfate or urea. Of the total, approximately 160,000 metric tons is normally used on coffee. Looking at the normal pattern of fertilizer use, the vast majority (79%) is used during April, May and June; this is followed by 16% in July, August, and September. The residual uses are in March and October. In other months, there is normally no use of fertilizer.

In 1979, fertilizer use dropped somewhat to around 300,000 metric tons; in 1980, the demand is expected to fall further as a result of the following factors: (1) current retail fertilizer prices are about 25% higher than in 1979;^{1/} (2) there is considerable uncertainty over the speed of agrarian reform expropriations, and some owners of haciendas in the 100-500 hectare range have little interest in maintaining farm productivity; (3) coffee growers are traditionally sensitive about changes in marketing, and may be exceptionally conservative following nationalization of coffee export marketing, and (4) the general unrest in the country has caused some farmers to reduce planting.

Given these factors, the best available estimate of fertilizer use for 1980 is 270,000 metric tons, at an approximate total cost of \$50 million.

1/ Average BFA retail prices of ammonium sulfate are about \$15.60 per 100 Kg.; of 20-00-0, about \$25.40; and of 16-20-0, about \$23.40.

Projected Fertilizer Use, 1980/81

<u>Crop</u>	<u>Area (Manzanas)</u>	<u>Requirement in Metric Tons.</u>	
		<u>Ammonium Sulfate</u>	<u>Mixes</u>
		<u>Or Urea</u>	
Cotton	90,000	27,000	18,000
Sugar Cane	40,000	10,000	6,000
Maize	330,000	66,000	33,000
Coffee	65,000	64,000	14,000
Other Crops	—	23,000	9,000
T O T A L S		190,000	80,000

As of the end of April, fertilizer supplies (including quantities sold earlier in April and supplies in the pipeline which arrived in El Salvador in early May) were approximately 249,400 metric tons. This was broken down as follows:

	<u>Ammonium Sulfate</u>	<u>Mixes</u>	<u>T O T A L</u>
	<u>Or Urea</u>		
	(in	metric	tons)
BFA.	102,000	63,000	165,000
Fedecredito.	9,000	7,000	16,000
Private Suppliers.	35,000	33,400	68,400
T O T A L S	146,000	103,400	249,400

This quantity will be adequate at least through June when 79% of the annual fertilizer requirement will have been applied. The BFA has recently ordered an additional 40,000 metric tons of sulfates which are expected to be delivered in El Salvador during July.

With the help of private suppliers, MAG, and ISTA, the BFA is continually assessing the supply of and demand for fertilizers. If in the next two weeks, it is determined that supplies will not be adequate to meet the July-September requirements, the BFA will move to place more orders. It is anticipated that the Central Bank will provide the necessary foreign exchange, although the tight foreign exchange situation in the country will stretch local financing capacities.

b. Agricultural Chemicals

Maximum agro-chemical requirements in a normal year have been estimated as follows:

	<u>Quantities</u>	<u>Cost (US\$)</u>
Pesticides:		
Liquid	3,715,000 liters	\$ 22,290,000
Solid	4,159,000 Kg.	2,079,500
		24,369,500
Herbicides:		
Liquid	703,574 liters	\$ 3,799,278
Solid	57,000 Kg.	420,170
		4,219,448
Fungicides:		
Liquid	7,000	\$ 76,020
Solid	40,000	232,329
		308,349
GRAND TOTAL		\$ 28,897,297

For many of the same reasons listed earlier for fertilizer demand, these estimates are some 40% higher than likely requirements this year. The Mission has therefore revised this estimate for agro-chemicals demand to the equivalent of some \$20 million. The cycle of agro-chemical uses varies by type: the use of pesticides, the major imported chemical, lags about three months behind the use of fertilizer; herbicide use follows closely the pattern of fertilizer use; and fungicides are used throughout the year, although with a peak in February.

The data on agro-chemical supplies are incomplete, although it is estimated that they are no more than 25% of annual requirements. Herbicide stocks are considerable, and as in the case of fertilizers, the BFA feels that there is ample time to increase imports if needed. The same holds true for fungicides which have been in adequate supply thus far. The only substantial change in the fungicide situation will be if the GOES's coffee rust campaign is rapidly expanded. The pesticide situation is less clear, although this is in part because of the later timeframe in which it is needed. The BFA nonetheless anticipates no delays in procuring pesticides as needed.

2. Technical Expertise

Technical expertise in matters of agricultural production is available to the Reform Sector from four quarters. First, there is the resident farm management staff which is generally conversant with the production techniques historically practiced on the hacienda, e.g. cropping patterns, input use, traditional pathological problems etc.

About 90% of the management staff of the expropriated properties has reportedly remained in place and so provides continuity in decisions of both farm management and technology applications. Second, extension and specialized technical staff from various directorates of the Ministry of Agriculture which were seconded to ISTA have been assigned to virtually all of the cooperative associations. Thus Coffee Institute personnel have been assigned to coffee fincas, livestock technicians to cattle haciendas, etc. A portion of these technicians are expected to continue in these assignments throughout this agricultural production year. Third, those returning to CENIA (research and extension), DGRNR (natural resources directorate), DGG (livestock directorate), etc. will be available to perform their traditional extension functions. This will not be a new function for them as they served group farming enterprises associated with ISTA in the years prior to this latest generation of reforms. What is different is the magnitude of the task. Finally, BFA has its own relatively large staff of extension personnel (agronomist and credit managers) who assure some level of essential technical assistance required to complement and effectively utilize credit resources being made available to the Reform Sector. To date, the Reform Sector has clearly been given preferential treatment with respect to access to both credit and technical assistance. While understandable and even necessary in the short run, the task will be one of expanding and improving extension services so that both the reformed and non-reformed sectors are adequately served.

3. Seasonality of Credit Requirements

Agricultural credit requirements are seasonal, with slightly more than half of the normal demand falling within the five month period from June 1 to October 31. During this period, 54% of all agricultural credit is provided -- by crop, this is broken down as 47% of coffee credit, 69% for cotton, 37% for livestock, and 45% for others. This is shown in greater detail in Annex II.B.2.

E. Social Analysis

The Mission has done a major study of the socio-political environment within which the agrarian reform is taking place. The results of this analysis will be presented in detail in the Agrarian Reform Sector I Project Paper. The following is therefore only a synopsis of major points relating to the expropriation of haciendas greater than 500 hectares, the organization of campesinos on these haciendas, and the provision of credit and other agricultural inputs.

Most of the Phase I haciendas were intervened on or shortly after March 6, the date the Agrarian Reform went into effect. ISTA personnel were accompanied by other agricultural technicians and Salvadoran Army troops in all interventions. Taken as a whole, the haciendas were entered peacefully, without violence or disrespect for the rights of the people living on the estates.

Immediately after intervention, the people living on the estates were gathered together and the reason for the intervention explained to them. The basic design of the Reform was outlined; a consejo directivo consisting of president, vice-president, secretary, treasurer, and vocales was elected on the spot; and a cooperative was formed. ISTA representatives made it clear that they wanted to maintain as much continuity as possible in the farming operation. The new cooperative members were given an opportunity to choose which administrative staff would stay and which would go; in most cases, they have stayed.

Three months have passed since the first farms were intervened, and while there are many differences in the course taken by each estate, several general comments can be made. The ISTA technicians and people on the intervened farms appear to be getting along well. Cooperative leaders and members speak highly of the technicians, and many of the technicians have become strongly committed to the people of the haciendas they oversee. They have become allies in the battle to keep the haciendas functioning as smoothly as possible, including prying loose credit and agricultural inputs from the ISTA/BFA bureaucracy. This was even evidenced in the May ISTA strike in which a number of the technician demands related to better Government services for the newly formed hacienda cooperatives.

The haciendas taken during Phase I differ widely in size, technological sophistication, and complexity of internal organization. In order to give a flavor of this variety, several examples are presented below.

Hacienda A: Located on the flat coastal strip in the eastern end of the country, it covers approximately 750 manzanas, most of which is dedicated to cotton production or forested. The farm is being assisted by one ISTA technician who lives about one-half hour away in the departmental capital. The former administrator has been retained; he lives on the hacienda. The hacienda enterprise now has 50 members, all of whom are ex-colonos living in a ragged line of shacks running along one end of the property. The administrator is not a member of the enterprise; he is a salaried employee. The leaders of the cooperative were selected from among the ex-colonos.

The members of the cooperative have not yet taken an active role in decisions relating to credit, management of the farms, or their own role in the enterprise. The ISTA technician has thus far run things with the aid of the administrator. The ex-colonos are basically continuing as before — as wage laborers who feel that their salaries are too low (\$7.57 per day, including money for food). The technician told them that all crops on the farm would be worked collectively, including basic grains. The ex-colonos have spoken about trying to work individual plots (milpas) for corn, beans, etc., but have not yet mentioned this to the technician.

The former owner had taken the farm's tractor, so they are presently renting one. They have some fertilizer stored, but need more. They have not yet received any institutional credit (as of May 29).

Hacienda B: Located in one of the most politicized regions of the country, it covers approximately 900 manzanas, most of which is used for cotton, corn, and cattle. The hacienda was poorly maintained and unsophisticated organizationally, and there were few salaried employees and no more than a handful of colonos. Therefore, most of the 145 new members have come from outside the estate. The former administrator has been kept on, and the same cooperative leadership formed during intervention has remained. The president and vice-president were small farmers and wage earners before they took their positions.

They will farm collectively because the ISTA technicians have told them to do so. They are skeptical about this, but will give it a try; they would prefer individual plots for basic grains. During the Mission's visit (May 13), only 28 men were working for wages. There were no seeds or fertilizer yet, so there was little to do. There was also limited ISTA money for salaries. The ISTA technicians are trying to correct these problems; they are working to obtain credit, fertilizer, and seed. Thus far, they have made all of the important decisions in loose conjunction with the cooperative leaders. As on other farms, the other members of the cooperative are not participating actively.

Hacienda C: Located in a fertile area stretching out along rolling plains and up the side of a mountain, it covers 3,000 has., most of which is used for coffee and sugar cane. The hacienda is complex and modern, and includes a sugar mill, coffee processing plant, administrative offices, work shops, apartments for employees, and a plush house for the old patrono. Behind these is a small village with generally well made houses for the permanent employees and a few colonos. Beyond are several colono settlements scattered about the property. Their homes are generally hovels.

Almost all of the 100 permanent employees -- including administrators, clerks, work bosses, mechanics, carpenters, and guards -- have remained, along with 500-600 families of colonos. The cooperative leadership is made up of employees who have stayed at their old positions. The ex-colonos do not figure in the decision-making, although on a few occasions they have been gathered together for talks by the ISTA technicians, promoters, and cooperative leaders. (The visit was made May 21).

Credit is a problem, as on all ISTA farms, but the labor routine appears to be moving smoothly. In fact, it appears as if the colonos had merely changed one patrono for another. Their principal complaint concerned the low wages they earn (just over 7 colones per day), as opposed to the 9 colones they had heard was being given on a nearby hacienda.

The above summary descriptions of several haciendas indicate a number of fundamental social issues which must be faced if the agrarian reform is going to achieve its originally stated socio-economic objectives. First and foremost is the relatively minor role being played by the ex-colonos, who have traditionally been one of the most submissive, passive, and unorganized groups in El Salvador. They still view themselves as colonos, and find it difficult to voice their opinions and to think of taking an active role in cooperative management.

This is at least in part due to the fact that in many cases the haciendas themselves have changed very little. To keep production from faltering, the ISTA technicians have attempted to make a few changes as possible in the administrative and labor structure of the hacienda enterprises. They have tried to retain as many of the former management and service employees as possible. The colonos are being dispatched on labor assignments around the farms more or less as had been done in the past. The same hacienda hierarchy, the same rules and restrictions, and the same system of salaries (for employees) and daily wages (for colonos) have been kept in place with few modifications. All of this was wise, and even necessary, to preserve continuity in the farm operation and to avoid disastrous disruption of the production cycle. At the same time, however, maintenance of the traditional structure — especially on the larger farms — has left most of the agricultural laborers with the feeling that aside from a change in patronos, their position within the structure of the hacienda has in fact remained substantially the same.

Another fundamental problem is collective vs. individual farming, at least for subsistence food grains. Traditionally, colonos and small farmers generally have shown overwhelming preference for their own individual plots of basic subsistence crops. They have seldom, if ever, attempted group farming with these crops. On the haciendas, colonos have always striven to lay their hands on whatever land they could, however small, to supplement wages and other benefits with food crops. The primary reason for this preference is security: if their cash income is temporarily cut off, at least they will have something on their farm plots to keep them from complete ruin and starvation. This is an especially important consideration at the present time, for the hacienda members are acutely uncertain about the course events will take over the coming months. If the hacienda enterprises are not successful; if credit and inputs do not arrive on schedule and planting is disrupted; if violence intensifies in rural areas; if the reform fails, ... at least they will be able to salvage something from their individual plots.

There are cases in which the ISTA technicians have said that all work must be done collectively and the traditional pattern of milpas has been discouraged. However, given the strong desire of Salvadoran campesinos for at least small individually controlled plots, further consideration must be given to the encouragement of milpas to complement and co-exist within the cooperatively-operated haciendas. Failure to allow for individually for need milpa plots is thus a matter of some concern although it does not apparently represent a widespread pattern characteristic of the majority of the enterprises.

Each of these factors will be monitored during project implementation; and, as part of the Mission's broader Agrarian Reform Program, efforts will be made to ensure that the rights of the ex-colonos and other members of the new cooperative associations are maximized. This will be done through a variety of legal assistance, campesino training, community and cooperative development, and agricultural activities.

V. PROJECT IMPLEMENTATION

A. Host Country Arrangements

The Loan and Grant Agreement will be signed by the GOES Ministers of Planning and Agriculture and AID. Loan resources and the host country counterpart contribution will be allocated from the Central Bank directly to the BFA for capitalization of the Special Cooperative Association Line of Credit. The General Manager of BFA will have primary project management responsibility for the GOES. Day-to-day implementation responsibility will be within the Development Division of BFA.

B. AID Arrangements

Project management responsibility will rest with the Rural Development Office. This Office will be assisted as needed by the Capital Development, Program, Management, and Controller's Offices.

1. Disbursement Procedures

As detailed in Section IV.A., AID will disburse its loan funds against needs identified in the farm financial plans prepared by BFA and ISTA. It is expected that all of these plans will have been prepared by October 1980 and that all AID loan funds will have been drawdown within 15 months.

2. Procurement and ICI Procedures

AID procedures outlined in Handbook 1, Supplement B, Chapter 19 (Intermediate Credit Institutions) will be followed. It is expected that the loan will be used almost exclusively for local cost financing. This will include procurement of imported shelf items. Eligible sources will be Code 941 countries, and to a limited extent non-Code 941 Free World Countries. (See Handbook 1, Supplement B, Chapter 19.A.3c for details for limitations and procedures.) The BFA, with USAID assistance, will be responsible for ensuring that AID procurement regulations are observed.

AID Development Grant funds will be used exclusively for the procurement of technical assistance. It is expected that most of the technical assistance will come from United States sources. However, in order to capitalize on experience within Latin America in the general area of agrarian reform credit, and to ensure that the technical assistance provided will be adequate to achieve project objectives, the Mission may wish to procure some services from Code 941 sources. If this is the case, the Mission will process source and origin waivers as appropriate.

The Mission is planning to enter into direct contracts for the required technical assistance. The major reason for a direct, rather

than host country, contract is one of timing. Without the opportunity for advanced planning or preparation, the BFA has been given responsibility for meeting a substantial part of the new agrarian reform sector's credit requirements. It has thus far responded to this emergency in an ad hoc basis. However, as it moves to a more rational system of credit to the reform sector — i.e., normal lines of credit rather than overdrafts of ISTA accounts — it needs external technical assistance. This requirement needs to be met quickly, preferably by mid-summer 1980. The GOES and BFA do not have the capacity to move this quickly in executing a contract. Therefore, using the criteria outlined in Handbook 1, Supplement B, Chapter 3.A on Choice of Procurement Entity, the Mission Director has determined that the required services must be "integrated in a timely fashion into the project structure" and that a direct AID contract is the most appropriate mechanism to use. The Mission will attempt to use a qualified 8(a) firm in order to expedite contracting.

3. Project Monitoring

The Mission will hold quarterly project review meetings with the BFA. Prior to these meetings, the BFA will provide the Mission with a financial statement of drawdowns on the Special Line of Credit. This quarterly report will also discuss more generally progress in project implementation, as well as pending problems.

C. Implementation Schedule

	<u>Target Date</u>
1. Project Authorization	by 6 - 17 - 80
2. Project Agreement Signed	by 6 - 20 - 80
3. Initial Conditions Precedent Met	by 7 - 1 - 80
4. First Advance of AID funds	by 7 - 8 - 80
5. Long-term TA Consultants Arrive	by 8 - 1 - 80
6. First Monthly Reimbursement Request from BFA	by 8 - 8 - 80
7. First Project Evaluation	by 9 - 30 - 81
8. Long-term TA Consultants Leave	by 8 - 1 - 82
9. Final Evaluation	by 9 - 30 - 82
10. Project Activity Completion Date	by 9 - 30 - 82

D. Evaluation Plan

Evaluation of this project will be integrated into evaluations of the Agrarian Reform Sector I Project which is expected to begin by August 1980. These evaluations of AID's support for Agrarian Reform credit will

be done at two levels -- to monitor project implementation against previously set targets and objectives and to assess longer-term project impact. In the former, the Mission will examine such factors as (a) the rate at which farm financial plans are being prepared and the quality of these plans; (b) the degree to which cooperative associations are participating in the preparation of financial plans and credit applications; (c) the uses of the credit; (d) the repayment of loans; and (e) the degree to which the campesino associations are having to rely on the Special Line and/or are increasingly able to draw upon traditional commercial bank credit.

The longer term impact evaluation will be an integral part of the Agrarian Reform Sector Project. It will look at such broad questions as the viability of the cooperative associations and reform haciendas; the impact of agrarian reform on employment and incomes; the identification of beneficiaries; and the impact of the reform on agricultural production. Some of the data of this evaluation will come from an expected census of reform beneficiaries. Also, the Government and Mission will use results from the AID-financed Rural Profile Survey.

ANNEXES

I. LEGAL EXHIBITS

- A. Logical Framework
- B. GOES Letter of Request
- C. Statutory Checklist
- D. Draft Authorization
- E. Initial Environmental Examination
- F. DAEC Guidance Cable

II. PROJECT EXHIBITS

- A. GOES Decrees on Agrarian Reform
 - 1. Decree 153
 - 2. Decree 207
 - 3. Decree 220
 - 4. Decree 221
 - 5. Decree 222
- B. Salvadoran Credit System
 - 1. Overview
 - 2. Agricultural Credit in 1979
 - 3. Central Bank Lines of Crop Production Credit
- C. Economic Tables
- D. Financial Tables

LOGICAL FRAMEWORK

NARRATIVE	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>PROGRAM GOAL</u></p> <p>To improve the socio-economic well-being of the poor in El Salvador</p>	<ol style="list-style-type: none"> 1. Increased Incomes 2. Increased Employment 3. Increased Access to essential services. 4. Improved Living Conditions 	<p>Survey and special studies for all Goal-level indicators</p>	<ol style="list-style-type: none"> 1. Political instability does not make it possible for Govt. to provide necessary services. 2. Govt. remains committed to improving well-being of poor. 3. Econ. and balance of payments crises avoided
<p><u>SUB-GOAL</u></p> <p>To maintain agricultural production and earnings in the agrarian reform sector.</p>	<ol style="list-style-type: none"> 1. Agricultural production on intervened farms is at least at pre-reform levels. 2. Export earnings from intervened farms will be at least equal to average levels during 5 years prior to reform. 3. Intervened farms/cooperative associations will be financially sound. 	<ol style="list-style-type: none"> 1. MAG and ISTA reports 2. ISTA, BFA and BCR reports 3. ISTA, BFA, and Co-op records 	<ol style="list-style-type: none"> 1. Violence in the country subsides. 2. Sufficient domestic and external resources made available for reform. 3. New nationalized export marketing system works effectively. 4. Adequate agricultural inputs made available to reform sector.

LOGICAL FRAMEWORK

<p><u>PURPOSE</u></p> <p>To increase both the availability of credit to the agrarian reform sector and the capacity of the BFA to provide such credit.</p>	<p><u>EOPS</u></p> <ol style="list-style-type: none"> 1. Special Cooperative Association Line of Credit of at least \$13 million will be operating within the BFA and serving needs of Phase I and II haciendas. 2. BFA has institutionalized multi-purpose farm and financial planning system applicable for all Phase I and II farms. 3. BFA will have an expanded outreach capability to help meet special needs of the agrarian reform sector. 4. Cooperative associations from Phase I preparing their own farm plans with assistance from ISTA and BFA, and submitting them as credit requests. 	<ol style="list-style-type: none"> 1. BFA records 2. BFA records and observation 3. BFA records and observation 4. Project records 	<ol style="list-style-type: none"> 1. Implementing Agrarian Reform regulations finalized so that implementation of program can proceed. 2. Adequate management of haciendas is retained 3. Complementary Annual Crop production credit made available as needed.
<p><u>OUTPUTS</u></p> <ol style="list-style-type: none"> 1. Farm and financial plans -- Phase I haciendas. 2. Special Lines of Credit -- Phase I haciendas. 	<ol style="list-style-type: none"> 1. 251 preliminary plans for agric. year 1980/81 and detailed plans for all intervened haciendas greater than 500 hectares in 1981/82. 2. 251 for agric. year 1980/81 and for all Phase I haciendas in 1981/82. 	<ol style="list-style-type: none"> 1. BFA & ISTA records 2. BFA records 	<ol style="list-style-type: none"> 1. AID & GOES funds available on timely basis 2. TA contractors available

LOGICAL FRAMEWORK

<p>3. Plans & special Lines for Phase II haciendas.</p> <p>4. Revised Credit Mechanism for Phase I and II reform beneficiaries.</p> <p><u>INPUTS</u></p> <p><u>AID</u></p> <p>Capital Line of Credit for Special Technical Assistance</p> <p><u>COES</u></p> <p>—Capital for Special Line of Credit</p>	<p>3. Established as needed once Phase I begins</p> <p>4. Begins with establishment of Special Line in June 1980; continuous thereafter.</p> <p>\$ 9,500,000 (DL) <u>500,000 (DG)</u> \$10,000,000</p> <p>\$ 3,500,000</p>	<p>3. BFA records</p>	<p>3. Adequate COES staff available.</p>
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MINISTERIO DE PLANIFICACION
Y COORDINACION DEL DESARROLLO
ECONOMICO Y SOCIAL

No. 49

DECS

ANNEX I.B

San Salvador
5 de Junio de 1980

Señor Charles J. Stockman
Director
Agencia para el Desarrollo Internacional
PRESENTE.

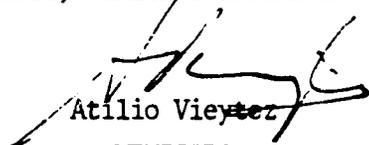
Estimado señor Stockman:

Me es grato dirigirme a usted, con el objeto de hacer de su digno conocimiento que desde principios de abril del corriente año, funcionarios del Banco de Fomento Agropecuario, del Ministerio de Planificación, del Instituto Salvadoreño de Transformación Agraria y del Ministerio de Agricultura y Ganadería, han estado trabajando estrechamente con -- funcionarios de AID para identificar las necesidades crediticias más urgentes del nuevo sector agrario reformado.

Como resultado del trabajo se ha formulado un proyecto de Q33.75 millones (\$13.5 millones de dólares), para el cual solicitamos al organismo que usted dignamente representa, un préstamo por Q23.75 millones de colones (\$9.5 millones de dólares), para contribuir a la capitalización de una línea especial de crédito para las Asociaciones Cooperativas Agropecuarias a través del Banco de Fomento Agropecuario y a la -- vez solicitamos un donativo de AID por Q1.25 millones de Colones (\$500 mil dólares), para el financiamiento de asistencia técnica al BFA. El Gobierno de El Salvador por su parte contribuirá con Q 8.75 millones de colones (\$3.5 millones de dólares) como contrapartida para esta línea de crédito al sector reformado.

Esperamos contar con su decidido apoyo y colaboración en la tarea que nos hemos impuesto, y aprovecho esta oportunidad para reiterarle -- las muestras de mi más distinguido aprecio y consideración.

DIOS, UNION Y LIBERTAD



Atilio Vieytes

MINISTRO

AID HANDBOOK	3, App 5C(1)	TRANS. MEMO NO. 3:32	EFFECTIVE DATE June 7, 1979	PAGE NO. 5C(1)-1
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ANNEX I.C

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.

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ANNEX I.C

6. FAA Sec. 620(a), 620(f); FY 79 App. Act, Sec. 103, 114 and 600. 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, inconvertibility 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 penalty 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. 303. (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? NO.
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 \$10,000,000 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 changes 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 this Mission, El Salvador is meeting its U.N. 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 (this project for example) 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? NO.

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? N/A

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? N/A

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? N/A

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

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

- | | |
|--|---|
| <p>1. <u>FY 79 App. Act Unnumbered; FAA Sec. 653 (b); Sec. 634A.</u> (a) Describe how Committees on Appropriations of Senate and House have been or will be 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)?</p> | <p>An advice of Program change has been forwarded to the Congress. The Project is within the OYB.</p> |
| <p>2. <u>FAA Sec. 611(a)(1).</u> 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 reasonably firm estimate of the cost to the U.S. of the assistance?</p> | <p>YES.</p> |
| <p>3. <u>FAA Sec. 611(a)(2).</u> 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?</p> | <p>N/A</p> |
| <p>4. <u>FAA Sec. 611(b); FY 79 App. Act Sec. 101.</u> 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?</p> | <p>N/A</p> |
| <p>5. <u>FAA Sec. 611(e).</u> 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?</p> | <p>N/A</p> |
| <p>6. <u>FAA Sec. 209.</u> 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.</p> | <p>NO.</p> |

A.

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 foster private initiative, directly encourage development and use of Agricultural Cooperatives, increase the flow of international trade and improve the efficiency of agriculture and commerce.

8. FAA Sec. 601(h). 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).

The project will not directly affect U.S. private trade and investment.

9. FAA Sec. 612(b); Sec. 635(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 host country is providing counterpart contribution to the project in local currency. No U.S. owned foreign currencies are available for utilization in this project.

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?

NO.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); 111; 113; 2B1a. 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

This project is designed to benefit the rural poor by providing them with the credit necessary to invest in and improve their agricultural lands.

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;

Credit will be made available to directly increase productivity and income of the rural poor.

(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;

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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 of appropriate technology?

YES.

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. During the implementation period of the loan, the host country will contribute an estimated 26% of the project cost.

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.

By improving the economic conditions of the rural poor, the project will contribute directly to the people's ability to participate in the economic and political processes and will encourage development of private and governmental institutions.

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.

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

El Salvador has the financial capacity to repay the loan. The terms of the AID loan are reasonable and legal under the laws of the U.S. and host country

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

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? N/A

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

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. <u>FAA Sec. 602</u> . Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed? | YES. Standard procurement regulations, procedures and good commercial practices will be followed under the project. |
| 2. <u>FAA Sec. 604(a)</u> . Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him? | YES. |
| 3. <u>FAA Sec. 604(d)</u> . 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. <u>FAA Sec. 604(e)</u> . 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. <u>FAA Sec. 608(a)</u> . Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? | YES. |
| 6. <u>FAA Sec. 603</u> . (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. <u>FAA Sec. 621</u> . 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?

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? N/A.

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? YES.

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. <u>FAA Sec. 104(f)</u> . 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? | N/A |
| b. <u>FAA Sec. 620(g)</u> . To compensate owners for expropriated nationalized property? | YES. |
| c. <u>FAA Sec. 660</u> . To finance police training or other law enforcement assistance, except for narcotics programs? | N/A |
| d. <u>FAA Sec. 662</u> . For CIA activities? | N/A |
| e. <u>FY 79 App. Act Sec. 104</u> . To pay pensions, etc., for military personnel? | N/A |
| f. <u>FY 79 App. Act Sec. 106</u> . To pay U.N. assessments? | N/A |
| g. <u>FY 79 App. Act Sec. 107</u> . To carry out provisions of FAA sections 209(d) and 251(h)? (Transfer of FAA funds to multilateral organizations for lending.) | N/A |
| h. <u>FY 79 App. Act Sec. 112</u> . To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields? | N/A |
| i. <u>FY 79 App. Act Sec. 601</u> . To be used for publicity on propaganda purposes within United States not authorized by the Congress? | N/A |

DRAFT PROJECT AUTHORIZATION

Name of Country: El Salvador
Name of Project: Agrarian Reform Credit
Number of Project: 519-0263

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agrarian Reform Credit Project for El Salvador (The "Cooperating Country") involving planned obligations of not to exceed Nine Million Five Hundred Thousand United States Dollars (\$9,500,000) in loan funds and Five Hundred Thousand United States Dollars (\$500,000) in grant funds, 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 increase the availability of credit for beneficiaries of the Salvadoran Agrarian Reform and help to strengthen the capability of the Banco de Fomento Agropecuario (Agriculture Development Bank) to provide for the special credit requirements arising from the Agrarian Reform.

3. The Project Agreements 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 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 the countries that are members of the Central American Common Market or in countries included in A.I.D. Geographic Code 941, 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 of Goods 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 and 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 Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

(3) 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 to Disbursement by the Cooperating Country, A.I.D. may disburse loan funds as reimbursement for costs of credit, and Grant funds as reimbursement for costs of technical assistance and other eligible costs, provided that evidence that such costs were incurred subsequent to June 1, 1980 is furnished to A.I.D. in form and substance satisfactory to A.I.D.

e. Condition Precedent to Initial Disbursement (Loan)

1. Prior to any disbursement, or the issuance of specific commitment documents under the Loan Project Agreement to finance credit for the Banco de Fomento Agropecuario (BFA), the Cooperating Country shall cause the Executing Agency (Banco de Fomento Agropecuario) to furnish to A.I.D., in form and substance satisfactory to A.I.D. evidence that a Special Cooperative Association Line of Credit, which can be used for (a) crop production credit beyond that which is available from other institutional lenders, (b) medium and long-term investment requirements, and (c) hacienda administrative expenses, has been legally established.

f. Condition Precedent to Disbursement of Loan Funds for the Special Cooperative Association Line of Credit

1. Prior to any disbursement, or issuance of specific commitment documents under the Loan Project Agreement to finance credit for the Banco de Fomento Agropecuario, the Cooperating Country shall cause the Banco de Fomento Agropecuario to submit to A.I.D. a financial plan

summarizing the total credit requirements for each hacienda, including the amount to be financed through the Special Cooperative Association Line and all other institutional sources, for which the BFA is requesting the disbursement of A.I.D. funds.

g. Special Covenants

(1) The Cooperating Country shall covenant to make a capital contribution of at least \$3.5 million equivalent in colones for the Banco de Fomento Agropecuario's Special Cooperative Association Line of Credit during the life of the Project.

(2) The Cooperating Country shall cause the Banco de Fomento Agropecuario to covenant to hold open the Special Cooperative Association Line of Credit for a minimum of seven years and to return all reflows as capital to the aforementioned Special Line.

(3) The Cooperating Country shall cause the Banco de Fomento Agropecuario to covenant to contribute all reflows generated by The Special Cooperative Association Line of Credit for use in the BFA's normal small farmer and agrarian reform credit programs, at the time that A.I.D. and the Cooperating Country mutually agree in writing that there is no longer a need for the Special Line.

(4) The Cooperating Country shall covenant to ensure that the Banco de Fomento Agropecuario is given at least equal priority when repayments of Cooperative Association loans from the commercial (mixed) banks and the BFA are due.

Assistant Administrator
Bureau for Latin America and
the Caribbean

INITIAL ENVIRONMENTAL EXAMINATION

I. Basic Project Data

Project Location:	The rural areas of the Republic of El Salvador
Project Title:	Agrarian Reform Credit
Funding:	FY 80: Grant \$ 500,000 Loan \$9,500,000
Life of Project:	18 months
IEE Prepared by:	C. R. Gavidia, Gen. Eng. and Environmental Coordinator/Carol Peasley
Threshold Decision	Negative Environmental Decision

II. Description of the Project

The purpose of the project is to increase the availability of and the capacity of the Agriculture Development Bank (BFA) to provide credit to the Agrarian Reform Sector.

This project has been designed to respond to an immediate short-term requirement for additional credit for the approximately 250 haciendas (230,000 hectares) which were expropriated in Phase I of El Salvador's recently decreed Agrarian Reform Program. Some 80% of their credit needs will be met through Central Bank lines of credit to the commercial banking system. The remainder will be provided by the Agriculture Development Bank (BFA). This project will provide the additional resources the BFA needs to meet this new demand.

The proposed project will have both grant-funded elements and loan-funded elements. Loan funding will be used to finance credit that is closely related to the production process and for which disbursement can take place in a twelve to eighteen-month period. Grant funding will be used to finance technical assistance and which will require expenditures beyond December of 1981.

III. Impact Identification and Evaluation

The vast majority of project resources will be used for production and working-capital credit on the recently expropriated haciendas. This credit will be used to support existing agricultural production patterns -- much of which is in traditional exports such as coffee, sugar cane, and cotton. Little change in land use is expected as a result of credit provided under this project.

In the longer run, agrarian reform may well lead to substantial changes in land use patterns. Many of these long-term changes will be beneficial -- e.g., by providing legal land titles to some 150,000 small farmers who are currently renting lands, the GOES will be providing an important incentive for improved practices and investment in soil conservation. To guard against possible negative impacts, the Mission will draw upon expertise and resources from its Small Farmer Natural Resources Management Project which is taking initial steps in strengthening GOES capacities to implement small farmer soil and water management programs. Also, in designing a follow-on project (FY 81 or FY 82) to the Small Farmer Natural Resource Management Project, the Mission and GOES will look at the special requirements which may have arisen as a result of the Agrarian Reform Program.

The Ministry of Agriculture and Livestock (MAG) will be playing an important support role in the project. It has had considerable experience throughout the region in evaluating the environmental considerations of various agricultural production patterns and practices. It will review and evaluate the environmental implications of the Agrarian Reform Program. Also, on-site inspections will take place, and BFA extension agents/credit supervisors will be instructed to ensure that environmental disturbances are kept to a minimum. Guidelines will be prepared to permit project management to evaluate any land-use changes and/or the possible environmental impact of investments. Particular attention will be given to cotton producing haciendas which have in the past been indiscriminant in their use of agricultural chemicals. Special short-term technical assistance will be provided to the BFA to help it improve its policies with regard to agro-chemical use. One month of TA will be financed from this project; an additional month will be provided by the Regional Pest Management Specialist.

Impact Areas and Sub-Areas

Impact Identification
and Evaluation

- A. Land Use
 - 1. Changing the character of the land through:
 - a. Increasing the population L
 - b. Extracting natural resources L
 - c. Land clearing L
 - d. Changing soil capacity M
 - 2. Altering natural defenses L
 - 3. Foreclosing important uses N
 - 4. Jeopardizing man or his works N

- B. Water Quality
 - 1. Physical state of water..... N
 - 2. Chemical and biological states..... N
 - 3. Ecological balance..... N

- C. Atmospheric
 - 1. Air additives..... N
 - 2. Air pollution..... N
 - 3. Noise pollution..... N

- D. Natural Resources
 - 1. Diversion, altered use of water..... L
 - 2. Irreversible, inefficient commitments..... N

- E. Cultural
 - 1. Altering physical symbols..... N
 - 2. Dilution of cultural traditions..... N

- F. Socioeconomic
 - 1. Changes in economic/employment patterns... M
 - 2. Changes in population..... L
 - 3. Changes in cultural patterns..... N

- G. Health
 - 1. Changing a natural environment..... N
 - 2. Eliminating an ecosystem element..... N

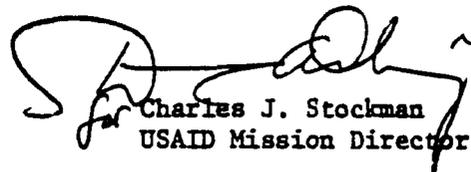
- H. General
 - 1. International impacts..... N
 - 2. Controversial impacts..... N
 - 3. Larger program impacts..... N

IV. Recommendation for Threshold Decision

USAID/El Salvador finds that this project is not a major action which will have a significant environmental impact. A negative determina-

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tion is, therefore, recommended.


for Charles J. Stockman
USAID Mission Director

ANNEX I.F

DEPARTMENT OF STATE

ACTION TAKEN:

ANNEX I.F

Page 1 of 4

Date:

Initials:

U.S. AIR MAIL

ACTION

CONTROL:

MAY 15 1980

ACTION: AID-5

TELEGRAM

INCOMING SAN SALVADOR
UNCLASSIFIED

- INFO:
- ~~AMB~~
- ~~DCM~~
- ~~ECON~~
- ~~POL~~
- ~~CRO~~
- USICA
- DAO
- ADMIN
- PER
- BFO
- GSO
- AGR
- COMAT
- PC
- CONS
- AID
- MILGP
- RSO
- ~~CHRON~~
- ~~RF~~

0 150129Z MAY 80
 FM SECSTATE WASHDC
 TO AMEMBASSY SAN SALVADOR IMMEDIATE 9154
 BT
 UNCLAS SECTION 01 OF 02 STATE 127482/01

C. & R.

MAY 15 1980

ALL

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E.O. 12065: N/A

AGS:

SUBJECT: EL SALVADOR AGRARIAN REFORM PID

INFORMATION COPY

1. THE DAEC REVIEWED AND APPROVED THE SUBJECT PID ON MAY 6, 1980. HOWEVER, BECAUSE OF CONCERNS RAISED OVER (A) THE PID'S INCOMPLETE DESCRIPTION OF THE OVERALL AGRARIAN REFORM PROGRAM, (B) THE RELATIONSHIP BETWEEN THE CAMPESINO OWNED ENTERPRISE AND LAND TO THE TILLER COMPONENTS AND (C) THE PROPOSED AID DEVELOPMENT STRATEGY IN THE SECTOR, THE MISSION IS REQUESTED TO PREPARE A SUPPLEMENTAL REPORT (SR) PRIOR TO PP SUBMISSION. THIS REPORT SHOULD BE BRIEF AND IT CAN BE SUBMITTED TO AID/W WITHOUT A MISSION REPRESENTATIVE. THE REPORT SHOULD PROVIDE THE FOLLOWING INFORMATION, ALL OF WHICH WILL FORM BASIS FOR BACKGROUND AND STRATEGY SECTION OF EVENTUAL PROJECT PAPER:

(A) REFORM PROGRAM. THE REPORT SHOULD CLEARLY DESCRIBE THE GOVERNMENT'S TOTAL AGRARIAN REFORM PROGRAM AND ELEMENTS OF EACH REFORM COMPONENT. POSSIBLE LINKAGES OR OVERLAPS BETWEEN THE COMPONENTS SHOULD BE DISCUSSED AND BENEFICIARIES FOR EACH COMPONENT SHOULD BE IDENTIFIED. TO EXTENT POSSIBLE SR SHOULD INCLUDE A BRIEF DESCRIPTION OF PROGRESS TO DATE IN IMPLEMENTATION OF AGRARIAN REFORM PROGRAM.

(B)-----IMPLEMENTATION CONSTRAINTS. AFTER DESCRIBING TOTAL AGRARIAN REFORM PROGRAM, THE REPORT SHOULD SUMMARIZE MAJOR CONSTRAINTS TO SUCCESSFUL IMPLEMENTATION OF THE REFORM. OBJECTIVE OF THIS ANALYSIS WILL BE TO IDENTIFY MAJOR BOTTLENECKS AND AREAS OF PRIORITY FOR AID ASSISTANCE. ALTHOUGH EMPHASIS SHOULD BE ON FINANCIAL REQUIREMENTS -- E.G., CREDIT, LAND ACQUISITION, AND OPERATING COSTS -- MISSION SHOULD ALSO CONSIDER PROBABLE PERSONNEL AND INSTITUTIONAL CONSTRAINTS. IN EXAMINING FINANCIAL REQUIREMENTS OF REFORM, MISSION SHOULD ALSO LOOK AT GUEST CAPACITY TO MEET REQUIREMENTS AND LIKELY GAPS TO BE COVERED BY AID AND/OR OTHER DONOR SUPPORT.

(C) AID DEVELOPMENT STRATEGY. CONCERN WAS EXPRESSED THAT AID RESOURCES BE PROVIDED IN A MANNER THAT WILL CONTRIBUTE TO SUCCESS OF THE ENTIRE PROGRAM RATHER THAN FOCUSING ON INDIVIDUAL COMPONENTS WHICH MIGHT BE SUCCESSFUL EVEN THOUGH

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OVERALL PROGRAM FLOUNDERS. IN DEALING WITH THIS CONCERN, THE REPORT SHOULD DISCUSS THE MISSION'S STRATEGY FOR ASSISTING THE REFORM, INCLUDING MISSION PLANS FOR THE IMMEDIATE TERM AS WELL AS THE LONG-RUN. THE FOCUS OF STRATEGY STATEMENT SHOULD BE ON RELATIONSHIP OF AID INPUTS TO MAJOR CONSTRAINTS/BOTTLENECKS IMPEDING SUCCESSFUL IMPLEMENTATION OF OVERALL AGRARIAN REFORM PROGRAM. BRIEF DESCRIPTIONS OF PROPOSED ACTIVITIES SHOULD ALSO BE PRESENTED ALONG WITH A RATIONALE FOR THEIR SELECTION. IN PARTICULAR, THE ROLE OF AIFLD AND UCS SHOULD BE DISCUSSED, AS WELL AS POSSIBLE ACTIVITIES INVOLVING OTHER PVOS AND OPERATING CAMPESINO ORGANIZATIONS. TO THE EXTENT POSSIBLE, LINKAGES BETWEEN ACTIVITIES SHOULD BE MENTIONED AND ESTIMATED COSTS SHOULD BE DISCUSSED.

2. THE FOLLOWING GUIDANCE IS PROVIDED TO ASSIST THE MISSION IN PREPARING THE PP:

(A) CAMPESINO OWNED ENTERPRISES. THE DETAILED DESCRIPTION OF CAMPESINO ENTERPRISES IN THE PP SHOULD DEAL WITH THE FOLLOWING KINDS OF QUESTIONS. TO THE EXTENT POSSIBLE, INFORMATION SHOULD BE PROVIDED ON EXPERIENCE TO DATE IN ADDITION TO DESCRIPTIONS OF HOW THINGS ARE SUPPOSED TO WORK ACCORDING TO VARIOUS DECREES. WHAT IS THE ORGANIZATIONAL STRUCTURE OF THE ENTERPRISES AND HOW ARE THEY TO BE MANAGED? HOW WILL THE CAMPESINOS PARTICIPATE IN THE OPERATIONS AND PROFITS OF THE ENTERPRISES? WHAT OWNERSHIP RIGHTS WILL THE CAMPESINOS HAVE IN THE ENTERPRISES AND WHAT LEGAL SYSTEMS WILL BE SET UP FOR TRANSFERRING SUCH RIGHTS? WHAT IS ISTA'S ROLE IN MANAGING THE ENTERPRISES AND IN PROVIDING TECHNICAL ASSISTANCE AND TRAINING? HOW WILL CREDIT BE

PROVIDED TO THE ENTERPRISES AND HOW IS THE INTEREST CHARGED ON THEIR LOANS REFUNDED TO THEM? WHAT IMPACT ON LABOR ABSORPTION ARE THE ENTERPRISES EXPECTED TO HAVE? IN PARTICULAR, ARE THEY EXPECTED TO ABSORB SIGNIFICANT NUMBERS OF THE LANDLESS POOR? IF SO, WILL THE ENTERPRISES' PRESENT FARMING TECHNOLOGIES AND/OR CROP PATTERNS BE ALTERED? HOW WILL THE INFORMATION DEVELOPED UNDER THE AGRARIAN REFORM PLANNING AND EVALUATION ACTIVITY BE DISSEMINATED AT THE CAMPESINO LEVEL AND BE INCORPORATED INTO ENTERPRISE INVESTMENT DECISIONS?

(B) LAND TO THE TILLER. ALTHOUGH THE LAND TO THE TILLER COMPONENT IS INTENDED TO BE SELF-EXECUTING, INPUTS OF TECHNICAL ASSISTANCE, TRAINING, MARKETING ASSISTANCE AND CREDIT WILL BE REQUIRED. THE PP SHOULD DESCRIBE THESE INPUT REQUIREMENTS AND HOW THEY WILL BE PROVIDED, INCLUDING THE ROLES AIFLD, AND THE VARIOUS GOES IMPLEMENTING AGENCIES WILL PLAY IN PROVIDING THEM. FINALLY, THE RIGHTS OF THE CAMPESINOS WHO RECEIVE LAND UNDER THIS COMPONENT SHOULD BE DISCUSSED, AND WHETHER ADEQUATE STEPS ARE BEING TAKEN TO ENSURE THAT CLEAR TITLE IS TRANSFERRED IN A TIMELY WAY. A DESCRIPTION OF THE LEGAL MACHINERY TO BE ESTABLISHED TO CARRY OUT THE TITLING PROCESS SHOULD BE INCLUDED IN THIS

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DISCUSSION.

(C) FINANCIAL REQUIREMENTS. THE PP SHOULD EXPAND UPON THE FINANCIAL DISCUSSION INCLUDED IN THE SR. THE ASSUMPTIONS UPON WHICH FUNDING ESTIMATES ARE BASED SHOULD BE FULLY DESCRIBED. IN PARTICULAR, ASSUMPTIONS ON THE PROJECTED INCREASE IN DEMAND FOR CREDIT SHOULD BE EXAMINED THE FINANCIAL RESOURCES OF THE GOES AS WELL AS THE SOURCES OF SUCH FINANCING SHOULD BE IDENTIFIED. THE POTENTIAL FOR OBTAINING FINANCING FROM INTERNATIONAL SOURCES OTHER THAN AID SHOULD BE EXPLORED.

(D) CAMPESINO ORGANIZATIONS. CURRENTLY, THE MISSION IS PROPOSING TO WORK WITH THE UCS AND THE CAMPESINO GROUPS ORGANIZED AROUND THE ENTERPRISES. DURING PP DEVELOPMENT THE MISSION SHOULD EXAMINE THE FEASIBILITY OF UTILIZING OTHER CAMPESINO/GRASS ROOTS GROUPS IN THE REFORM EFFORT IN ADDITION TO THE AFOREMENTIONED GROUPS.

(E) TRAINING. THE PID PROPOSES A THREE PHASED TRAINING PROGRAM WHICH DEVOTES CONSIDERABLE RESOURCES FOR TRAINING PUBLIC SECTOR EMPLOYEES. DURING THE INTENSIVE REVIEW THE MISSION SHOULD RE-EXAMINE THE RATIONALE FOR DEVOTING SCARCE TRAINING RESOURCES TO THESE INTERIM PUBLIC SECTOR MANAGERS. ALSO, DURING INTENSIVE REVIEW THE MISSION SHOULD

EXAMINE THE CAMPESINO TRAINING ACTIVITY TO INSURE THAT SUFFICIENT FOLLOW-UP TRAINING IS PROVIDED TO EQUIP THE CAMPESINOS FOR THEIR NEW LEADERSHIP ROLES. THE CAPACITY OF CENCAP SHOULD BE EXAMINED TO INSURE THAT IT CAN CARRY OUT THE TRAINING ACTIVITY. IN PARTICULAR, THE QUALITY OF CENCAP'S PERSONNEL WHO CARRY OUT THE TRAINING IN THE FIELD SHOULD BE EXAMINED TO INSURE THAT THEY UNDERSTAND THE CAMPESINOS AND CAN RELATE TO THEIR PROBLEMS. IN ADDITION THE FEASIBILITY OF UTILIZING OTHER PUBLIC OR PRIVATE SECTOR INSTITUTION THAT COMPLEMENT THE SKILLS OF CENCA TO CARRY OUT SOME OF THE TRAINING SHOULD BE CONSIDERED. FINALLY, IT WAS SUGGESTED THAT TRAINING PROGRAMS OF THE NATIONAL TRAINING SERVICE (SENA) IN COLOMBIA AND THE NATIONAL TRAINING AND RESEARCH CENTER FOR AGRARIAN REFORM (CENCIRA) IN PERU BE EXAMINED AS POSSIBLE MODELS FOR THE PROPOSED TRAINING PROGRAM.

(F) GOES INSTITUTIONAL STRUCTURE. THE GOES RECENTLY ANNOUNCED THE SECOND AGRARIAN REFORM COMPONENT, THE LAND TO THE TILLER PROGRAM. YET, MANY OF THE GOES INSTITUTIONS ASSOCIATED WITH AGRICULTURE DEVELOPMENT ARE ALREADY SEVERELY STRAINED DEALING WITH THE FIRST COMPONENT AND ACTIVITIES UNDER THE GOVERNMENT'S ACCELERATED IMPACT PLAN (AIP). THE PP SHOULD EXAMINE THE INSTITUTIONAL CAPACITY OF THE GOES VS THE DEMANDS THAT WILL BE PLACED ON IT AS A RESULT OF THE REFORM SECTOR PROGRAMS AND THE AIP. SINCE SUCCESSFUL IMPLEMENTATION OF THE REFORM WILL REQUIRE A WELL COORDINATED EFFORT ON THE PART OF THE AGRICULTURE INSTITUTIONS, THE PP SHOULD ALSO EXAMINE HOW SUCH COORDINATION WILL BE ACHIEVED.

(G) PROJECT PROCUREMENT. THE MISSION SHOULD CLOSELY REVIEW ITS PLANNED REQUESTS FOR BLANKET PROCUREMENT WAIVERS. WAIVERS SHOULD BE REQUESTED FOR ONLY THOSE ITEMS THAT ARE ESSENTIAL TO THE RAPID IMPLEMENTATION OF THE PROJECT. SER/COM IS WILLING TO ASSIST THE MISSION IN DEFINING ITS REQUIREMENTS.

3. IN ORDER TO ASSIST MISSION IN PREPARING NECESSARY AGRARIAN REFORM PROJECT DOCUMENTATION, AID/W WILL ATTEMPT TO PROVIDE ANY AND AS MUCH TDY ASSISTANCE AS MISSION REQUIRES. PER CONVERSATIONS WITH CHAIJ, FIRST TDY TEAM OF SCAFF BROWN, SHERPER, SCHOUTEN, AND PEASLEY WILL ARRIVE O/A MAY 18 TO ASSIST WITH SR AND PP. ETAS WILL BE SENT BY SEPTEL. PLEASE ADVISE ANY ADDITIONAL REQUIREMENTS.
CHRISTOPHER

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THE BASIC LAW OF AGRARIAN REFORM (DECREE 153)

DECREE No. 153

The Revolutionary Junta of Government

WHEREAS:

I. In accordance with item III of the Emergency Program contained in the Armed Forces Proclamation of October 15, 1979, it was established that "measures would be taken for equitable distribution of the national wealth, at the same time increasing the national gross product," and, to this aim, an instrument would be created to establish a solid basis for the implementation of an agrarian reform, thus ensuring the right to private property within a communal framework;

II. The present law for the establishment of the Salvadoran Institute of Agrarian Reform does not satisfy the demands of the destitute majority of the population of this country, their situation being the result of a single privileged class, contrary to the objectives of real economic, social and political development;

III. It is necessary to establish a new economic and social order in accordance with principles of social justice and the revolutionary ideology adopted by the new Government, in order to give an objective response to the demands of the Salvadoran people, thereby rejecting the prevailing interests of the minority;

IV. Decree No. 43 of the Revolutionary Junta of Government, dated December 7, 1979, published in the Official Gazette No. 228, Volume 265, of the same date, established the necessary basis for the promotion of a policy of change within the land tenure system, forbidding the transference or partition of rural landholdings, it is necessary to issue the legal provisions to implement such policy;

THEREFORE:

By virtue of the authority conferred (upon the Governing Junta) by Decree No. 1 of October 15, 1979, published in the Official Gazette No. 191, of the same date, and having heard the considered opinion of the Supreme Court of Justice,

DECREES:

The following

BASIC AGRARIAN REFORM LAW

CHAPTER 1

BASIC PROVISIONS

Article 1. Private property within a communal framework is hereby acknowledged and guaranteed.

Landholdings within the limits established by this law comply with the social or communal concept, in addition to having the following characteristics:

- A) Land is exploited directly by its owner;
- B) Exploitation of said land guarantees the minimum productivity levels, in accordance with national percentages for the crop under exploitation;
- C) Exploitation of such land is carried out in accordance with the Government's agricultural development plans;
- D) Land, water and other renewable natural resources are protected and handled appropriately; and
- E) Labor and social security laws are complied with.

Provisions included in B, C, and D of the present clause shall be governed by a special statute or regulations.

Article 2. For the purpose of this law, agrarian reform shall be understood to mean the transformation of the country's agrarian structure and the incorporation of the rural population into the economic, social and political development of the nation through the substitution of the latifundia system by a more just system including property or land and the exploitation of landholdings, based on an equitable distribution of land, an adequate credit system, and comprehensive assistance to the producers in order that land become the basis of economic stability for the peasant, as the basis of his greater well-being and guarantee of his freedom and dignity.

CHAPTER 2

EFFECT ON LANDHOLDINGS AND OTHER PROPERTY

Article 3. The Agrarian reform shall be applied throughout the entire national territory, without regard to crop, location, productivity, land tenure system, quality of soil, or any other variable; therefore, all land

used for agricultural, livestock or forestry exploitation shall be affected by this law, with the exceptions and limitations established by the law itself.

Article 4. Land affected by the present law is understood to be any property within the national territory belonging to one or more individuals, estates, or associations exceeding ONE HUNDRED HECTARES for land within classifications I, II, III and IV; and ONE HUNDRED AND FIFTY HECTARES for land within classifications V, VI and VII. These classifications constitute the right to land ownership reserved for landholders.

Without prejudice to provisions in clause one of the present article, landholdings which do not exceed the limits prescribed by law shall be affected if their owners do not comply with provisions as established in article one of this law, or should they cause damage to renewable natural resources or to the land itself, which are necessary and indispensable for their exploitation.

Land strictly reserved for forestry exploitation shall be subject to provisions within the Law for Forestry Exploitation (Ley Forestal)

It is presumed under the law that each individual member of an association (or corporation) shall be entitled to land tenure in proportion to the number of shares owned within said association or corporation.

If an individual holds titles to land, both independently and as a member of an association or corporation, property belonging to him independently shall be affected with priority to that pertaining to him as a member of an association.

Article 6. The location of land, and equivalency according to soil classification, in connection with owners' rights shall be determined by the Salvadoran Agrarian Reform Institute (ISTA).

Such rights shall be determined on an equitable basis in order to allow an effective exploitation of the land by landholders or owners.

Article 7. The Government may increase the landholders' rights by 20 per cent if at the time of acquisition of such land (by the State) it is established that the owners have maintained or increased productivity, or have otherwise improved their property on or after the date when this law becomes effective.

In any event, in order (for landholders) to be entitled to such rights, evidence of compliance with labor and social security laws must be presented.

Article 8. Any landholder or owner may continue exploitation of his property until said property is expropriated or acquired by the State.

CHAPTER 3

ACQUISITION OF LAND AND OTHER PROPERTY

Article 9. The State shall acquire land and other property through any legal means established by law, especially through the purchase and expropriation of same.

Article 10. Once the State has decided to acquire a piece of land or other property, the ISTA shall notify the landholder or owner personally, at his place or residence, if known. Otherwise, a single announcement published in the Official Gazette, and two announcements published in two of the local newspapers of major circulation shall suffice.

The landholder or owner must notify the ISTA officers, in writing of his willingness to sell the property, within eight days (excepting Saturdays, Sundays and holidays) after being notified (by ISTA), or publication of the announcement in the Official Gazette, as the case may be, indicating an address to receive notifications.

The ISTA shall notify owners or landholders, in writing, regarding date and time to appear for the signing of the title deed.

If said owner or landholder should not appear on the date and time indicated, (ISTA) will proceed to expropriate the land or property in question.

Article 11. Expropriation procedures shall be conducted in accordance with the law. In the event of expropriation, a document shall be drawn up, and (ISTA) shall take possession of the land or property in question even before formal transfer of same has been made.

Once ISTA has taken possession of the land or property, the landholder or owner, or his legal representative, shall appear before ISTA to sign the expropriation document. A document containing the description of the land or property shall be attached to the expropriation document. This description will be provided by the Ministry of Agriculture and will constitute a title deed. This deed shall be used to record the (expropriation of the) land or property in question in the Real Estate Records Office (Oficina de Registro de la Propiedad Raíz). This office must register the title deed, even though the description may not coincide with the title, provided the property and the owner are the correct ones.

The owner or landholder, or his legal representative, must sign the deed referred to above at the main offices of ISTA no later than eight working days after the last notification in two local newspapers of major circulation.

In the expropriation document and title deed on behalf of ISTA, the registration number and ledger in which it was recorded shall be indicated. The right to indemnification shall also be recorded.

If the owner, landholder, or his legal representative should not appear to receive this indemnification, ISTA shall deposit it in the Agricultural Development Bank (Banco de Fomento Agropecuario), to the order of the owner or landholder and payment for such property shall be considered as actually having been made.

Article 12. If the land or property expropriated or crops derived therefrom should be mortgaged, the amount of the indemnification or compensation shall be deposited in any banking institution in the country, at the order of the agrarian judge, in order that he may pay creditors in order of preference, delivering the balance to the landholder of the expropriated property.

In the event that the amount deposited should not be sufficient to pay legal debts, the agrarian judge shall order that payments be prorated among all creditors.

CHAPTER 4

EVALUATION AND PAYMENT

Article 13. Value or compensation of all land and other property acquired (by the State) shall be paid partly in cash and partly in agrarian reform bonds. This amount shall be determined on the basis of the percentage declared by landholder or owner in his property tax declaration for (calendar) years 1976 and 1977.

If a landholder or owner shall have failed to declare his property value for the years indicated above, he shall state the estimated value of his property at the time when he indicates his willingness to sell.

ISTA shall pass a resolution at the next meeting of the Board of Directors, expressing its agreement or disagreement with the estimated property value. In the event of disagreement, ISTA shall make a counter-proposal to which the land or property holder must reply within three working days after being notified. If he should reject the counter-proposal, expropriation proceedings will be carried out and indemnification will be set on the basis of the property value as determined therein.

If the landholder or property owner should fail to appear, the amount of indemnification or compensation shall be set by ISTA, taking into account the percentage value of similar land or property within the same area.

Article 14. Land and other property acquired in accordance with this law shall be paid for or compensated as follows:

1) In the case of contract of purchase-and-sale, up to 500 hectares: 25 percent in-cash and 75 percent in agrarian reform bonds.

2) In the case of property exceeding 500 hectares, or when such property has been expropriated: 100 percent paid in agrarian reform bonds.

3) In the cases mentioned in clause two of Article 4 of this law: 25 percent in cash and the balance in agrarian reform bonds. These bonds will be subject to special regulations regarding terms and interest.

Value of livestock and improvements as mentioned in Article 7 for landholdings or property under 500 hectares shall be paid in cash.

Capital liabilities for duly proven investments on an agricultural or livestock operation shall be absorbed by the State under the same conditions as those under the contract.

Article 15. There will be three types of Agrarian Reform Bonds: Series A, B, and C, which shall be regulated by a special law. This law shall establish the terms, interest rates, benefits and other conditions.

Article 16. Percentage payment of agrarian reform bonds shall be as follows:

(A) In the case of efficiently cultivated land, payment shall be made through Type A bonds;

(B) In the case of leased land, tenanted farms or other indirect forms of land exploitation, compensation shall be made through Type B bonds;

(C) In the case of idle land or inefficiently cultivated land, payment shall be made through Type C bonds;

(D) In the case of land leased without a contract registered at the Ministry of Agriculture, payment shall be made through Type C bonds;

(E) In those cases mentioned in Article 14 — clause 3 of the present law — payment shall be made through Type A bonds, with a special five-year term of redemption and;

(F) In the cases included in clause two of Article 4 of the present law, indemnification or compensation shall be made through Type C bonds, after deducting the amount corresponding to damages, and in addition to any criminal liability therein.

CHAPTER 5

PROVISIONAL ADMINISTRATION

Article 17. Once ISTA has acquired property title of the land and other real estate property, a provisional administrative office shall be established in order to guarantee the following:

- (A) Agrarian Reform objectives
- (B) Continuity of production and productivity; and
- (C) Care and maintenance of land property acquired.

Whenever there are pending harvests or the cultivation of a new crop has been initiated, the provisional administration shall guarantee the harvesting to the owner or the lease-holder, provided they continue the productive process. The ISTA provisional administration shall be in effect until all land (acquired by the State) has been allocated to the peasants.

CHAPTER 6

ALLOCATION OF LAND AND OTHER PROPERTY

Article 18. Land and other real estate acquired (by the State) shall be allocated to agricultural cooperatives, peasant community associations and other organizations of agricultural workers registered in the Ministry of Agriculture.

Land and other real property thus acquired shall be administered as a joint venture of the government and such organizations.

The joint venture system to which this article refers shall be in effect until the new landholders have acquired the necessary skills; notwithstanding this, there will always be ample coordination between the State and the new landowners, to achieve national planning objectives.

Article 19. Allocation of land shall be carried out taking into account a dynamic concept which will include property size and quality of the soil in relation to productivity and income.

Article 20. Income derived from the exploitation of land and property allotted to the peasants shall be applied according to the following priorities:

- (A) Defrayal of production costs;
- (B) Fulfillment of basic needs of family units within agricultural organizations;

(C) Payment referred to in Article 30 of this law.

Surplus funds shall be subject to special treatment in order to obtain an equitable distribution of same within a given area in accordance with national economy interests, striving to achieve the following:

- (A) Creation of a reasonable margin of savings for all peasants in a given area;
- (B) Development of social benefits for the community; and
- (C) Development of other types of productive projects.

Article 21. Organizations referred to in Article 18 of this law shall be comprised exclusively of peasants who do not own any land, whether they are paid workers, lease-holders, secondary lease-holders, or tenant farmers ("aparceristas" or "colonos"). Peasants who own land but the size of which is not enough to fulfill their basic needs shall also be entitled to membership in said agricultural organizations.

General allotment rules and priorities as well as selection criteria shall be regulated by special legislation.

Article 22. Regulations regarding coordination, training, promotion, credit, technical assistance and other actions aimed at comprehensive development of the agrarian reform process, as well as an enlargement of the minifundia sector in order to increase productivity and achieve integration of productive associations, shall be regulated by other laws.

CHAPTER 7

GENERAL PROVISIONS

Article 23. The Executive Branch, together with the Cabine (Consejo de Ministros) shall define the national agrarian policy.

The Ministry of Agriculture, in coordination with other public sector institutions in the agricultural field, shall be responsible for implementing this policy in order to promote the agrarian reform process.

ISTA shall be responsible for the implementation of the process provided it does not act contrary to this law.

Article 24. A Council shall be established to advise the Ministry of Agriculture regarding agrarian reform. This Council shall be formed by:

- (A) The Ministry of Planning and Coordination for Economic and Social Development and the Ministries of Labor, Defense, Treasury, and Economy;

- (B) A representative of each of the following institutions:
the Salvadoran Central Reserve Bank and the Agricultural
Promotion Bank (Banco de Fomento Agropecuario);
- (C) Four members representing the organizations covered by
this law.

Article 25. Special Rules and Regulations shall be issued, no later than 90 days after this law becomes effective, for the division of the country zones and the implementation of the agrarian reform.

Notwithstanding the above, acquisition of rural land and/or property shall be implemented immediately for estates whose size will be indicated in a Special Decree, and (the State) shall take possession of same in the manner established in Article 11.

Article 26. Transference of property within the present irrigation and drainage zones shall be subject to the laws through which they were established. (This clause sent by subsequent tel-id)

Article 27. Landholders or owners of land and/or property whose acreage, taken either combined or separately, does not exceed the limits established by this law may sell or mortgage their property without other limitations than those established by other legislation, provided a sworn statement is made before a notary public at the moment of signing of the title deed and that the overall size of rural land and/or property does not exceed the limits established by law. The notary public shall indicate this fact in a sworn statement.

Land or real estate which does not exceed these limits may be sold, provided transfer is made to an agricultural association as described in Article 18, belonging to the State and previously decentralized for the development of a plan regarding housing, industry and services, duly authorized by ISTA. However, landowners may mortgage property, either as a whole or in part, to obtain supervised credit for the development of agro-industrial production or the improvement of their property.

Any sale made in violation of this provision shall be void, and the State may take possession of all rural property belonging to the violator.

Article 28. Present landholders or real estate owners whose property exceeds the limits established in Article 4 of the present law are under obligation to maintain their livestock at the present level in order to keep their productive units intact.

Article 29. This provision shall not apply to land and/or real estate or other property belonging to duly registered agricultural cooperatives and peasant community organizations.

Article 30. The beneficiaries of land and other property and/or goods and services shall pay ISTA an amount of money that will be applied toward paying the agrarian reform debt.

ISTA shall not apply these funds to any other ends.

Article 31. Until such time as the Agrarian Courts are established, all matters pertaining to the agrarian reform process shall be handled by the Civil Courts.

Article 32. All actions, proceedings and documents relative to the agrarian reform process are hereby exempted from payment of any and all taxes.

Article 33. The agrarian reform process is hereby declared to be a public utility or social program.

Article 34. The provisions of this law are hereby declared to be of public nature.

Article 35. Executive Decree No. 24 dated March 20, 1975, published in the Official Gazette No. 35, Volume 246, of March 21, 1975, is hereby nullified.

Decree No. 43 of December 7, 1979, published in the Official Gazette No. 223, Volume 265, of the same date, is hereby nullified.

Provisions contained in the Legislation for the Establishment of the Salvadoran Institute of Agrarian Reform are hereby declared null and void insofar as they violate the present law. Other laws, regulations or decrees contrary to the present law are also nullified.

Article 36. The landholder's right (or reservation) recognized through the present law shall be exercised by said landholder or owner concerning property affected by the (agrarian reform) law one year after ISTA has taken possession of said property.

Article 37. The present law shall become effective eight days after its publication in the Official Gazette.

SIGNED AT THE PRESIDENTIAL PALACE, San Salvador, on March 6, 1980.

(Signed by)

Col. Adolfo Arnaldo Majano Ramos

Dr. Jose Ramon Avalos Navarrete

Col. Jaime Abdul Gutiérrez

Ing. Octavio Orellana Solís
Minister of Agriculture and

Dr. Jose Antonio Morales Erlich

Livestock

UNOFFICIAL TRANSLATION

DECREE No. 207

LAW FOR THE EXPROPRIATION AND TRANSFER OF LAND TO THE TILLER

THE REVOLUTIONARY JUNTA OF GOVERNMENT,

WHEREAS:

I. In accordance with the Basic Law of the Agrarian Reform, it is hereby recognized and guaranteed that private agricultural landholdings are complying with their inherent social function whenever they are directly exploited by their owners.

II. In accordance with Article 4, clause 2 of the above mentioned law, landholdings which do not comply with their inherent social function may be affected by the Agrarian Reform, even if they do not exceed the allowed limits of tenancy or reserve rights.

III. As a continuation of the comprehensive agrarian reform process already initiated, it is convenient to enforce the necessary measures for the swift eradication of unfair systems of indirect exploitation, which impose upon the actual tillers the obligation to pay, either in cash or in goods for the right to exploit the land in order to create the conditions for these tillers to acquire ownership of the land they farm, through the State.

THEREFORE, by virtue of legislative powers conferred by Decree No. 1 of October 15, 1979, and based on Decrees No. 114 (February 8, 1980) and No. 153 (March 5, 1980),

THE FOLLOWING IS DECREED:

LAW FOR THE EXPROPRIATION AND TRANSFER OF AGRICULTURAL LANDS TO THE TILLERS:

Article 1. The purpose of this law is that the State acquire landholdings which are not being directly exploited by their owners, in order to assign them to the persons mentioned herein, who from now

on shall have preferential rights to acquire said landholdings and become their rightful owners.

Therefore, landholdings or portions of same--appropriate for agricultural exploitation and regardless of their size--which at the present time are being exploited by simple lessees or by persons holding lease contracts with an option-to-purchase clause, sharecroppers, contract purchasers with ownership rights over the property, or other persons who work the land directly--through payment either in cash or in goods--are hereby expropriated.

Article 2. The expropriation of landholdings or portions of same mentioned in the preceding article, is hereby lawfully decreed on behalf of the Salvadoran Institute of Agrarian Transformation (ISTA).

Landholdings or portions of same expropriated in accordance with this law, shall be assigned through ISTA to lessees, sharecroppers and other persons referred to in Article 2 of this law, in compliance with provisions contained in the same law and of internal regulations as may be established.

However, in the event that a lessee, sharecropper or contract purchaser should cultivate an entire property or land plot exceeding one hundred hectares, expropriation as established in Clause 1 shall not apply. Therefore, its exploitation shall not be altered in any manner whatsoever until the landholding or land plot has been acquired by ISTA, in accordance with the Agrarian Reform Basic Law.

Article 3. Beneficiaries who, in accordance with this law, have been assigned land plots by ISTA, shall be entitled to own a maximum of seven hectares (approximately 10 "manzanas").

When expropriated landholdings or land plots exceed seven hectares, the excess land shall continue to be ISTA's property, who should respect the rights of the lessee or other person working the land during the current agricultural year, and assign it to other beneficiaries after the end of the harvest season. This seven hectare limit shall not be applied to persons holding a lease contract with an option-to-purchase clause, or to contract purchaser with ownership rights who has acquired such property or land plot through a legal instrument, before the present law became effective.

The time limit established hereby shall not be applicable to agricultural cooperatives, communal peasant associations, or other organizations of agricultural workers registered at the Ministry of Agriculture and Livestock (MAG).

Article 4. For purposes of the present law, landholdings or land plots held under a simple lease or other types of indirect exploitation, shall be understood to be affected whenever their contracts or leases are still in effect, or when their due date has been extended by law.

The above shall also apply to verbal or written contracts, even though no money may have been paid, and regardless of the amount of money involved.

Article 5. Landholders and owners of land plots of less than one hundred hectares, expropriated in accordance with this law, shall have the right to be paid fifty percent of the land value in cash, in accordance with a special law regulating bonds which shall be enacted in the future.

Landholders and owners of expropriated land in excess of one hundred hectares, shall receive payment according to provisions in the Agrarian Reform Basic Law.

In any event, the amount of such compensation shall be established on the basis of the property value stated by their owners in their tax reports for the years 1976 and 1977.

Should the landholder or owner of expropriated land have failed to report such property for the periods indicated in the preceding paragraph, expropriation shall be implemented as indicated in Article 13 of the Agrarian Reform Basic Law.

Any payment already received by a landholder or property owner for land-leases shall be deducted from the price of the property to be paid by ISTA.

Article 6. The amount to be paid by the beneficiaries of landholdings or land plots assigned to them shall be equal to the amount of the compensation that the State has paid for their expropriation. Such amounts must be paid in cash, in regular payments not to exceed a term of 30 years, including interest. The type of product under cultivation, as well as harvest collection time shall be taken into account when setting repayment terms.

However, the beneficiaries can make payments in advance or full payment in cash. In this case, ISTA may deduct up to one third of the total value, in accordance with the special regulations.

Article 7. Until such time as ISTA has set the value of a property or land plot, beneficiaries will pay ISTA an amount equivalent to that set for land leases in Decree No. 44.

Provisions as stated above shall not be applicable if the beneficiaries have already made future payments on account to the landholder or owner of an expropriated property.

In the same manner, any amount paid by the beneficiaries to their former landlords shall be deducted from payments to be made to ISTA, in accordance with Article 6 of the present law.

Article 8. Beneficiaries of expropriated land shall abide by the following rules, limitations and prohibitions:

a) They may not lease, or in any form permit indirect exploitation of land affected by this law;

b) The allocation of landholdings or land plots to beneficiaries shall be entailed in benefit of the family unit for a period of thirty years. The family unit clause shall be effective, even if the beneficiary should pay for the land in full before the thirty year period expires.

During that time, landholdings or land plots assigned to a family unit may not be transferred or mortgaged. However, transfer may be effected in the event of the death of the beneficiary, and property may be mortgaged as collateral for agricultural loans granted by credit institutions.

c) Beneficiaries must pay for their land as established in Article 6. Should a beneficiary fail to make payment without a valid reason for a period of one year or more, the land shall be repossessed by ISTA, to be redistributed to other beneficiaries. The same provision will apply to beneficiaries who abandon their land; to those who violate provisions contained in a) above, and to those who do not comply with the social function provision as described in Article 1 of the Agrarian Reform Basic Law.

Article 9. In order to receive title, persons include in any of the cases described in Clause 2 of Article 1 of the present law, and who wish to take advantage of the benefits that it confers, should contact ISTA express their desire to acquire the land or plot which they are cultivating, or the established maximums, provide information regarding the type of land involved and its location, landholder's name, the tenure arrangement under which they work the land, and any other pertinent information to clearly establish their identity and the legal situation involved. The identity and other details about the applicant must be ascertained by any available legitimate means.

In order to implement the above described procedure-- and after the present law has become effective--ISTA will publish announcements in the Official Gazette and in two newspapers with large

national circulation, inviting interested persons who meet the established requirements to state their intention or willingness to become owners of landholdings or land plots. Their intention must be stated within one year after the last publication of said announcement. One year after the last day of publication of these announcements, the benefits of the present law shall expire.

Until such time as their intention (as referred to in this Article) is stated, ISTA must respect the rights of persons mentioned in Article 2 of the present law, regarding landholdings or land plots.

Article 10. The procedure to identify and legalize the transfer or expropriated land on behalf of ISTA shall be in so far as applicable, that established by Article 11 of the Agrarian Reform Basic Law, without the need in this instance of either previous occupation of expropriated land or the public announcement referred to in Article 11 of the Agrarian Reform Basic Law.

Article 11. The Ministry of Agriculture and Livestock (MAG) shall issue special regulations for the implementation of this law, no more than thirty days after said law becomes effective.

Article 12. This law shall become effective eight days after its publication in the Official Gazette.

GIVEN AT CASA PRESIDENCIAL, San Salvador, on the twenty-eight day of April of the year nineteen-hundred and eighty.

(signed)

Col. Adolfo Arnoldo Majano

Dr. José Ramón Avalos Navarrete

Col. Jaime Abdul Gutiérrez

Ing. Octavio Orellana Solís
Minister of Agriculture

Dr. José Antonio Morales Erlich

PRESS RELEASE: DECREE 220SPECIAL LAW FOR THE ISSUANCE OF THE AGRARIAN REFORM BONDSBONDS FOR AGRARIAN REFORM ISSUED

The President's Office of Information yesterday afternoon issued the following press release:

The Revolutionary Junta of Government, through Decree No. 220 has put into effect the Special Law for the Issuance of the Agrarian Reform Bonds, payable in national currency, which will be issued by ISTA and will be used to pay for the land and other assets acquired by the State for the execution of the mentioned Reform.

In accordance with above decree, Agrarian Reform Bonds will be issued for the sum of One Thousand Six Hundred Million Colones, (Q1,600,000,000.00)

The above mentioned bonds will be issued in three categories:

Series "A", Series "B", and Series "C"; they will bear a 5% annual interest and will be redeemed in the following terms: 20 years for Series "A", 25 years for Series "B", and 30 years for Series "C".

It should be noticed that in the Series "A" Bonds, some Preferential Bonds will be issued, with the special term of redemption of 5 years, for payment of cattle, machinery and infra-structures, paying 7% annual interest.

The bonds will constitute direct obligation of the Salvadorean Agrarian Transformation Institute, and will have the subsidiary and unlimited guarantee of the State. This such guarantee includes the due and punctual payment of the capital and any other responsibilities that may be derived from the issuance, service, amortization, or redemption of the bonds.

In accordance with the issued Law, the bonds will be utilized exclusively for the payment of the cost of lands and other assets acquired for the execution of the process of the Agrarian Reform and should be accepted at their nominal value; nevertheless, ISTA can place its bonds in the financial market or in official autonomous institutions, for up to 90% of their nominal value, in order to obtain the necessary financing resources to cancel the cash part of the land and other assets stipulated in the Basic Law of the Agrarian Reform.

BENEFITS

The bonds, according to the Law decreed by the Junta will have the following benefits:

a) The capital and interests will be exempt from payment of stamp, succession and donation taxes.

b) They will be accepted for 90% of their nominal value as guarantee for the payment of Customs and Consular duties, of direct taxes and any other taxes, payable to the State or the Municipalities; and will be also accepted for their nominal value as guarantee in any case in which by order of the Law or of Judicial or Administrative authorities, are required to yield bail.

c) The expired interest coupons will be accepted by the Government at their nominal value, for the payment of all kinds of taxes, tax rates and fiscal contributions.

d) They should be accepted at their nominal value in payment of succession and donation taxes, even though their term has not come due.

The bonds so acquired will be maintained in effect and the Government will have the right to retain them until they are due and negotiate them on the financial market when need be.

e) The Government may invest its own funds or the funds of others in its control, in the acquisition of the above mentioned bonds with the powers expressed in the last Clause of the previous paragraph d).

f) The state enterprises and official autonomous institutions will be able to acquire these Bonds, being able to retain them until they come due, use them to obtain advance payments or sell them when considered convenient.

g) The Central Reserve Bank of El Salvador, according to its Organic Law is authorized to buy or acquire, keep, and sell the above mentioned bonds, either at their nominal value or at the market value.

h) The Agrarian Reform Bonds may be accepted as guarantee to obtain financing from the official financial institutions for industrial, agro-industrial and agro-chemical activities, and rural housing activities in social the interest, up to the percentage of its nominal value approved by the Monetary Junta.

i) In the event that the holder of the bonds sells them at a higher price than their nominal value and invests the product of the sale in new basic welfare producing or strategic enterprises for the economic development, approved by the Executive Power in the Branch of Planning and Coordination of the Economic and Social Development of the Ministry of Finance, the holder will be exempt from capital income taxes corresponding to the amount destined to such activities;

j) When the Bond holders desire to invest in the establishment of participation in the enterprises referred to in clause h) of this article, which promotes the public sector, the Monetary Board will establish the financing mechanism to insure the liquidity of the same.

DECREE 221.

THE REVOLUTIONARY JUNTA OF GOVERNMENT

CONSIDERING:

- I - That the Basic Agrarian Reform Law establishes as main assignees of the acquired lands the Cooperative Associations, Communal Farmer Associations and other groups directly involved with agrarian activities;
- II - That the same Basic Law has given the Ministry of Agriculture the power to develop and coordinate agrarian reform policy that the Executive Power in the Council of Ministers will enforce;
- III - That the General Cooperative Law, its Regulation and the Law Creating the Salvadoran Institute of Cooperative Development mandates that this latter organization will be empowered to confer official recognition upon inscription to and give legal status to, among others, the Agrarian and Fishing Production Cooperative Associations, inoperant procedure for an agrarian cooperative system, directed to give impetus to the Agrarian Reform process, with well defined characteristics;
- IV - That it is imperative to facilitate the promotion, formation and declaration of legal status - with the rapidity that the Agrarian Reform process requires - to the largest number of farmer groups possible which are now organizing cooperatively on all the intervened properties, and also on those properties that in the future might be acquired for the continuation of the process, and on those cooperatives which form within the unaffected sector, among small and medium sized farmers that wish to organize themselves cooperatively to obtain the benefits of this Law:

THEREFORE,

Using the legal faculties granted by Decree No. 1 of October 15, 1979, published in the Official Newspaper No. 191, Volume 265 of the same date,

DECREES:

the following

SPECIAL LAW FOR AGRARIAN ASSOCIATIONS

Art. 1. The creation of the Department of Agrarian Associations as a Subordinate Agency of the Ministry of Agriculture, that will be in charge of the promotion, organization and official recognition and declaration of legal status of the Cooperative Associations of Agrarian and Fishing Production, and other similar associations that develop activities technically considered as agrarian.

Art. 2. The organized farmer groups on the existing expropriated properties and on other properties that in the future might be acquired in conformity with the Basic Agrarian Reform Law, will obtain their legal status as associations by virtue of the presentment of the constitutional act drawn at each occupied property, with the ISTA and MAG Delegates' intervention.

Art. 3. The MAG's Agrarian Associations Department will open a Register in which will be inscribed the constitutional act referred to in the previous article, based on which, legal status will be granted, by virtue of Executive Decree, in the Field of Agriculture and Live-stock.

Art. 4. For the granting of production credits and verification of legal status, the certification of the act to which the previous article refers, extended by the Department's chief, will be sufficient, and the indorsement of ISTA will be accepted to be responsible in a subsidiary manner for the obligations of the Cooperatives.

Art. 5. For the Register and granting of legal status to other agrarian worker groups organized in different cooperative systems, federations or "de facto" associations that still lack legal recognition, it will be sufficient that they present to the MAG's Agrarian Associations Department the Statutes and Certifications of Acts of the General Assembly, in which the groups representatives have been elected.

If the federation of groups to which reference is made in the previous article assemble several pre-cooperatives, each group must be inscribed separately, for the purpose of giving each one its own legal status under the same procedure accounted for in Art. 3 of this Law, and will enjoy the same benefits in the granting of production credits.

Art. 6. All other legal dispositions that contradict this Law are derogated.

TRANSITORY

Art. 7. The Agrarian and Fishing Cooperative Associations already

Inscribed with the Salvadoran Institute of Cooperative Development, as well as the Communal Farmer Associations to which the Law creating ISTA refers, register with the MAG's Department of Agrarian Associations for that purpose shall submit to it all pertinent documentation, and the MAG shall recognize the legal status requested, by Executive Decree that encompass all of them, requisite by which they will be legally inscribed, by consequence of the Basic Agrarian Reform Law.

Art. 8. During the time that the General Agrarian Reform Law is in force, the Department of Agrarian Associations created by Article 1 of this Law, will be enforced in that which is applicable, and does not contradict the Basic Agrarian Reform Law, by the Cooperative Associations General Law and by the precepts of the Salvadoran Institute of Cooperative Development Creation Law, issued on November 25, 1969, by means of the General Assembly's Decrees number 559 and 560, respectively, published in the Official Newspaper number 229, volume 225, of December 9 of the same year, especially in that which refers to attributions, activities to be executed, inspection and vigilance of the agrarian associations to which this Decree refers:

Art. 9. The MAG is authorized to integrate an Agrarian Associations Administration Council with the Ministry's personnel and representatives from other organizations involved in the Agrarian Reform process.

Art. 10. The Agrarian Cooperative Associations, ninety days after their inscription, will be obliged to elaborate their statutes, which shall be approved by the Department of Agrarian Associations and these will be ruled by the Cooperative Association's General Law, in those cases which do not contradict the Basic Agrarian Reform Law.

Art. 11. The present Decree will be in force eight days after it's publication in the Official Newspaper.

GIVEN AT THE PRESIDENTIAL PALACE: San Salvador, May 9, 1980.

Signed by all five members of the Junta and the Minister of Agriculture.

DECREE 222

AMENDMENTS TO THE BASIC LAW OF AGRARIAN REFORM (DECREE 153)

For the information of the interested parties, the following are the amendments and additions promulgated:

(Art. 1) to Art. 3., the following clauses are added:

"This law will also affect cattle, machinery and equipment permanently located in the intervened property, which have been used directly for the normal and efficient development of the productive works of this unit.

Exception is made on the machinery and equipment which is temporarily located on the intervened property, which belongs to a third party, and which provides this type of seasonal service to the farmers of the region.

For the verification of the facts established in the previous article, ISTA is authorized to obtain all the evidence considered necessary.

Let it be understood that the machinery and equipment belong to the owners of the affected land, if one or more of the associates of the legal entity which provide the service of the machinery and equipment are the same individuals who receive it."

(Art. 2) Clause No. 3 of Article 14 is amended as follows:

"3) The cattle, the fixed and movable property referred to in Article 3 of this Law, 25% in cash and the rest in Agrarian Reform bonds. These bonds will have preferential treatment in relation to the terms and interests."

(Art. 3) Add Clause No. 4 to Article 14, as follows:

"4) Those fixed properties which constitute an industrial, agricultural and livestock complex, such as sugar mills, coffee processing plants, slaughterhouses, milk processing plants and others, will be paid with Serial A bonds."

(Art. 4) Clause 5 of Art. 11 is amended as follows:

"If the owner, holder or legal representatives are not present when the minutes are signed on the term indicated in Clause 3 of this Article, a footnote will be added to the minutes which indicates these circumstances and registration of the corresponding titles will proceed. The minutes and the footnote referred to in this Article will be authorized by a representative of ISTA."

(Art. 5) Article 36 is amended as follows:

"The right of reservation recognized in this Law, will be exercised by the affected land-owner within the year following the intervention of the property.

If he does not make use of this right within the term indicated in the previous clause, it is understood he waives the right to it."

SALVADORAN CREDIT SYSTEM -- OVERVIEWI. Institutions which Form the System

Before nationalization, the financial system was comprised of three groups of institutions: commercial banks, other private financial institutions, and public sector institutions. In their credit activities, these institutions use various lines of credit authorized annually by the Central Bank, their own capital and reserve resources, external loans, and deposits from the general public.

The Nationalization Law (Decree 158) created a mixed system in which the Government will hold no less than 51% of the shares of each institution nationalized.^{1/} According to Decree 159, all of the affected institutions were intervened immediately, and the Central Bank named managers for each. The reasons given in Decree 158 for the nationalization were as follows:

- that the share capital of these institutions was only a small part of the total resources which they manage, particularly considering private savings deposits.
- that the credit was authorized to a small number of people; and
- that savings should instead be oriented to improving the general welfare.

Nationalization of these financial institutions gives the Government authority to channel more directly their resources toward priority sectors of the economy. The following major institutions are relevant to agricultural financing:

Commercial Banks (mixed)

1. Banco Agrícola Comercial
2. Banco Capitalizador
3. Banco de Comercio
4. Banco de Crédito Popular

^{1/} Employees of the institution will be offered 20% of the shares and the rest of the private sector the remaining 29%, with preference given to the previous owners. No single person can hold more than 1% of the shares or own shares of more than one bank.

5. Banco Cuscatlán
6. Banco de Desarrollo e Inversión
7. Banco Financiero
8. Banco Internacional
9. Banco Mercantil
10. Banco Salvadoreño

Other Financial Institutions (mixed)

1. Financiera Salvadoreña
2. Federación de Cooperativas de Ahorro y Crédito (FEDECACES)

Public Sector

1. Banco de Fomento Agropecuario
2. Fondo de Financiamiento y Garantía para la Pequeña Empresa (FIGAPE)
3. Federación de Cajas de Crédito (FEDECREDITO)
4. Instituto Salvadoreño de Fomento Industrial (INSAFI)
5. Instituto Nacional del Café (INCAFE) -- Formerly Compañía Salvadoreña del Café
6. Banco Hipotecario -- Although the GOES does not own all shares, it controls the Bank and it was not affected by nationalization.

II. Resources of the Financial System

From the point of view of major resources which will be channeled into the agricultural sector, the major effect of the nationalization has been on the commercial banks. As of January 31, 1980, total assets of the commercial banking sector reached ₡3,101 million (\$1.2 billion) of which only ₡165.4 million (\$66 million) or 5.3% was capital and reserves. This relationship of assets to capital has been about the same since 1974 and does not reflect any recent changes.

Assets and Liabilities of the Commercial Banks

Assets	<u>January 1979</u>		<u>January 1980</u>	
	<u>(\$ mils)</u>	<u>%</u>	<u>(\$ mils)</u>	<u>%</u>
Cash	\$144.4	13.2	\$156.2	12.6
Loan & Investments	780.6	71.5	910.8	73.4
Other	<u>167.5</u>	<u>15.3</u>	<u>173.4</u>	<u>14.0</u>
	\$1,092.5	100.0	\$1,240.4	100.0
 <u>Liabilities and Capital</u>				
Deposits	\$ 715.6	65.5	\$ 677.4	54.6
BCR Credit	123.9	11.4	271.2	21.9
Other	<u>191.3</u>	<u>17.5</u>	<u>225.7</u>	<u>18.2</u>
TOTAL Liabilities	\$1,030.8		\$1,174.3	
Capital & Reserves	<u>61.7</u>	<u>5.6</u>	<u>66.2</u>	<u>5.3</u>
TOTAL Liabilities and Capital	\$1,092.5	100.0	\$1,240.5	100.0

It should be noted that from January 1979 to January 1980, the volume of deposits declined by about 9%, whereas the volume of loans and investments increased by 12%. The ability of the commercial banks to maintain and expand their credit resulted from an increase of 119% in their credit from the Central Bank.

The portfolio of loans as of January 1980 amounted to £2,181.5 million (\$872.6 million) of which £1,504.4 million (\$601.7 million) or 69%, were from the banks' resources and the balance from the Central Bank.

The distribution of assets by bank is shown in the following table as of December 1979:

<u>Bank</u>	<u>₡ mils.</u>	<u>\$ mils.</u>	<u>Percent</u>
Banco Hipotecario	871.7	348.7	30.4
Banco Agrícola Comercial	410.9	164.4	14.3
Banco Salvadoreño	358.5	143.4	12.5
Banco de Comercio	321.7	128.7	11.2
Banco Cuscatlán	310.1	124.0	10.8
Banco de Crédito Popular	253.2	101.3	9.2
Banco Capitalizador	202.8	81.1	7.1
Banco Internacional	66.9	26.8	2.3
Banco Financidor	43.6	17.4	1.5
Banco Mercantil	19.5	7.8	0.7
	<hr/>	<hr/>	<hr/>
TOTAL Assets	2,869.9	1,153.6	100.0

None of the commercial banks can rival the BFA in number of agencies throughout the country. Some, like the Banco Salvadoreño, do have offices in each of the ten departments of the country, however.

AGRICULTURAL LENDING

As of October 1979 nearly 24% of the portfolio of the commercial banks and 27% of loans granted in the calendar year 1979 were for the agricultural sector:

Loan Sector	Balance Oct. 1979		Loans Granted 1979	
	Millions of Colones	Percent	Millions of Colones	Percent
Agriculture — Total	458.0	23.8	636.5	27.3
Regular	(368.3)		(563.5)	
Refinanced	(89.7)		(73.0)	
Manufacturing	345.5	17.9	323.1	14.1
Construction	277.6	14.4	155.8	6.7
Commerce	668.3	34.7	1000.9	43.0
Other	177.7	9.2	207.3	8.9
Totals	1927.1	100.0	2329.6	100.0

During 1979, the banks financed 404.8 million colones, or 72% of their agricultural sector credit through the lines of credit provided by the Central Bank for financing coffee and other export crops.

Looking at the broader financial system, the total volume of credit provided to the agricultural sector in 1979 by Salvadoran financial institutions was approximately 952 million colones (\$380.8 million). This estimate is based on the credit provided by the commercial banks, financial institutions, and lending of the BFA. This figure, however, has some shortcomings. There is duplication between the amounts financed by the BCR for the BFA and for "other financial institutions". On the other hand, amounts financed by institutions other than the commercial banks and BFA from resources other than those provided by BCR are not included. These two factors roughly offset each other.

It should also be borne in mind that the credit extended for agriculture was of three types (a) production credit; (b) medium and long term credit in some cases classified as related to specific crops and in other cases not, and (c) credit for marketing, including export sale. Thus the total credit given for certain crops (e.g., cotton) exceeds the value of the crop as more than one type of credit was given in substantial amounts. Further, the data do not include very substantial credit obtained from foreign banks with respect to coffee and other

exports; the amounts of such credit secured are not known.

For the year 1979, the estimated volume of credit for the agricultural sector amounted to 45% of the Gross Domestic Product generated by that sector, which was 2,106 million colones. The accompanying table shows agricultural credit authorized in 1979 according to crop or other purpose. It will be noted that export crops received about 65% of the credit. Basic grains received 16%, other crops 4%, livestock 6%, and all other uses 9%. Other uses included land purchase and improvement, fishing, forestry, and certain agro-industry. The financing of export crops is particularly stressed by the Central Bank because of their importance to foreign exchange.

There are notable differences between the commercial banks and the other institutions with respect to the composition of the loans authorized. The commercial banks concentrated 87% of their loans on export crops, while BFA and other institutions provided only 34% of their agricultural lending to export crops and gave considerable more attention to basic grains, livestock, and other purposes.

In contrast to the commercial banks, BFA (together with FEDEOCREDITO, a small Government-owned agricultural credit federation with a volume of one-sixth that of BFA) made 39% of their loans for basic grains against only 25% for export crops. In addition, 90% of the loans they granted were 10,000 colones and below. This reflects the concentration of attention given by BFA (and FEDEOCREDITO) to small and medium-sized producers.

The BFA has provided credit not only to individual producers but also to cooperatives and joint liability groups. The following shows loans granted by BFA in 1979 by type of borrower:

Type of Borrower	No. of Loans	Amount (Millions of Colones)	%	Families Benefited	%
Group Credit:	<u>6,484</u>	<u>50.0</u>	<u>24</u>	<u>29,638</u>	<u>54</u>
Cooperatives	509	30.8		13,671	
Joint Liability Groups ^{1/}	5,877	11.0		14,811	
Agrarian Reform Groups ^{1/}	98	8.2		1,201	
Individuals ^{2/}	<u>36,452</u>	<u>158.0</u>	<u>76</u>	<u>25,239</u>	<u>46</u>
Totals	42,936	208.0	100	54,922	100

^{1/} Prior to Decree 153

^{2/} Including a few partnerships, stock companies, etc.

CREDIT AUTHORIZED TO THE AGRICULTURAL SECTOR OF EL SALVADOR

CALENDAR YEAR 1979

(Millions of Colones)

Purpose of Loan	Granted by Commercial Banks	Granted by Other Financial Institutions w/Central Bank Financing	Granted by B. F. A.	Total	Percent
<u>Export Crops</u>	<u>(489.6)</u>	<u>(82.2)</u>	<u>(50.9)</u>	<u>(622.7)</u>	<u>(65)</u>
Coffee	288.9	42.8	9.1	340.8	
Cotton	175.9	36.7	38.3	250.9	
Sugar Cane	24.8	2.7	3.5	31.0	
<u>Basic Grains</u>	<u>19.2</u>	<u>55.7</u>	<u>81.1</u>	<u>156.0</u>	<u>16</u>
<u>Other Agric. Products</u>	<u>31.5</u>	<u>1.8</u>	<u>4.1</u>	<u>37.4</u>	<u>4</u>
<u>Livestock</u>	<u>11.0</u>	<u>16.3</u>	<u>27.8</u>	<u>55.1</u>	<u>6</u>
<u>Other Uses</u>	<u>12.2</u>	<u>32.2</u>	<u>36.5</u>	<u>80.9</u>	<u>9</u>
TOTAL	563.5	188.2	200.4	952.1 ^{1/}	100

^{1/} Not including refinancing, the total may be overestimated by about 50 million colones.

AGRICULTURAL CREDIT PROVIDED BY
COMMERCIAL BANKS TO PRIVATE SECTOR
CUMULATIVE PERCENTAGES BY MONTHS
AGRICULTURAL YEAR 1978-79

Month	Total	Coffee Only	Cotton Only	Livestock Only	All Others
May 1978	16.3	13.7	21.8	21.7	10.7
June	35.9	31.6	47.9	28.4	23.8
July	48.2	40.4	67.0	34.7	32.0
August	56.4	45.0	78.0	45.5	43.3
September	64.8	54.4	86.1	56.6	49.4
October	70.5	61.0	90.7	58.6	55.6
November	74.7	64.2	93.0	66.6	64.8
December	80.9	72.4	95.4	79.6	72.8
January 1979	85.0	77.1	97.3	81.9	78.3
Feb.	88.0	80.0	98.1	92.2	85.6
March	92.6	89.0	98.4	96.2	88.3
April	100.0	100.0	100.0	100.0	100.0

Source: Derived from data of Central Reserve Bank of El Salvador.

CENTRAL BANK (BCR) CROP PRODUCTION LINES OF CREDIT

(Agricultural Year 1980/81)

The following examples illustrate six lines of credit opened by the Central Bank for Agricultural year 1980/81.

I. BEANS (Frijol de Secano)

- A. Amount: Q105 million for all basic grains (beans, maize, and rice)
- B. Intermediate Institutions: Commercial Banks
- C. Allowable Financing: Up to Q1,141 (\$456,40) per manzana (0.7 has.)
- D. Drawdowns: First 3 months: 80%
After third month: 20%
(Funds not drawdown in first period can be drawdown subsequently).
- E. Life of Credit Line: Until March 31, 1981
- F. Interest Rates: From BCR to ICI: 6%
From ICI to User: 8%

II. MAIZE

- A. Amount: Q105 million for all Basic Grains
- B. Intermediate Institutions: Commercial Banks
- C. Allowable Financing: Q 574 (\$229.60) per manzana
- D. Drawdowns: First 3 months: 75%
After 3rd month: 25%
- E. Life of Credit Line: Until March 31, 1981
- F. Interest Rates: From BCR to ICI: 6%
From ICI to User: 8%

III. RICE

- A. Amount: Q105 million for all Basic Grains
- B. Intermediate Institutions: Commercial Banks

- C. Allowable Financing: Q1,701 (\$680.40) per manzana
- D. Drawdowns: First 3 months: 70%
After 3rd month: 30%
- E. Life of Credit Line: Until March 31, 1981
- F. Interest Rates: From BCR to ICI: 6%
From ICI to User: 8%

IV. SUGAR CANE

ONE YEAR PLANTATIONS 1979/80

- A. Intermediate Institutions: Commercial Banks
- B. Allowable Financing: Up to Q1,198 (\$479.20) per manzana
- C. Drawdowns: Beginning in October, according to the following distribution:
Up to 83% from October 1979 to January 1980
Up to 17% from February to October 1980
- D. Life of Credit Line: Until April 30, 1981
- E. Interest Rates: From BCR to ICI: 1%
From ICI to User: 13%

PLANTATIONS WITH 2 OR MORE YEARS

- F. Allowable Financing: Up to Q574 (\$229.60)
- G. Drawdowns: Up to 53% from April to May 1980
Up to 43% from June to October 1980
- H. Life of the Credit Line: Until April 30, 1981
- I. Interest Rates: From BCR to ICI: 11%
From ICI to User: 13%
- J. Special Requirements: a) The total amount of money coming from the "avío" and other sources should be enough to cover the cost of production.
(For the 2 "avíos")
b) Commercial Banks should check the correct use of the money. It is necessary to do this first before approving the credit, and the second time, at the end of the planting period.

- c) BCR will discount finance documents as follows:
- 1) Up to 100% of credits to producers until 100 manzanas;
 - 2) Up to 50% of credits to producers with more than 100 manzanas.

V. COFFEE

- A. Amount: Up to $\text{Q}150$ million (\$60 million)
- B. Intermediate Institutions: Commercial Banks, Savings and Loans, and the National Coffee Institute
- C. Allowable Financing: Up to $\text{Q}150$ (\$60) per "quintal oro" according to an average of the best three harvests during the past five years.
- D. Drawdowns: 1. Cultivation
- a. Labor — up to $\text{Q}22$ per quintal oro between January-May 1980; up to $\text{Q}11$ additional per quintal oro in June-July 1980; and up to $\text{Q}9.5$ additional per quintal oro between August-October 1980.
 - b. Inputs — up to $\text{Q}17$ per quintal oro, disbursed in any period.
2. Harvesting
- Up to $\text{Q}90$ per quintal oro from the point harvesting begins.
- E. Life of Credit Line: Until April 30, 1981
- F. Interest Rates:

<u>Credit to Producer</u>	<u>BCR to ICI</u>	<u>ICI to User</u>
Producers up to 1,500 qq. oro	11.0%	13.0%
Producers of 1,500-2,500 qq. oro	12.5%	14.0%
Producers of 2,500-5,000 qq. oro	15.0%	16.0%
Producers of 5,000 + qq. oro	Libor+1/4	+1.75%

<u>Credit to Co-ops</u>	<u>BCR to ICI</u>	<u>ICI to Co-op</u>	<u>Co-op to Member</u>
Producers up to 1,500 qq. oro	11.0%	12.0%	13.0%
Producers of 1,500-2,500 qq. oro	11.5%	13.0%	14.0%
Producers of 2,500-5,000 qq. oro	14.0%	15.0%	16.0%
Producers of 5,000+ qq. oro	Libor+1/4	+0.75%	+1.0%

- G. Special Requirements:
- a) The ICIs should give the information of the coffee producers (name, planted area, location, coffee production and financing received for 1979/80 crop year, specifying the source and the amount of credit received)
 - b) Credit applications should be approved for ICIs before they are sent to BCR in order to be qualified.
 - c) Credit applications should be submitted before July 31, 1980.
 - d) The financing for the coffee producers could be reduced if, on the base of finance information, it is established that they are economically liquid; or in the case of associations, if they had capital reduction during the last year in their patrimony or in the payments to the shareholders without any justification.

VI. COTTON

- A. Amount: Up to Q150 million (\$60 million)
- B. Intermediate Institutions: Commercial Banks
- C. Allowable Financing: Up to Q56 per "quintal rama"
- D. Drawdowns: The ICIs could drawdown the line until February 28, 1981, as follows:
 - From April: Up to Q28 per quintal rama for inputs and Q6 for agricultural works.
 - From July: Up to Q8 per quintal rama for agricultural works and aerial irrigation services.
 - From September: Up to Q20 per quintal rama for aerial irrigation services, agricultural works, harvest and transportation.

E. Life of Credit Line: Until March 31, 1981

<u>Interest Rate:</u>	<u>BCR to ICI</u>	<u>ICI to Users</u>
Producers up to 100 manzanas	10%	12%
Producers 100 + manzanas	11%	13%

G. Special Requirements: Besides information on the principal characteristics on the operation, it is necessary to include the following:

- a) Information about the number of manzanas to be planted, specifying if the land is rented. In this case, show the contract and its value.
- b) Information on the average yield of the plot, or the estimate of the ICI on yields.
- c) Photostatic copy of the irrevocable payment letter to the Salvadorean Cotton Cooperative in favor of the ICI.
- d) The producer should send to BCR no later than July 31, 1980, through ICI the sworn statement specifying the total of manzanas actually planted.
- e) The balance sheet and other related information of the borrower.

ECONOMIC TABLES

1. Balance of Payments, Actual and Projections
2. Gross Domestic Product
3. Summary of Central Government Fiscal Situation
4. Current Revenue and Expenditures, 1978-80
5. Consumer Price Index

TABLE 1

EL SALVADOR

BALANCE OF PAYMENTS

(In Million of U.S. Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u> (Projection)	<u>1981</u> (Projection)
1. Exports (FOB)	<u>845.8</u>	<u>1118.4</u>	<u>980</u>	<u>843</u>
Coffee	432.9	695.6	608 <u>1/</u>	510 <u>1/</u>
Cotton	99.0	92.8	72 <u>2/</u>	50 <u>2/</u>
Sugar	18.9	26.0	28 <u>3/</u>	31 <u>3/</u>
Shrimp	10.6	12.0	12	12
Other (to outside CACM)	53.2	52.0	40 <u>4/</u>	40 <u>4/</u>
To CACM	231.2	240.0	220 <u>4/</u>	200 <u>4/</u>
2. Imports (CIF)	-1030.5	-1040.0	-1040 <u>5/</u>	-1040 <u>5/</u>
3. Services - Net	-109.8	-140	-180 <u>6/</u>	-180 <u>6/</u>
4. Transfers - Net	51.4	56	55 <u>6/</u>	55 <u>6/</u>
5. Current Accounts Balance	-243.1	-5.6	-185	-322
6. Capital Total (net)	<u>206.6</u>	<u>-135.7</u>	<u>-42</u>	<u>100</u>
Private	159.2	-175.7	-212 <u>7/</u>	-30 <u>8/</u>
Official, long-term	47.4	40.0	80 <u>9/</u>	80 <u>9/</u>
Banking Sector Non- Compensatory	-	-	90 <u>10/</u>	50 <u>10/</u>
7. Total Overall Balance	-36.5	-141.3	-227	-222
8. Financed by Compensatory Loans	65.0	33.2	38 <u>12/</u>	
Declined in International Reserves	28.6	108.1 <u>13/</u>	189 <u>13/</u>	

1/ Coffee for 1980

1978/79 Crop	2.8 million quintales
Carry over from prior years	<u>1.0</u>
TOTAL	3.8 million quintales
Estimated price	\$160 per quintal

For 1981

Projection is for 3.0 million quintales at an average price of \$170 per quintal. A 15% reduction (below normal) was assumed owing to reduced application of fertilizer and less care, as well as the cyclical decline in output expected in 1981.

- 2/ Cotton: The 1981 projection is based on a reduction in plantings during 1980, in part because of some uncertainty resulting from rural violence and the short term effects of the Phase I interventions.
- 3/ The 1981 projection assumes 1.7 million quintales (1/3 below normal) at \$18 per quintal. The higher price compensates for the reduced volume.
- 4/ Mostly manufacturing exports: For 1980, Central Bank estimate. For 1981, manufactures are projected to be low or to decline further because of basic economic instability.
- 5/ In 1980, imports are projected (by the Central Bank) at the same level as in 1978-79 in current dollars. This allows for about 10% annual decline in real terms, in line with the contracting GDP.
- 6/ Central Bank estimate.
- 7/ Private capital flow for 1980 was estimated as follows in accordance with Central Bank data:

Outstanding Indebtedness of private Coffee exporters (as of Dec. 31, 79)	\$ 45.0
Outstanding Indebtedness of Coffee Institute as of Dec. 31, 79 (direct loans and advances)	<u>197.0</u>
Total Debt outstanding with Coffee Pledged as Collateral	242.0 million

A. Assumed Debt Repayment in 1980

Private Exporters Debt	\$ 45.0
Debt Repaid by Coffee Institute	<u>152.0</u>
Total Repayment	197.0
(Loans Rolled Over)	(45.0)

B. Assumed Capital withdrawal, net

(Including reduction in foreign bank exposure)	15.0
<u>Total Capital Withdrawal</u>	212.0

(A + B)

- 8/ A much lower private capital outflow is projected for 1981 as it assumed that most of the advances secured against prior-year coffee crops were repaid in 1980, and that tight control make capital export very difficult. Still, allowance must be made for some repayments and for capital outflow as foreign banks may continue to reduce their exposure.
- 9/ Some \$134 million in long-term project assistance has already been contracted and is available for disbursement in 1980. In addition, some \$20 million could be obtained for two larger projects: a hydroelectric plant and a national road building project. Because of delays in implementing most externally financed projects, actual inflows will be less than the amount available.
- 10/ These are loans and credits from abroad that are independent of the country's balance of payments difficulties, i.e., they would have been obtained even in the absence of the balance of payment problem.

They are composed of the following in 1980:

Special Drawing Rights (IMF)	\$ 6.0 million
Venezuelan Investment Fund	14.0
Loans being currently negotiated by the Banco de Fomento Agropecuario with Commercial Banks and the IDB	7.0

Loans from the Central American Bank for Economic Integration (\$20 million for housing and \$10 million for coffee rust control)	30.0
IMF Trust Fund (gold sales by IMF)	24.5
Advance deposit with Central Bank of IDB loan to Power Company (CEL)	<u>9.0</u>
Total Non-Compensatory Inflow from Banking Sector in 1980	90.5

11/ By assumption. There are no data for 1981.

12/ "Compensatory" loans are composed of the following:

Stand-by from IMF, First Tranche	13.9
Loan from Central American Monetary Stabilization Fund	<u>23.9</u>
TOTAL	\$ 37.8

13/ Residual (the "decline in international reserves"
plus "compensatory loans" are equal to the overall
balance of payments deficit on line 7).

SOURCE: ROCAP Economic Analyst

Table 2

Gross Domestic Product
(In Millions of Constant 1962 Colones)

	1978		1979 ^{1/}	
	Q	%	Q	%
Agriculture	827.7	10.2	845.3	2.1
Mining	3.3	-11.5	3.4	3.0
Manufacturing Industry	678.1	2.2	640.2	-5.6
Construction	166.9	6.2	150.2	-10.0
Electricity and Water	94.8	8.0	101.0	6.1
Transport	218.1	3.8	216.1	-0.9
Commerce	817.9	2.4	778.5	-4.8
Finance	109.5	7.8	115.5	5.5
Housing (Rents)	122.5	3.5	125.8	2.7
Public Administration	299.2	3.8	318.0	6.3
Personal Services	264.3	3.0	255.5	-3.3
GDP	3.602.3	4.8%	3.549.5	-1.5

^{1/}Estimated by Ministry of Planning

Source: Central Bank and Ministry of Planning

Table 3

SUMMARY OF FISCAL SITUATION OF CENTRAL GOVERNMENT
1978-1980
(IN Millions of Colones)

	Actual <u>1977</u>	Actual <u>1978</u>	Estimated Actual <u>1979</u>	Budget <u>1980</u>
Current Revenues	1181.8	1027.0	1214.8	1292.8
Current Expenditures	706.3	782.8	850.0	1123.0
Surplus on Current Account	475.5	244.2	364.8	169.8
Capital Expenditures	<u>506.3</u>	<u>341.8</u>	<u>400.0</u>	<u>524.4</u>
Direct Investments	406.0	119.4	250.0	326.4
Transfers	100.3	123.0	150.0	124.1
Other	-	99.4		73.9
Amortization of Public Debt	29.3	33.0	40.0	28.7
Total Expenditures (Net of Amortizations)	1212.6	1124.6	1250.0	1647.4
Overall Deficit (-)	- 30.8	- 97.6	- 35.2	-354.6
Financing				
External	52.0	96.7	70.8	143.7
Internal (and change in Cash Balance)	- 21.2	.9	- 35.6	210.9

Source: Central Bank. Figures for 1979 are preliminary estimates.

EL SALVADOR: BREAKDOWN OF CURRENT
REVENUES AND EXPENDITURES, 1978-80
(In Millions of Colones)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	Per_Cent Increase <u>1979/80</u> %
Current Revenues, Total	<u>1027</u> ^{1/}	<u>1215</u> ^{2/}	<u>1293</u> ^{3/}	6.4
Tax Revenues	<u>972</u>	<u>1160</u>	<u>1234</u>	6.3
Direct Taxes	<u>286</u>	<u>280</u>	<u>312</u>	11.4
Income	202	195	219	12.3
Physical Assets ("Patrimonio")	62	62	69	11.3
Property Transfers	22	23	24	4.3
Indirect Taxes	<u>687</u>	<u>880</u>	<u>923</u>	4.8
Exports	244	391	415	6.1
Imports	157	177	171	-3.4
Consumption	170	190	194	2.1
Other Taxes	115	122	143	17.2
Non-Tax Revenues	<u>55</u>	<u>55</u>	<u>57</u>	3.6
Current Expenditures, Total	<u>783</u>	<u>850</u>	<u>1112</u>	30.8
Salaries	411		635	54.5
Other	93		210	125.8
Current Transfers	255		267	4.7
Expenditures with Funds Carried Over from Prior Years	23			

1/Actual

2/Estimated

3/Budgeted

Source: Preliminary estimates by Central Bank

TABLE 5
INCREASES IN THE CONSUMER PRICE INDEX
1975 - MARCH 1980

1975/76	7.1%
1976/77	11.8%
1977/78	13.3%
Dec. 78 - Dec. 79*	14.8%
Dec. 79 - March 80 at annual rate*	22.3%

* Based on a new price index that could not be linked to the index for prior year.

SOURCE: Estadística y Censos

ANNEX II.D

FINANCIAL TABLES

Table I	Summary Cost Estimate Foreign Exchange and Local Currency
Table II	Projected Expenditures by Fiscal Year
Table III	Comparative Summary Banco de Fomento Agropecuario
Table IV	Banco de Fomento Agropecuario Consolidated Income Statements 1975 through 1979
Table V	Banco de Fomento Agropecuario Consolidated Balance Sheets 1975 - 1979
Table VI	Banco de Fomento Agropecuario Balance Sheet 1979

TABLE I

SUMMARY COST ESTIMATE
FOREIGN EXCHANGE AND LOCAL CURRENCY
US\$000

<u>Source</u>	<u>AID</u>		<u>HOST COUNTRY</u>		<u>TOTAL</u>	
	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
<u>Development Loan Funded</u>						
Special Credit Line		9,500		3,500		13,000
<u>Development Grant Funded</u>						
Technical Assistance	380	120	-0-			500
Contingency and Inflation	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>			<u>-0-</u>
TOTAL	380	9,620		3,500		13,500

TABLE II
PROJECTED EXPENDITURES BY FISCAL YEAR
In US\$000

<u>Component</u>	<u>FY 80</u>		<u>FY 81</u>		<u>FY 82</u>		<u>TOTAL</u>	
	<u>AID</u>	<u>GOES</u>	<u>AID</u>	<u>GOES</u>	<u>AID</u>	<u>GOES</u>	<u>AID</u>	<u>GOES</u>
Special Credit Fund	5,000	1,000	4,500	2,500			9,500	3,500
Technical Assistance	<u>47</u>		<u>286</u>		<u>167</u>		<u>500</u>	
TOTAL	<u>5,047</u>	<u>1,000</u>	<u>4,786</u>	<u>2,500</u>	<u>167</u>	<u>-0-</u>	<u>10,000</u>	<u>3,500</u>

TABLE III

COMPARATIVE SUMMARY
BANCO DE FOMENTO AGROPECUARIO
(In Millions of U.S. Dollars)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Loan Portfolio	39.6	40.0	52.3	65.8	97.0
Net Income	0.3	0.1	0.4	0.02	0.04
BCR loans	20.1	19.3	22.4	23.2	38.7
Foreign loans	0.7	1.5	6.6	9.6	16.4
Income Banking Div.	0.63	1.00	6.93	1.06	0.58
Income Development Div.	(0.35)	(0.86)	(1.52)	(1.04)	(0.54)
Administrative Expenses	2.2	3.0	4.0	4.7	5.5
Reserve & Special Fund	7.3	7.5	7.6	12.8	15.6
Percent of Administrative Expenses to Loan Portfolio	5.5%	7.5%	7.6%	7.1%	5.7%

TABLE IV
BANCO DE FOMENTO AGROPECUARIO
CONSOLIDATED INCOME STATEMENTS
JANUARY 1 THROUGH DECEMBER 31

In U.S. \$ Equivalent

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>INCOME</u>					
Financial Operations	2,866,768	2,959,239	4,185,748	4,744,935	6,970,893
Administrative Services	689,130	1,106,829	2,068,262	1,483,815	2,253,033
Other Income	3,982	14,710	737	49,236	6,047
Prior Year Adjustments	<u>25,870</u>	<u>13,988</u>	<u>87,669</u>	<u>411,550</u>	<u>117,129</u>
TOTAL INCOME	<u><u>3,585,750</u></u>	<u><u>4,094,766</u></u>	<u><u>6,342,416</u></u>	<u><u>6,689,536</u></u>	<u><u>9,347,102</u></u>
<u>EXPENSES</u>					
Financial Expenses	934,344	516,618	1,415,731	1,118,183	2,996,765
Administration	2,252,262	3,063,437	3,984,331	4,715,409	5,562,842
Sales Expenses	112,387	329,153	415,627	492,607	642,236
Other Expenses	1,362	-	-	15,459	19,989
Prior Year Adjustments	<u>9,382</u>	<u>49,099</u>	<u>120,751</u>	<u>326,836</u>	<u>84,378</u>
TOTAL EXPENSES	<u><u>3,309,737</u></u>	<u><u>3,958,307</u></u>	<u><u>5,936,440</u></u>	<u><u>6,668,494</u></u>	<u><u>9,306,210</u></u>
PROFIT (LOSS)	<u><u>276,013</u></u>	<u><u>136,459</u></u>	<u><u>405,976</u></u>	<u><u>21,042</u></u>	<u><u>40,892</u></u>
Profit as a percent of total income	7.6	3.3	6.4	0.3	0.4

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>LIABILITIES & CAPITAL</u>					
<u>Customers Deposits</u>	-	1,360,000	3,597,857	8,504,624	18,796,057
<u>Bonds</u>	276,800	1,936,000	1,936,000	2,047,760	2,112,680
<u>Loans from Central Bank</u>	20,125,468	19,364,112	22,454,605	23,192,956	38,705,558
<u>Loans from Foreign Source</u>	711,786	1,500,000	6,610,452	9,661,738	16,430,597
<u>Other Liabilities</u>	2,079,088	1,125,289	4,366,374	6,051,288	6,503,443
<u>Trusts</u>	5,274,263	3,741,538	2,770,199	2,222,056	2,624,886
<u>Special Development Fund</u>	5,214,672	5,323,201	5,394,076	10,545,919	15,069,227
<u>Capital</u>	16,612,272	18,202,166	20,233,996	20,319,782	20,325,042
<u>Reserves</u>	2,082,798	2,178,528	2,193,645	2,283,216	555,787
<u>Retained Earnings</u>	276,013	136,459	405,976	21,042	40,892
TOTAL LIABILITIES AND CAPITAL	<u>52,653,160</u>	<u>54,867,293</u>	<u>69,963,180</u>	<u>84,850,381</u>	<u>121,164,169</u>

TABLE V
BANCO DE FOMENTO AGROPECUARIO
CONSOLIDATED BALANCE SHEETS
As of December 31
In U.S. \$ Equivalent

<u>ASSETS</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Cash</u>	4,317,442	7,351,312	4,021,672	3,515,936	3,168,190
<u>Foreign Exchange</u>	28,596	28,032	2,428,206	739,118	118,191
<u>Stocks & Bonds</u>	4	4	4	4	4
<u>Loans Receivable</u>					
Personal	82,365	746,817	1,700,689	4,201,310	4,841,741
Collateral	27,645,898	24,552,030	27,921,702	34,621,304	49,243,110
Mortgage	9,349,697	11,419,075	15,429,552	21,988,508	38,774,936
Other	3,025,132	3,268,518	7,218,288	5,032,445	4,175,614
Less: Reserve for Bad Debts	(481,186)	-	-	-	-
<u>Furniture & Equipment</u>	1,076,843	1,106,697	1,075,672	1,195,606	1,210,935
Less: Depreciation	(189,834)	-	-	-	-
Real Estate	19,351	40,445	585,878	585,878	1,862,265
<u>Other Assets</u>					
Accounts Receivable	1,082,855	1,338,602	2,381,934	3,166,372	5,305,857
Miscellaneous Debts	185,359	133,341	1,914,565	3,202,038	8,471,282
Marketable Securities	1,117,729	744,356	1,956,287	3,671,333	414,558
Deferred Charges	81,994	123,831	167,878	172,104	283,842
Transitory	36,572	272,614	390,574	536,369	668,758
Cattle	80	80	80	-	-
Trusts	5,274,263	3,741,539	2,770,199	2,222,056	2,624,886
TOTAL ASSETS	<u>52,653,160</u>	<u>54,867,293</u>	<u>69,963,180</u>	<u>84,850,381</u>	<u>121,164,169</u>

TABLE VI

BANCO DE FOMENTO AGROPECUARIO BALANCE SHEET

as of December 31, 1979

ASSETS	D i v i s i o n s			Total
	Banking (Millions of U.S. Dollars)	Development	Trust	
Current Assets	2.2	1.1	-	3.3
Loans & Discounts	41.8	55.2		97.0
Real Estate & Tangible Property	1.8	1.2		3.0
Other	11.6	3.5		15.1
Property in Trust	-	-	2.6	2.6
TOTAL	57.4	61.0	2.6	121.0
<u>Liabilities and Capital</u>				
Current and Time Deposits	12.8	-	-	12.8
Savings Deposits	5.9			5.9
Bonds	2.1	-	-	2.1
Loans and Discounts (Central Bank)	11.8	26.8	-	38.6
Loans and Interest due Foreign Institutions	-	16.4		16.4
Other Liabilities	3.4	3.1		6.5
Trust Funds	-	-	2.6	2.6
Fund of Economic and Social Development	-	15.1	-	15.1
Total Liabilities	36.0	61.4	2.6	100.0
Capital and Reserves	21.4	(0.4)	-	21.0
Total Liabilities and Capital	57.4	61.0	2.6	121.0