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UNCLASSIFIED

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

EL SALVADOR

PROJECT PAPER

AGRARIAN REFORM SUPPORT /TECHNICAL ASSISTANCE

AID/LAC/P-046

Project Number:519-0259
Non Project No.:LAC/80-1

UNCLASSIFIED

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

ASSISTANT
ADMINISTRATOR

PROJECT AUTHORIZATION

name of Country: El Salvador
Name of Project: Agrarian Reform Support /Technical Assistance
Number of Project: 519-0259

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agrarian Reform Support project for El Salvador (the "Cooperating Country") involving planned obligations of not to exceed Seven Hundred Fifty Thousand United States Dollars (\$750,000) in grant funds over a two and one half year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project ("Project") consists of technical assistance to support the Government of El Salvador in implementation of an Agrarian Reform Program and the Expanded GOES-A.I.D. Development Assistance Program.

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

a. Source and Origin of Goods and Services

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

b. Reimbursement of Expenses

Upon compliance with the relevant Conditions Precedent to Disbursement by the Cooperating Country, A.I.D. may disburse Project funds as reimbursement for costs of technical assistance, training and other eligible costs, provided that evidence that such costs were incurred subsequent to March 27, 1980 is furnished to A.I.D. in form and substance satisfactory to A.I.D.

c. Condition Precedent to First Disbursement

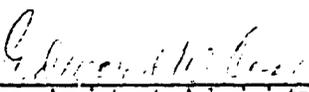
Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish to A.I.D., in form and substance satisfactory to A.I.D., an implementation plan for the use of the initial \$200,000 of technical assistance.

d. Condition Precedent to Disbursement for Technical Assistance for the Expanded GOES-A.I.D. Development Assistance Program

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance technical assistance in support of the Expanded GOES-A.I.D. Development Assistance Program, the Cooperating Country shall submit to A.I.D., in form and substance satisfactory to A.I.D., an implementation plan for the required technical assistance.

e. Waiver

Competition for the procurement of technical assistance for the Agrarian Reform Program of the Project is hereby waived and a single-source contract may be negotiated with the Instituto Interamericano de Ciencias Agrícolas (IICA) in an amount not to exceed \$200,000.



Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

April 18, 1980
Date

Clearances:

GC/LAC:JLKessler:  date 4/18/80
LAC/CEN:MArnold:  date 4/19/80
LAC/DR:CPeasley:  date 4/18/80
LAC/DR:MBrown:  date 4/18/80
AA/SE R:DMacDonald:  date 4/14/80

Drafted:GC/LAC:DAAdams:ckg:4/9/80:ext:29183

CLASSIFICATION:

AID 112C-1 (8-66)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO. LAC-80-1
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	2. COUNTRY El Salvador
		3. CATEGORY Cash Transfer
		4. DATE April 1, 1980
5. TO: AA/LAC, Edward W. Coy (Acting)		6. OYB CHANGE NO. ---
7. FROM: LAC/DR, Marshall D. Brown <i>MB</i>		8. OYB INCREASE None
		TO BE TAKEN FROM: Economic Support Fund (ESF)
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$3,250,000		10. APPROPRIATION - ALLOTMENT 72-1101037 037-65-598-00-50-01
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD N/A
14. TRANSACTION ELIGIBILITY DATE Date of Approval		
15. COMMODITIES FINANCED N/A		

16. PERMITTED SOURCE U.S. only: Limited F.W.: Free World: Cash: \$3,250,000	17. ESTIMATED SOURCE U.S.: Industrialized Countries: Local: \$3,250,000 Other:
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18. SUMMARY DESCRIPTION

The purpose of the \$3.25 million cash grant is to provide immediate budgetary support for the Agrarian Reform Program and foreign exchange to help maintain economic stability and ameliorate balance of payment problems. This cash transfer and a complementary \$750,000 Technical Assistance Project will provide tangible evidence of the U.S. commitment to support peaceful socioeconomic reform in El Salvador. Specifically, they will provide: (1) a portion of the financial resources necessary to implement the first phase of the agrarian reform process; and (2) technical assistance for planning and implementation of the initial agrarian reform efforts, planning of the larger and longer term agrarian reform program, and implementation of the expanded FY 80 AID Economic Assistance Program to El Salvador.

19. CLEARANCES <table style="width:100%; border-collapse: collapse;"> <tr> <td style="border-bottom: 1px solid black;">REQ/DP LAC/DP: DLazar <i>AL</i></td> <td style="border-bottom: 1px solid black; text-align: right;">DATE 4/9/80</td> </tr> <tr> <td style="border-bottom: 1px solid black;">REQ/DC GC/LAC: JKessler</td> <td style="border-bottom: 1px solid black; text-align: right;">4/11/80</td> </tr> <tr> <td style="border-bottom: 1px solid black;">REQ/DR LAC/DR: Cleonard <i>CL</i></td> <td style="border-bottom: 1px solid black; text-align: right;">4/18/80</td> </tr> <tr> <td style="border-bottom: 1px solid black;">REQ/DM FM/DP: DStafford</td> <td style="border-bottom: 1px solid black; text-align: right;">4/17/80</td> </tr> <tr> <td style="border-bottom: 1px solid black;">AA/UR LAC/FEN: RGomez <i>R</i></td> <td style="border-bottom: 1px solid black; text-align: right;">4/9/80</td> </tr> <tr> <td style="border-bottom: 1px solid black;">AA/DP ARA/ECP: GLamberty</td> <td style="border-bottom: 1px solid black; text-align: right;">4/11/80</td> </tr> <tr> <td style="border-bottom: 1px solid black;">AA/SER: DMacDonald <i>DM</i></td> <td style="border-bottom: 1px solid black; text-align: right;">4/17/80</td> </tr> </table>	REQ/DP LAC/DP: DLazar <i>AL</i>	DATE 4/9/80	REQ/DC GC/LAC: JKessler	4/11/80	REQ/DR LAC/DR: Cleonard <i>CL</i>	4/18/80	REQ/DM FM/DP: DStafford	4/17/80	AA/UR LAC/FEN: RGomez <i>R</i>	4/9/80	AA/DP ARA/ECP: GLamberty	4/11/80	AA/SER: DMacDonald <i>DM</i>	4/17/80	20. ACTION <input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED <div style="text-align: center; margin-top: 10px;"> <i>Edward W. Coy</i> Edward W. Coy AUTHORIZED SIGNATURE </div> <div style="text-align: right; margin-top: 10px;"> DATE AA/LAC (Acting) TITLE </div>
REQ/DP LAC/DP: DLazar <i>AL</i>	DATE 4/9/80														
REQ/DC GC/LAC: JKessler	4/11/80														
REQ/DR LAC/DR: Cleonard <i>CL</i>	4/18/80														
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AA/UR LAC/FEN: RGomez <i>R</i>	4/9/80														
AA/DP ARA/ECP: GLamberty	4/11/80														
AA/SER: DMacDonald <i>DM</i>	4/17/80														

AGENCY FOR INTERNATIONAL DEVELOPMENT		1. TRANSACTION CODE A = Add C = Change D = Delete		Amendment Number _____		DOCUMENT CODE 3	
PROJECT DATA SHEET				<input checked="" type="checkbox"/> A			
2. COUNTRY/ENTITY El Salvador				3. PROJECT NUMBER 519-0259			
4. BUREAU/OFFICE Latin America and the Caribbean				5. PROJECT TITLE (maximum 40 characters) Agrarian Reform Support/TA			
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			

8. COSTS (\$000 OR EQUIVALENT \$1 = 02.50)

A. FUNDING SOURCE	FIRST FY 80			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Approved Total	400	350	750	400	350	750
(Grant) ESF	(400)	(350)	(750)	(400)	(350)	(750)
(Loan)	()	()	()	()	()	()
Other						
U.S.						
Host Country						
Other Donor(s)						
TOTALS	400	350	750	400	350	750

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) ESF	230	055	-	-	-	750	-	750	-
(2)									
(3)									
(4)									
TOTALS						750		750	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)								11. SECONDARY PURPOSE CODES	
031		041		720		866			
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)									
A. Code		BR		BU		TNG			
B. Amount		500		250		200			
13. PROJECT PURPOSE (maximum 480 characters)									

To provide technical assistance support to the GOES for implementation of (a) its Agrarian Reform Program and (b) the expanded GOES-AID development assistance progr

14. SCHEDULED EVALUATIONS						15. SOURCE/ORIGIN OF GOODS AND SERVICES							
Interim		MM YY		MM YY		Final		MM YY		MM YY		<input type="checkbox"/> 000 <input checked="" type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify:)	
06		81				09		82					
16. AMENDMENT/SIGNATURE OF CHANGE PROPOSED (This is space for...)													

17. APPROVED BY	<i>Charles J. Stockman</i>	18. DATE DOCUMENT REC IN AID/W, OR FOR AMENDMENTS, DATE OF DISTRIBUTION
	Name: Charles J. Stockman Title: Mission Director Date Signed: MM DD YY 03 30 80	

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I. SUMMARY AND RECOMMENDATIONS

A. Recommendation

USAID/El Salvador recommends authorization of a \$4 million Economic Support Fund grant: \$3,250,000 non-project (program) assistance for Agrarian Reform Support, and \$750,000 of project assistance for Technical Assistance Support.

B. Grantee

The Grantee will be the Government of El Salvador (GOES). The coordinating agency for the Agrarian Reform Support Program will be the Ministry of Agriculture (MAG), and the main implementing agencies the Salvadoran Institute for Agrarian Transformation (ISTA) and the Agriculture Development Bank (BFA). The coordinating agencies for the Technical Assistance Support Project will be the MAG and the Ministry of Planning (MinPlan).

C. Program Objectives and Assistance Summary

On October 15, 1979 a new reform-minded coalition government took control in El Salvador. Although there have been changes in the five-member civilian-military Junta and the Cabinet, the Government remains progressive and is continuing to promote substantial political and economic reforms. On March 6, 1980 the Government announced the centerpiece of its reform package -- Decree 153, "The Basic Law of Agrarian Reform", which establishes the basis for a major redistribution of landholdings and restructuring of the agricultural sector in favor of thousands of tenants and landless campesinos. The first phase of the reform dealing with holdings larger than 500 hectares has begun. The ESF program/project assistance package is intended to support the Government's efforts to implement the new agrarian reform law.

The specific objectives of the \$4 million grant are the following:

- (a) To provide tangible evidence of the U.S. commitment in support of peaceful socioeconomic reform in El Salvador;
- (b) To provide a portion of the financial resources necessary to implement the first phase of the agrarian reform process; and
- (c) To provide technical assistance for the planning and implementation of the initial agrarian reform efforts; for the planning of the larger and longer term agrarian reform program; and for the implementation of the expanded FY 80 AID Economic Assistance program to El Salvador.

The AID grant will take two forms: Counterpart generated from the \$3,250,000 of non-project assistance will be used to finance institutional support and production credit costs; and \$750,000 in project assistance funds will be used to finance identified technical assistance requirements.

Because of the need to respond quickly to an urgent requirement for assistance in implementing an agrarian reform program and the country's increasingly serious foreign exchange and domestic resource position, AID has determined that non-project (or program) assistance is the most appropriate AID mechanism to assure timely support for the implementation of the agrarian reform law.

However, in order to simplify foreign exchange payments and to ensure that all technical assistance requirements are met on a timely basis, AID has determined that the technical assistance is best financed through normal project mechanisms.

D. Conditions and Covenants

Two Grant Agreements will be signed: one covering the \$3,250,000 of non-project assistance and one covering the \$750,000 of project assistance.

1. Agrarian Reform Support -- \$3,250,000

- a. The Grant Agreement will specify one Condition Precedent to initial disbursement: that the GOES furnish to AID a statement of the name or names of the person(s) holding or acting in the office of the Grantee, and a specimen signature of each person named in such statement.
- b. The Grant Agreement will include a covenant requiring the BFA to use reflows of credit funds provided under this grant for future lending to the agrarian reform sector.
- c. In addition, the Grant Agreement will include provisions relating to: (a) the performance of agreed cooperating country undertakings; (b) the amount, nature and agreed timing of the assistance to be obligated; (c) the use to be made of generated local currencies; (d) standard obligation procedures; and (e) the deposit of local currency into special program-related accounts in El Salvador.

2. Technical Assistance Support -- \$750,000

- a. The Grant Agreement will include two Conditions Precedent to initial disbursement:
 - (i) Same as above regarding Grantee representative; and

- (ii) That the GOES in consultation with AID, furnish to AID an implementation plan for initial technical assistance requirements.

E. Waivers

Because of the nature of the technical assistance requested and the preference for experts with practical experience in implementing agrarian and other reform programs, the Mission expects much of the assistance to come from local and Central American sources. The authorization therefore includes a provision allowing for the procurement of technical assistance from the host country and countries which are members of the Central American Common Market.

The Interamerican Institute for Agricultural Sciences (Instituto Interamericano de Ciencias Agrícolas - IICA), based in Costa Rica, has been identified as one of the institutions to provide technical assistance. A waiver for sole source procurement of technical and professional services from IICA is included in the Authorization. In accordance with Section 12C4c of Handbook 1, Supplement B, the waiver is justified because IICA has a unique capability by reason of its experience and specialized personnel, who are recognized as predominant experts in agrarian reform. IICA consultants are familiar with the agrarian reform problems of El Salvador and have developed the necessary contacts for timely and effective delivery of services. Also, the Project is being implemented under emergency conditions. A requirement of competitive procurement would result in Project delay and would impair the GOES' ability to implement its Agrarian Reform Program.

In addition, because of the GOES' urgent need for technical assistance in initiating its agrarian reform program, it arranged for consultants from IICA to visit El Salvador as early as March 27, 1980. Thus, the Project Authorization includes a provision for reimbursement for eligible technical assistance expenditures incurred from that date (March 27, 1980).

II. BACKGROUND AND PROBLEMS TO BE ADDRESSED

A. Overview

On October 15, 1979 a new coalition government took control in El Salvador. This government is headed by a five member Junta. Its basic thrust is progressive, and it is proposing substantial political, social, and economic reforms. The Junta's major long-term aims are to increase national production, employment, and income within a more equitable policy framework; provide basic goods and services to the entire population; and more equitably distribute developmental resources and socio-economic opportunities. In the short-term, it is focussing on the immediate ways in which (1) economic activity can be reactivated and employment stimulated, (2) the basic food and health needs of the poor can be met, and (3) agrarian and other reforms can be implemented.

The long-term viability of this government is, however, still fragile. There is increasing pressure from both the left and the right, as reflected by frequent demonstrations and marches and sporadic violence. This has resulted in a substantial reduction in economic activity. Nonetheless, the new government has started to put its programs into effect. For example, in order to ensure that export earnings return to the country, the export of cotton, sugar, coffee, and sea products has been nationalized; in order to ensure the broader availability of commercial credit, the banking system has been nationalized; and in order to improve the distribution of land, the government has just entered into a comprehensive agrarian reform program. In addition, the Junta revised the previous government's 1980 Budget and shifted expenditures away from capital-intensive infrastructure investment toward activities which will more directly benefit the poor, and raised minimum wages for a variety of un- and semi-skilled jobs.

Although the government is committed to these fundamental reforms and to the creation of a more equitable society, it faces a number of major obstacles: it must reactivate the economy and provide new jobs quickly at the same time that it comes to grips with growing foreign and domestic resource constraints. Although

responsibility for handling these problems must remain with the GOES, there is an important support role to be played by AID and other international donors.

Recognizing this, AID began in December of 1979 to negotiate an expanded \$50 million FY 80 Economic Assistance Program with the Government of El Salvador. This expanded program has been designed to respond to some of the country's urgent requirements -- initiation of reforms, revitalization of the economy, generation of employment, and provision of basic infrastructure and services to the poor. Its major elements are a Marginal Community Improvement Project (\$5.9 million DA and \$5 million HG in FY 80), a Small Producer Development Project (\$5.5 million DA in FY 80), a Public Sector Employment Project (\$10.0 million DA in FY 80), a PL-480 Title II Program (\$4.8 million), and a PL-480 Title I Program (\$3 million).

Beyond providing urgently needed financial resources to the Government of El Salvador, this combined program/project will provide support for one additional and essential element of the AID Mission's expanded FY 80 program -- agrarian reform. Implementation of this crucial reform is just beginning. There are, needless to say, many difficulties in initiating such a substantial reform. While U.S. assistance cannot ensure success, we believe that it can ease some of the early implementation problems and increase the likelihood of a successful agrarian reform program.

B. Economic Situation

1. Summary

El Salvador's economy is heavily dependent upon three traditional agricultural exports -- coffee, cotton and sugar -- and a protected manufacturing sector which is geared toward the Central American Common Market. Although there has been a growing middle class, the economy is highly dualistic with a large poor majority and a relatively small number of very wealthy families. El Salvador's growth record was relatively good through 1977. Over 1970-77, El Salvador's real GDP increased at an average annual rate of 5.2%. In 1978, the growth rate declined to 4.4% while in 1979, growth was a negative 1.5%. The decline in 1979 was largely induced by political instability, e.g., kidnappings, take-overs of factories, bombings, and terrorism. As a result, economic activity and employment have declined significantly, and there has been a general deterioration in the country's foreign exchange and domestic resource positions. The outlook for 1980 is for a 5 to 10% decline in real GDP, for an overall balance of payments deficit of \$160 to \$200 million and for a fiscal deficit of \$140 to \$206 million.^{1/} While there are no reliable statistics on unemployment, it is known to be substantial and to have risen considerably in recent months,^{2/} particularly in the areas of manufacturing and construction, as a result of the large number of factory closings and the practical cessation of construction activity in the private sector.

^{1/}The lower figure is the government's official projection; the higher one is a projection by ROCAP's Economic Advisor, taking into account the possible impact on expenditures of the government's emergency program and the decline in government revenues associated with the projected drop in the GDP. See Tables 1 through 4 in Annex II.

^{2/}We have estimated open unemployment at at least 15% of the labor force, and underemployment at another 35 to 40 per cent.

2. Economic Growth

El Salvador's real GDP grew at an average annual rate of 5.2% over 1970-77. That rate declined to 4.4% in 1978 and to a negative 1.5% in 1979. Value added by manufacturing industry increased (in real terms) at an average annual rate of 5.7% between 1974 and 1978, while value added in agriculture increased very sluggishly -- at an average annual rate of only 1.6% over this period. On the other hand, construction, finance and utility services grew at relatively high rates during this period.

Growth came to a sudden halt in 1979. In spite of excellent weather which allowed for a 2% expansion in real agricultural output and record coffee exports, preliminary estimates show that GDP in 1979 declined by at least 1.5% (see Table 1). This was primarily due to political uncertainty and terrorism which triggered a sharp decline in private investment (by about 30%), only a small part of which was compensated for by increased public investment. The industrial, construction, commercial, and services sectors all suffered decreases. The downturn in the economy is likely to be significantly greater in 1980. The Central Bank conservatively projects a real GDP decline of 5% in 1980. There is a strong possibility that it might be considerably higher owing to the collapse of private investment and the sharp drop in manufacturing production induced by fear, intimidation and militant labor action (factory take-overs, threats to management and labor demands for increases in wages and fringe benefits that are inconsistent with profitable operation).

El Salvador's GDP per capita is second to the lowest in the CA region: \$550 (in 1977) compared with \$410 for Honduras, \$790 for Guatemala, \$830 for Nicaragua, and \$1240 for Costa Rica.^{1/}

^{1/}Source: The World Bank, World Development Report 1979, August 1979, Table 1, page 126.

3. Financial Resources

High coffee prices in 1976-77 improved the country's overall balance of payments and fiscal positions. At the end of 1977, net international reserves were \$206 million, equal to approximately 2 1/2 months of imports. Also during 1977, the Central Government's budget (on current operations) was in surplus, as the total tax burden increased from 12.4% of GDP in 1975 to 16.6% in 1977. During 1978, both the balance of payments and fiscal situations began to deteriorate. During 1979, the pace of deterioration accelerated, and projections indicate that it will worsen during 1980. The balance of payments and fiscal situation are examined separately below.

a. The Balance of Payments

As coffee prices fell during 1978, the Salvadoran Coffee Company withheld sales, speculating on a rise later in the year. By August 1978, foreign exchange reserves fell to \$104 million, equal to 1.2 months of imports. Although coffee sales were resumed in September 1978, the balance of payments in 1978 showed a current account deficit of \$243 million -- a huge deficit when compared to an average deficit of approximately \$40 million during the previous eight years. This \$243 million deficit was covered by a substantial increase in the inflow of external capital, i.e. some \$270 million vs. an average of \$90 million over 1974-77. This included some long-term capital, but most was short-term credit in the form of borrowing against coffee stocks in Europe. The Government also borrowed \$20 million from the Central American Stabilization Fund. The net result of this substantial capital inflow was a \$29 million increase in foreign exchange reserves during 1978, reaching a total of \$234 million, or 2 1/2 months of imports, by the end of 1978.

A significant deterioration in the overall balance of payments position of El Salvador occurred in 1979

on account of the considerable amount of capital flight that occurred in that year. The country's position on current account acutally improved substantially during the year as a result of the sharp increase in coffee prices. The deficit on current accounts declined from \$243 million in 1978 to \$5.6 million in 1979 (see Table 2; Annex II). However, this substantial improvement was more than offset by the exodus of capital. The movement of private capital changed from a + \$159 million in 1978 to an estimated minus \$176 million in 1979 a turn-around of \$335 million. As a result, the movement in the country's international reserves changed from a \$29 million in 1978 to a minus \$108 million in 1979 (Table 2, Annex II).

Net foreign exchange reserves are estimated to have behaved as follows:

(In Millions of U.S. Dollars)

December 31, 1977	\$205.7
December 31, 1978	234.4
December 31, 1979	134.6
February 28, 1980	40 to 60

A further substantial deterioration in the reserve position occurred during the first three weeks of March. The level of international reserves fell to \$5-10 million range as of March 15, and recovered only slightly to the \$10-20 million range as of one week later. Authorities are seriously concerned, and have taken steps to bolster their reserves by borrowing \$90 million against part of their gold stock pledged as collateral and by applying to the IMF for compensatory financing. We understand that submission for a stand-by is also being considered.

In addition, although the Central Bank expects coffee sales to pick up in the coming months, the Mission expects no substantial relief until mid-1980. While earnings from El Salvador 1979/80 coffee exports (estimated at roughly \$ 500 million) will increase the supply of foreign exchanges (once inflow begins to normalize) to a point of equilibrium with an administratively reduced demand; actual demand for foreign exchange will continue to outrun supply i.e. the basic disequilibrium will persist until business and consumer confidence is restored. If confidence within the Agro-industrial sector is not restored soon, the resulting shortfall from traditional exports coming in next year could generate even greater foreign exchange deficit in 1981.

The outlook for 1980, and 1981 is for a further deterioration of El Salvador's balance of payments position. The balance of payments deficit is projected to increase from \$141 million in 1979 to \$188 million in 1980 and to \$231 million in 1981 (Table 2). Reasons for this pessimistic forecast include the impact of violence and civil strife on cotton, sugar and coffee production; the reduction in manufacturing production because of factory closings; and the possible downturn in some agricultural production during the first year or two of the Agrarian Reform Program.

In summary, the country is facing serious balance-of-payments difficulties. Imports cannot be reduced without further adversely affecting production and living standards, and exports are highly dependent upon the government's ability to control violence in both the rural and urban areas. Coffee, cotton and sugar exports may be affected by continuing violence and labor problems as well as possibly by problems associated with the land reform program. Coffee rust may further contribute to the decline in foreign exchange earnings in 1981 and following years unless effective measures are adopted immediately to check the spread of the disease. The government will probably be able to prevent further capital flight through tight foreign exchange controls, but it will not be able to do much about the determination of foreign banks to reduce their exposure. Thus, the outlook is grim. El Salvador's foreign exchange reserves may even reach crisis proportions in 1981 unless the authorities are able to restore order and guarantee security, regain the confidence of the private sector by convincing it that it will have a continuing and important role to play in the country's economy, and secure substantial assistance from abroad on concessionary terms.

b. Fiscal Operations of the Central Government

The historical pattern for the Central Government's fiscal operations is for a surplus on current

operations (excess of current revenues over current expenditures), and a deficit in the overall budget. This comes about because the Central Government's capital budget exceeds the surplus on current account. This excess must be covered by borrowing. The pattern over the past few years is as follows:

Central Government: Savings on Current Account,
Overall Deficit and Financing
(In millions of U.S. Dollars)

	Saving on Current <u>Account</u>	Overall <u>Deficit</u>	<u>Financing</u>	
			<u>External Loans</u>	<u>Internal Loans</u>
Average over				
1973-76	50	43	22*	24*
1977	190	12	21	- 8
1978	98	39	39	--
1979	146	14	28	-14
1980	68	142	58	4

*Does not add exactly to overall deficit because of changes in cash balance.

Saving on current account averaged \$50 million over 1973-76 while the overall budget deficit averaged \$43 million over that period. Sharp increases in savings on current account were registered in 1976, 1977 and 1979, with corresponding declines in the overall budget deficit, mostly as a result of substantial increases in coffee prices which resulted in even larger increases in current government revenues. The government derives a substantial portion of its revenues from the coffee export tax which is graduated so that the rate of the tax increases with price. As a result, a change in the price of coffee gives rise to a multiple change in government tax collections.

The economic crisis that the country is presently traversing is not reflected in the 1979 central government accounts. Coffee prices were very favorable last year, while the political disturbances had a serious impact on economic activity only in the latter part of the year. Thus, the overall deficit was only \$14 million, 87% below the level that had been projected by the government in its 1979 budget.^{1/}

The situation is quite different with respect to the budget outlook for 1980. According to government projections, the deficit for the current year will be Q355 million (US\$142 million) or ten times the size of the deficit of 1979 and 3.6 times the deficit of 1978.^{2/} In our view, the government's 1980 projection is still conservative since the current revenue projection does not appear to make adequate allowance for impact on tax collections of the depression that is already underway and is almost certain to get worse as the year progresses. Secondly, while the capital budget provides for some increase over the 1979 level (Q124 million or US\$50 million)^{2/} this figure is not adequate to accommodate an emergency public investment program designed to counteract the sharp decline in private investment spending. Third, the government's commitments in the area of socio-economic reforms, particularly in the area of agrarian reform, will require additional public expenditures that are likely to increase at a pace that far exceeds the government's ability to generate additional domestic resources. Thus, the overall deficit in 1980 may well be even larger than that projected by the government.

With respect to financing of the 1980 deficit, only some \$58 million (Q144 million) were assured at the time

^{1/}The government had projected an overall budget deficit of Q275 million (\$110 million). As a result of the increase in the coffee price, the actual deficit was only Q35 million (\$14 million -- see Table 3 in Annex II).

^{2/}See Table 3. in Annex II.

the 1980 budget was prepared. This leaves \$84 million (Q211 million) to be supplied internally, and an even larger amount if, as is likely, the deficit exceeds the amount projected. Thus, the government's fiscal deficit, if largely internally financed (as currently planned), must be expected to add to inflationary pressures.^{1/}

4. Unemployment

There are no reliable statistics on open unemployment in El Salvador. The most recent estimates available refer only to underemployment in 1978. These data, reproduced in Table 5, show an overall underemployment rate of 37%. Note that underemployment is particularly high in agriculture, manufacturing industry, and services. The situation has deteriorated considerably in 1979. Open unemployment in the construction industry was recently estimated at 60% of the available labor force in that industry.^{2/}

The Salvadoran Association of Industries (ASI) estimated on January 21, 1980, that in recent weeks, the closing of factories left an additional 7,000 workers without jobs which, in addition to the 8,200 left unemployed by the closing of 20 enterprises in previous months, raises to 15,200 the number of workers that lost their jobs in the manufacturing sector. This constitutes between 25 and 28 per cent of the labor force employed in the manufacturing sector. Factory closings in February and March are expected to have raised this rate further.

The employment situation in El Salvador is further complicated by considerable variation in the seasonal demand for labor and the high degree of self-employment, especially in the informal service sector which is characterized by low productivity. Agricultural employment is

^{1/}For details regarding the central government's fiscal situation, see Tables 3 and 4 in Annex II.

^{2/}On the basis of a sample survey undertaken by Gustavo Leiva's team working in the Social Progress Indicators in El Salvador

highly seasonal, with the period of lowest employment being between February and April. This seasonality affects nearly all workers in agriculture which make up about 40% of the labor force.

In sum: it is estimated that 35 to 40% of the labor force is underemployed. Open unemployment may be conservatively estimated at at least 15%. Thus, at least 50% of the labor force may be considered as being either un- or underemployed. As the security situation forces further depression of economic activity, the already grave unemployment situation will further worsen.

C. Agrarian Reform

1. The Land Tenure Pattern and its Consequences.

Land tenure has been the basic determinant of the dimensions for both growth and equity in the agricultural sector. The highly skewed distribution of land is apparent in Table 6, Annex II; according to the 1971 Agricultural Census there were less than 2,000 farms of 100 hectares or more which accounted for almost 40% of all agricultural lands. Land ownership patterns were even more concentrated. At the other end of the spectrum, almost 200,000 farms (over 70% of all farms) were less than 2 hectares in size and cumulatively commanded only about 10% of all farm lands. The size of the holdings pattern has been further exacerbated by tenurial patterns; 45% of all farm units were operated without any form of proprietary rights. The vast majority of those with insecure usufruct rights were concentrated among the smallest farm units - those under 2 hectares (See Annex II.7). Thus 56% of all farms under 2 hectares were operated by non-owners, and this percentage decreases rapidly as farm size increases so that only 6% of 10 to 20 hectare farms were operated by non-owners.

Land utilization in El Salvador is a direct function of the land tenure pattern. Land holding patterns are highly skewed with the best lands concentrated in the hands of large owners who account for most of the production of high value export commodities - coffee, cotton, sugar cane and livestock/meat. Small farmers, relegated to marginal agricultural lands, constitute the traditional sector producing about two-thirds of the basic grains (corn, beans, sorghum and rice). Increasing population pressure coupled with this tenure pattern has resulted in shrinking farm size as small farms are further subdivided and pasture, forest and wood lands are steadily incorporated into basic grains production despite severe limitations of this land. (See Annex II, Tables 6 and 8 for details of these trends.) Deforestation, erosion and an advancing state of environmental degradation have been the result.

The land tenure and utilization patterns described above have resulted in a gross misallocation of resources in the agricultural sector. Land, the scarce resource, has been underutilized. while labor has been rendered redundant by national land use patterns. As shown by estimates of returns to labor for the landed and landless, poverty and income distribution have been exacerbated by land holding patterns which have excluded 40% of the rural poor population from access to land in any form. Small owner-operators' return to their labor averages at least twice as much as for landless laborers.

Efficiency in the land use is inversely proportional to size of holdings. Small farmers cultivate virtually all their arable land and dedicate twice as much of their total farm lands

to crops as do large farmers. Large farms utilize their lands much less intensively, holding most of the country's pasture lands.

The land tenure system has forced the smallest farmers to be highly dependent on off-farm employment as an important source of supplementary income. For farmers under two hectares it is estimated that 23% of the family farm labor force is employed off the farm. Under-utilization of the rural labor force historically has averaged almost 50%.

In summary, there is great potential to improve land utilization rates, production and employment through land reform.

2. Agrarian Reform Law: Decrees 153 and 154

Decree 153, the Basic Law of Agrarian Reform, was proclaimed March 6, 1980. It provides for expropriation with compensation of all farm lands owned by individuals or legal entities in excess of established land holding ceilings. These ceilings are a function of the potential productivity of the land; 100 hectares of good agricultural lands or 150 hectares of poorer lands are the maximum size legal holdings that are allowed.^{1/} Owners affected by the reform have the right to retain land equivalent to the land holding ceiling although this right can not be exercised for one year, a measure intended to provide time to carry out this process in an orderly fashion. The retention right is subject to forfeiture should the owner seek to subvert the agrarian reform law by damaging or decapitalizing land and other farm assets.

Tenants, share-croppers, "colonos"^{2/}, paid workers or campesino land owners with insufficient land to meet their basic needs constitute the universe of eligible beneficiaries. Preference is to be given to those who live on or near the affected farms or who have worked on them for at least one year. These beneficiaries are to jointly own, operate and work their newly acquired lands upon being organized into agricultural production cooperatives or similar group farming entities.

Revenue generated by these group farming ventures will be used to defray production costs, meet the costs of basic family needs and make land payments, in that order of priority. ISTA (The Salvadorean Institute of Agricultural Transformation) is charged with much of the responsibility for carrying out this land reform.

^{1/} Standard US Soil Conservation Service soil type classifications are employed; 100 hectares of lands with class I-IV soils or 150 hectares of lands with class V-VIII soils constitute the land holding ceiling.

^{2/} A traditional patron-client relationship in which the colono works on the landlord's property in exchange for the right to live on the hacienda and use a small piece of land - usually less than 2 hectares, to produce basic foods. Cash payments may also be used to pay for services rendered.

Compensation to land owners surrendering land is to be made in cash and bonds. The largest land owners (500 hectares and above) are to receive all compensation in the form of long term bonds, whereas smaller owners are eligible to receive 25% of their compensation in cash. Property tax declarations for 1976 and 1977 are to serve as the basis for establishing land values. Compensation for personal property will take the form of special 5-year term bonds. Implementing regulations will govern the terms and conditions of three different types of bonds. Remuneration will be a function of historical land use and tenurial patterns. For further details, see the English translation of the law appearing in Annex III.

As a free standing implementing law, Decree 154 sets forth both the scope and mechanism for initiating this agrarian reform process in accordance with Decree 153. At this initial stage, only owners with lands in excess of 500 hectares are affected. Properties are to be intervened, inventoried and expropriated by MAG with the assistance of the Ministry of Defense. Decree 154 was proclaimed at the same time that the Basic Agrarian Reform Law was announced.

3. Status of Implementation

In announcing agrarian reform on March 6, the Junta Revolucionaria de Gobierno (JRG) explained that 244 landlords owning 376 properties comprised of 224,000 hectares would be affected this year. This first stage includes only holdings in excess of 5 hectares as specified in Decree 154. In the first 3 weeks of the reform about half of the properties have been intervened and expropriated, equivalent to 150,000 hectares. Thus about 10% of total farm lands have already been affected and this will reach 15% in the course of this first stage, according to the JRG. Private statements by Government officials suggest that pragmatism will dictate the rate at which the reform is extended downward towards the land holding ceilings of 100 to 150 hectares. Ultimately half or more of all farms may well be absorbed into the "reformed sector".

The demand for resources - financial, material and human - for implementing the reform is enormous and immediate. The GOES estimates that about 30% of the 224,000 hectares to be expropriated this year will be dedicated to crops, excluding livestock and forestry. Credit requirements for this "reformed sector" are estimated to be \$35,000,000. Fertilizer is an important component of this credit. The Agricultural Development Bank (BFA) has ordered 150,000 metric tons of fertilizer, about double its normal volume, in order to serve a greatly expanded clientele consisting of the production cooperatives organized on the large expropriated properties.

Field and office staffs of CENTA (Agricultural Extension and Research Institution), various directorates of MAG and of course ISTA have been fully mobilized to carry out the initial phase of intervention, including the expropriation of land and subsequent

organization of campesinos into cooperatives or quasi-cooperatives. Consequently there is almost no staff currently available to perform normal extension, planning and administrative functions which are vitally needed to support both the reformed sector and traditional clientele. Although this situation will ease slightly as the process of expropriation is completed, staff and transportation facilities will continue to be stretched extremely thin.

III. AGRARIAN REFORM SUPPORT (\$3,250,000)

A. Justification

Implementation of a comprehensive agrarian reform program is going to be extremely expensive. Initial cost estimates for Phase I -- 224,000 hectares, or 15% of the country's total farm lands and roughly half of the total lands which may be intervened under the Agrarian Reform Law -- suggest that total costs are likely to exceed the Government's ability to mobilize domestic resources. This, of course, comes at a time when the GOES is already facing serious economic problems, including growing balance of payment and fiscal deficits. External resources are therefore essential if Phase I of the Agrarian Reform Program is going to have any chance of success.

External assistance is also required as quickly as possible. As stated earlier, the GOES has already intervened on nearly half of the 376 fincas identified for take-over in Phase I. Now it must support these interventions, both in terms of Ministry of Agriculture ISTA, and CENTA extension and agrarian reform support services and Agriculture Development Bank (BFA) production credit and inputs. Credit funds are particularly crucial as they must be available in adequate amounts during April and May when basic grains planting begins.

The timely provision of inputs and services and early success of the program are viewed as essential. As stated in a 1976 AID-financed evaluation of small farmer organizations in Honduras: 1/

"... agrarian reform requires a different timing of responses by AID than, say, the kind of institution building program involved in the BNF (National Development Bank) small farmer credit program. With a BNF-type program the institution has considerable time to grow with AID support and assistance. It can even afford the luxury of having serious problems in its first years..."

1/ Judith Tendler, Inter-Country Evaluation of Small Farmer Organizations: Honduras, Chapter V, pp. 58-59.

An agrarian reform project, in contrast, has to achieve highly in its first years, if it is to survive at all. Unlike a small farmer credit program, which has no up-hill political battle to fight, it cannot build up its strength in an incremental fashion. It is more like a dam construction project which has to be finished before the rains come: if not, the rains will make it impossible to work until the next season and will undermine the construction already in place. An agrarian reform, similarly, is vulnerable to the opposition that will mount inevitably if it does not get things in place quickly enough."

AID concurs in the need for immediate support to the Government's Agrarian Reform Program. Considering this need for speed, as well as the kind of logistical and credit support which is required at this time, the Mission has concluded that AID's non-project assistance mechanism is the most appropriate instrument to use.

B. Program Description

1. Mission's Agrarian Reform Support Strategy

The Mission attaches the highest priority to supporting the agrarian reform. In pursuit of this objective it is the Mission's strategy to provide immediate and flexible support in areas essential to maintaining agricultural production and the efficacious implementation of the reform. There are several components of our proposed agrarian reform support program, the most urgently critical of which is the assistance proposed herein. It is proposed to use \$2,500,000 for logistic support to MAG-ISTA to facilitate implementation of the reform, \$750,000 of agricultural production credit to capitalize the BFA for purposes of extending basic grains production credit to the reformed sector, and \$750,000 for technical assistance directly related to planning, organizing and implementing the many facets of this reform and the Mission's broader FY 80 assistance program. Closely related to this package is \$3,000,000 worth of PL-480, Title I assistance the Mission has requested. Wheat imported with this assistance would conserve critically short foreign exchange, and local currency generated by the sale of the commodity to local millers at the time of import will further capitalize the BFA, providing it with desperately needed funds. An OPG to AIFLD will be used to support UCS (Union Communal Salvadoreña) agrarian reform activities. A \$1.4 Development Policy and Reform Grant Project now under preparation proposes assistance in the formulation of agricultural policy, an area of priority concern in the longer run, but which must be initiated early on if results are to be realized in the foreseeable future. The Marginal Community Improvement Project contains an Agrarian

Reform Support Activity intended to assist in meeting community service needs of agrarian reform beneficiaries. A more comprehensive assistance package will be designed in the next couple of months to pick up where the "emergency" assistance projects leave off -- longer term, more comprehensive assistance in the form of a \$15 to \$20 million development loan.

2. Utilization of Program Assistance Counterpart Funds

a. Logistical Support \$2,500,000

Personnel, transportation and equipment requirements of the public sector to carry out the initial phases of the reform far exceed available resources. Additional personnel must be recruited to assist in organizing campesino beneficiaries into cooperative-like entities, acquaint them with their rights and responsibilities as participating members and facilitate their access to services and inputs essential to the proper functioning of these production units. The cost of hiring agricultural extension technicians, managers and administrators to fill high priority personnel gaps will also be financed. Transportation, operating and maintenance costs of the fleet of vehicles being used to intervene the affected properties and support the newly organized campesino groups will be partially financed with this assistance. The AID assistance will cover approximately one third of the expected logistical costs over the next year. It is expected that half of the counterpart generated from the program assistance will be used for personnel, and the other half for transportation and operating costs.

b. Production Credit \$750,000

The public sector's responsibility in providing agricultural production credit has greatly expanded with the expropriation of 224,000 hectares of lands that are estimated will be affected this first year of the reform. Some 66,000 hectares or about 30 percent will be dedicated to crops broken down as follows:

CROPS	<u>AREA (Has.)</u>	<u>% OF TOTAL CROPPED AREAS</u>
Basic Grains	26,200	40
Export Crops	24,000	36
Agro Industrial Crops	6,300	9
Fruits and Foresty.	9,800	15
	<u>66,300</u>	<u>100</u>

USAID has been asked to provide assistance in financing production costs of 15,000 hectares of basic grains and the BFA intends to finance the balance in the reformed sector with resources already available to it. The \$750,000 of funds proposed for production credit will be channeled by the BFA to the new production coops. This will be an initial installment in meeting the financing requirements for these 15,000 hectares of basic grains. The balance will be met with the local currency generated by a \$3,000,000 PL-480 Title I program. The GOES estimates total financing requirements for the 15,000 hectares of basic grains at \$3,600,000.

C. Implementation Arrangements

1. Financial and Administrative Procedures

The program has been designed as a resource transfer to support the Government of El Salvador's initial efforts to implement its Agrarian Reform Program. The first step will be signature of a \$3.25 million Grant Agreement which specifies the institutions to be supported, the allocation of funds to each of these institutions, the kinds of budgetary support expenditures authorized for AID financing, and disbursement procedures. (See Annex IV for draft Grant Agreement).

After considering the various alternatives for program/non-project assistance -- i.e., Commodity Import Program, Cash Transfer, or PL 480 Title I -- the Mission determined that Cash Transfer procedures would be most appropriate. There were two major reasons for this decision. The first and most important was timing: the government needs financial support now. It does not have experience in managing a Commodity Import Program, and to install the required personnel and procedures would take months at the very least. Similarly, although the Mission and Government are making initial plans for a PL 480 Title I program, it is not advanced far enough to ensure the financial support which is required during the immediate future. Secondly, the GOES is facing an increasingly serious foreign exchange constraint which, as explained in Section II.B, is rapidly approaching crisis proportions. The latest unofficial estimates show reserves falling to \$5-10 million as of 3/15/80, although increasing slightly to \$10-20 million on 3/21/80. In combination, these two factors argue strongly for use of AID's Cash Transfer procedures. The entire \$3.25 million will be disbursed by AID in U.S. dollars upon submission of the appropriate documentation by the GOES. All AID funds will be disbursed directly to a GOES account in the United States.

Within two weeks from the date of notification that AID disbursement of funds to the U.S. dollar account has been made, the GOES will deposit an equivalent local currency amount, into two special agrarian reform accounts -- one for logistic support (MAG-ISTA) and one for production credit (BFA). The Grant

Agreement will include a provision allowing for the transfer of funds from one special account to another, provided that the cumulative transfers do not exceed \$1 million.

As soon as possible following signature of the Grant Agreement, preferably at the same time that the GOES deposits the required local currency into the two special Agrarian Reform Support accounts, the USAID Mission will sign an Activity Agreement with the Ministry of Agriculture to cover the MAG-ISTA logistical support activities and the BFA production credit activities.

This Activity Agreement will go into greater detail than the Grant Agreement concerning activities which can be financed with the \$3.25 million of AID grant funds. It will also specify the activity completion dates and any special conditions precedent to disbursement from the special local currency accounts. The following Conditions Precedent for the disbursement of local currency will be included:

a. Logistic Support for MAG-ISTA:

- a plan for the use of funds for logistic support, including a listing and description of the activities to be financed, cost estimates for individual elements, schedule for expenditures, and indication of organizational responsibilities.
- a statement on the adequacy of the internal financial controls established to ensure that Grant Funds are used only to finance eligible sub-activities; and

b. Production Credit for BFA:

- a statement confirming that the Central Bank has established a \$3 million line of credit for basic grains lending to new agrarian reform-farming units by the BFA; and
- a statement on the adequacy of the internal financial controls established to ensure that Grant Funds are used principally to finance basic grains production credit.

After receipt of these statements, AID will issue
implementatic
of funds.

ers approving the above and authorizing the disbursement

2. AID Monitoring

The GOES will follow accepted accounting principles and keep books and records adequate to show t

and use of all goods and services financed under each Activity. These books and records will be audited regularly and maintained for at least three years after the date of last disbursement from each special account. AID will have access to these books and records in order to determine the utilization of all goods and services financed under the Grant.

In addition, AID will request the GOES to forward to AID on a quarterly basis a statement of expenditures and activities financed during the previous quarter.

IV. TECHNICAL ASSISTANCE SUPPORT

A. Justification

As stated in Section II.A above, the Government has embarked on a series of major reforms since October 15, 1979. Implementation of these, particularly agrarian reform, is seriously taxing the country's administrative capabilities. Recognizing this, the GOES has requested substantial technical assistance from the U.S. and other sources. Some of these needs will be met through an FY 80 Development Policy and Reform Project which the Mission expects to authorize in April 1980. That project will not, however, meet the urgent need for two special kinds of technical assistance: i.e., in agrarian reform and in implementing the Government's emergency program to reactivate the economy, generate new employment, and provide improved basic services to the poor. Therefore, the Mission is proposing this Technical Assistance Support Project to meet these special GOES needs.

B. Project Activities

The project will finance both agrarian reform and broader program implementation technical assistance requirements.

1. Agrarian Reform Technical Assistance

The government has requested \$300,000 of technical assistance in this category. The most urgent requirements which have already been identified total \$190,700. These requirements are broken down as follows:

- a. Specialist in Mass Communication -- to assist the GOES in preparing announcements and training materials relating to implementation of the Agrarian Reform Law.
- b. Two specialists in Agrarian Law -- to assist in a study of the Special Law for Agrarian Reform and the need for possible modification of other

laws, including the Basic Law for Agrarian Reform, in El Salvador. These specialists will also assist in the development of documentation relating to the agrarian tribunal and the training of personnel.

- c. Specialist in Institutional Organization -- to assist in a study of ISTA's role in the Agrarian Reform Program; to initiate plans for the decentralization of ISTA's functions; and to develop mechanisms for coordinating public sector institutional support of agrarian reform.
- d. Specialist in Agrarian Reform Planning -- to assist in the planning of subsequent phases of the Agrarian Reform Program.
- e. Specialist in Agrarian Reform Implementation -- to assist in the institutional reorganization of the agricultural sector to improve its support of agrarian reform.
- f. Two specialists in Campesino Organization -- to assist in developing mechanisms for campesino organization, including the establishment of cooperatives.
- g. Two specialists in Campesino Training -- to assist in the creation of training center (s), the development of training curriculum, and the training of personnel for these centers.
- h. Three specialists in the Administration of Campesino Enterprises -- to assist in the organizational design of farms, especially for those campesinos who become owners of coffee, cotton, and sugar cane plantations; to assist in the development of administrative procedures for agro-industries; and to train campesinos in the management of these enterprises.
- i. Specialist in Project Formulation -- to assist the GOES in preparing project proposals relating to agrarian reform to the major international financial institutions.
- j. Two specialists in Agricultural Production -- to assist in the development of agricultural production plans relating to those crops which are of greatest significance on intervened agricultural lands.

The GOES has requested that these sixteen persons be made available immediately for an average of two months per person. At an average cost of \$4,560 per person month plus transportation and institutional overhead costs, the 32 person months of technical assistance will cost \$190,700. IICA has already agreed to provide the necessary services and has arranged for a group of highly qualified Latin American experts to come to El Salvador. AID concurs in the selection of these experts and in the importance of using Latin American specialists who have on-the-ground experience in implementing agrarian reform programs. In order to meet the GOES's urgent needs for technical assistance, IICA has already secured the services of several specialists who began work during the last week of March 1980. The Mission concurs in the selection of each of these specialists, and therefore recommends that it be authorized to reimburse the GOES for eligible expenditures incurred under the IICA contract as of March 27, 1980.

Beyond these services provided by IICA, the GOES and AID have tentatively identified approximately 10 person months of technical assistance requirements which will come primarily from U.S. sources. These short-term consultants will be needed in such areas as agrarian reform planning, agricultural credit and finance, agricultural economics, cooperative development, crop diversification, and agricultural export management. Using average per person month costs of \$8,000, these short-term technical assistance requirements will total \$80,000 over the next 12 to 18 months.

In addition, AID and the GOES are exploring the feasibility of financing a seminar in summer 1980 which would bring together experts from throughout Latin America to discuss their experiences with agrarian reform and to transfer some of this valuable experience to El Salvador. It is estimated that such a 5-day seminar would cost \$29,300.

In summary, the Mission is planning to allocate \$300,000 for technical assistance support to the Agrarian Reform Program: \$190,700 for immediate short-term requirements, \$80,000 for longer-term consultancy requirements, and \$29,300 for a region-wide agrarian reform seminar.

2. Implementation Support

The GOES and AID have entered into a greatly expanded Economic Assistance Program in FY 80. This program, plus other GOES activities in its emergency program to reactivate the economy and increase public services, are seriously taxing the Government's administrative capabilities. In order to respond to this growing problem, AID and the GOES have decided to allocate \$450,000 for special technical and administrative assistance.

These preliminarily identified requirements are as follows:

- a. Urban Works Specialist -- to assist the GOES and AID in monitoring implementation of the Public Sector Employment and Marginal Community Improvement projects. This will include on-the ground monitoring of physical construction, as well as assistance to the various GOES implementing agencies in project implementation.
- b. Low Cost Housing Specialist -- to assist the GOES and AID in monitoring housing finance, construction, and home improvement activities in the Marginal Community Improvement Project. This will include assistance in procurement, reporting, evaluation and institutional coordination, as well as monitoring of overall project implementation and site visits to the housing sub-projects.
- c. Agricultural Specialist -- to assist the GOES and AID in monitoring implementation of agrarian reform -- as financed under this Agrarian Reform Support Program and the Marginal Community Improvement Project. This will include site visits, and assistance to the major implementing agencies -- MAG, ISTA, and BFA -- in coordinating their inputs and in ensuring that these services are provided on a timely basis.
- d. Agricultural Economist -- to assist the GOES and AID in analyzing the economic ramifications of agrarian reform, and in developing a system through which costs and benefits can be evaluated over time. This will include site visits and work within the major implementing agencies, as well as assistance to AID and the GOES in developing future agricultural and agrarian reform projects.
- e. Procurement/Logistics Specialist -- to assist the GOES and AID in developing procurement and logistics management systems for all of the projects in the expanded AID program to El Salvador. This will include training of Salvadorans in the utilization of AID procurement regulations, as well as assistance in the preparation and review of bids and the preparation of final contracts and documentation.
- f. Media/Mass Communications Specialist -- to assist the GOES and AID in developing the informational systems which are required for implementation of

the expanded AID program to El Salvador. This will include the development of systems to assure adequate publicity concerning employment opportunities under the Public Employment and Marginal Community Improvement projects, as well as essential information related to the PL-480 Title II, small producer credit, and health outreach programs.

It is expected that each of these specialists will be a Salvadoran or locally hired resident third-country national. Each will be contracted on a two-year basis, at an average cost of \$25,000 per year for a total requirement of \$300,000. In addition, the Mission is requesting a reserve technical assistance support fund of \$150,000 for which specific uses will be identified during the next two months. This \$150,000 will also serve as a contingency fund to cover any increases in the estimated unit TA costs. This is particularly important to the extent that non-Salvadoran or third country experts are available and the Mission has to look to U.S. sources.

C. Implementation Arrangements

AID will sign a separate Grant Agreement covering this \$750,000 Technical Assistance Support Project with the Ministry of Planning and Ministry of Agriculture. Any technical assistance to be financed under the grant which is not specified in the Grant Agreement will be covered in subsequent implementation letters signed by the GOES and AID.

The proposed \$190,700 short-term technical assistance contract and all other planned TA for agrarian reform support will be signed and negotiated by the host country. However, in order to expedite contracting and to ensure the timely availability of all anticipated implementation support technical assistance, the Mission expects to contract directly with the individuals concerned or preferably with a local consulting firm which will provide all of the needed services. In each of these cases, there will be an exchange of letter with the Government to ensure agreement on the contractor and scope of work. To the extent that U.S. contractors are required, preference will be given to Section 8 (A) firms.

NON-PROJECT STATUTORY CHECKLIST
(\$3,250,000)
3A(1) - COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY

1. 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 U.S. unlawfully? No

2. 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

3. FAA Sec. 620(c). If assistance is to a 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? There is no evidence of any such debt owed to a U.S. citizen.

4. 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

5. FAA Sec. 620(f); App. Sec. 103. Is recipient country a communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos? No

A

6. FAA Sec. 620(j). 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
7. 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
8. 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.
9. FAA Sec. 620(o); Fishermen's Protective Act, 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 any penalty or sanction against any U.S. fishing activities in international waters.
- a. has any deduction required by Fishermen's Protective Act been made?
- b. has complete denial of assistance been considered by AID Administrator?
10. FAA Sec. 620(g); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act, unless debt was earlier disputed, or appropriate steps taken to cure default? No
11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).) Approximately 9% of the 1978 Central Government budget was for defense and public security expenditures. Looking only at defense, the percentage drops to 6%. The Government has not made significant foreign exchange expenditures for defense.

A.

12. 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
13. FAA Sec. 620(u). What is the payment status of the country's U.H. 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? To the best of our knowledge, the GOES is not in arrears
14. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? No
15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base? N/A
16. FAA Sec. 655. 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. 659. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.? No
18. FAA Sec. 670. Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device? No
19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? No

B FUNDING CRITERIA FOR COUNTRY1. Economic Support Fund Country Criteria

- a. FAA Sec. 5023. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section? No

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- b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance? Yes
- 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
2. Development Assistance Country Criteria N/A
- a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: - -
 (1) small-farm labor intensive agriculture,
 (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.
- b. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, has the Congress specifically authorized such funds, or is assistance for population programs, humanitarian aid through international organizations, or regional programs?
- c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or no. more than \$1 million over that figure plus 10%)?

1.

(a) An Advice of Program Change notifying the Congress of the addition of \$5 million of Econ. Support Funds ~~has been~~ sent to the Congress.

(b) Yes, it is within OYB submitted to OMB.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?
3. FAA Sec. 209, 612. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?
4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance 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.
5. FAA Sec. 601(b). Information and conclusion on how assistance 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).
6. FAA Sec. 612(b); Sec 625(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 United States are utilized to meet the cost of contractual and other services.
7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No further legislation is required.

No, it is more efficiently and effectively given through bilateral channels.

The assistance will support GOES efforts to redistribute land holdings more equitably. It will encourage the development of cooperatives and discourage monopolistic practices. In addition it will complement a \$1 million Operational Program Grant to AIFLD to strengthen free agrarian unions and cooperatives.

The project will strengthen the economy and increase incomes of the poor. As such, in the long-term it will provide new opportunities for private U.S. participation.

In order to meet the short-term objectives of this program a significant amount of U.S. dollars will be used to generate local currency. The GOES will finance the vast majority of the local currency costs of its Agrarian Reform Project.

8. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531. How will this assistance support promote economic or political stability?

Inequitable land ownership has been an important destabilizing factor. This program will support GOES efforts to reform land ownership patterns. As such it should promote political and economic stability.

2. Nonproject Criteria for Development Assistance:

N/A

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, b. extending access to economy at local level increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

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

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?

- (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:
- (a) to help alleviate energy problem;
 - (b) reconstruction after natural or manmade disaster;
 - (c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;
 - (d) 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.
- (5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

d. FAA Sec. 231(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

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3A(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 exclusion (as where certain users of funds are permitted, but other uses not).

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

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? | Standard AID procedures will be used to extent applicable. |
| 2. <u>FAA Sec. 604(a).</u> Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him? | To extent feasible. |
| 3. <u>FAA Sec. 604(b).</u> Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase? | To extent feasible. |
| 4. <u>FAA Sec. 604(c).</u> Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients? | N/A |
| 5. <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? | N/A |
| 6. <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 |
| 7. <u>FAA Sec. 604(f).</u> Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed? | N/A |

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8. FAA Sec. 603(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? N/A
9. MIA Sec. 901(b). (a) Compliance with requirement 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. N/A
10. International Air Transport. Fair Competitive Practices Act, 1974 (es, to extent feasible.
- 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?
- OTHER RESTRICTIONS
1. FAA Sec. 620(n). 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
2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufacture outside the United States? Yes
3. Will arrangement preclude use of financing: Yes
- a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilization or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? Yes
- b. FAA Sec. 620(a). to compensate owners for expropriated nationalized property? Yes
- c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? Yes
- d. FAA Sec. 662. for CIA activities? Yes

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- e. App. Sec. 103. to pay pensions, etc. for military personnel? Yes
- f. App. Sec. 106. to pay U.N. assessments? Yes
- g. App. Sec. 107. to carry out provisions of PAA Sections 203(d) and 251(h)? (transfer to multilateral organization for lending). Yes
- PAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter. Can the country borrower service the loan on harder than standard development loan terms? N/A

PROJECT STATUTORY CHECKLIST
(\$750,000)

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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A.

6. FAA Sec. 620(a), 620(f); FY 79 App. Act, Sec. 103, 114 and 606. Is recipient country a Communist country? Will assistance be provided to the Socialist Republic of Vietnam, Cambodia, Laos, Cuba, Uganda, Mozambique, or Angola? No.
7. FAA Sec. 620(l). 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 million is to be expended on military equipment. The GOES has not purchased sophisticated weapons

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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 the Mission, El Salvador is meeting its UN obligations.

15. FAA Sec. 620A, FY 79 App. Act. Sec. 607. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?

No.

16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?

No.

17. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty?

No.

3. FUNDING CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

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

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

b. FAA Sec. 104(d)(1). If appropriate, is this development (including Sahel) activity design 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? No.

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

5C(2) - PROJECT CHECKL

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>Congressional Notification has been processed.</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> |

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 and provide technical assistance in the development of cooperatives.

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

The project will finance some U.S. technical assistance from private sources.

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

The host country is providing counterpart contribution to the Agrarian Reform Program and expanded FY80 assistance program to El Salvador. 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

N/A

a. FAA Sec. 102(b); 111; 113; 201a. 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

1.1.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.

N/A

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

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

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

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

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

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

(ii) to help alleviate energy problems;

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

(iv) reconstruction after natural or manmade disaster;

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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 use of appropriate technology?

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)?

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"?

f. FAA Sec. 281(h). 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.

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?

2. Development Assistance Project Criteria (Loans Only)

N/A

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

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?

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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?

Yes. by helping to promote success of the Government's Agrarian Reform Program

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

No.

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5C(3) - STANDARD ITEM CHE

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?

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?

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

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? N/A

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 maintenance of such transaction? Yes

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

Table 1
Gross Domestic Product
(In Millions of Constant 1962 Colones)

	1978		1979 ^{1/}	
	¢	%	¢	%
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 2

EL SALVADOR: THE BALANCE OF PAYMENTS, 1978-80
(Millions of U.S. Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
1. Exports (FOB)	<u>845.8</u>	<u>1118.4</u>	<u>948</u>	<u>799</u>
Coffee	432.9	695.6	560	476
Cotton	99.0	92.8	72	40
Sugar	18.9	26.0	28	31
Shrimp	10.6	12.0	12	12
Other (to Outside World)	53.2	52.0	40	40
To CACM	231.2	240.0	236	200
2. Imports (CIF)	<u>-1030.5</u>	<u>-1040.0</u>	<u>-1040</u>	<u>-1040</u>
3. Services, Net	<u>- 109.8</u>	<u>- 140.0</u>	<u>- 148</u>	<u>- 150</u>
Receipts	158.0	188.0	168	
Payments	267.8	- 328.0	- 316	
4. Net Transfers	51.4	56.0	40	40
5. Current Account Balance	- 243.1	- 5.6	- 200	- 351
6. Capital Total	<u>206.6</u>	<u>- 135.7</u>	<u>12</u>	<u>120</u>
Private	159.2	- 175.7	- 130	- 30
Official	47.4	40.0	142	150
7. Total, Net Overall Balance	- 36.5	- 141.3	- 188	- 231
8. Financing: Bank Loans, IMF, CAMSF Credits, etc.	65.0	33.2	55	
9. Change in International Re- serves (increase + decrease -)	28.6	- 108.1	- 133	

Source: For 1978-79, Central Bank. Projections for 1980-81, ROCAP Regional Economic Advisor with assistance from Central Bank.

Table 3

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

	<u>Actual 1977</u>	<u>Actual 1978</u>	<u>Estimated Actual 1979</u>	<u>Budget 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		- 35.6	210.9

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

Table 4

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

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Per_Cent Increase 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

EL SALVADOR: ESTIMATED UNDEREMPLOYMENT
BY SECTOR FOR 1978

	<u>UNDEREMPLOYMENT RATES</u>
Agriculture	48.7
Mining	7.7
Industry	30.9
Electricity, Gas and Water	2.3
Construction	12.4
Commerce	37.7
Transport and Communications	6.1
Banking and Insurance	1.7
Services	30.7
Activities not Specified	9.5
TOTAL	37.0

Source: Ministry of Labor

Table 6
Changing Patterns of Farm Size

Farm Size (Has.)	1950		1961		1971		% change in No of farms by size category 1951/71
	No. of Farms	% of Total	No. of Farms	% of Total	No. of Farms	% of Total	
0 - 2	105,600	60.6%	155,555	68.6%	191,527	70.7%	81.4%
2 - 5	34,868	20.0	37,743	16.6	43,414	16.0	24.5
5 - 10	14,064	8.1	14,001	6.2	15,598	5.8	10.9
10 - 20	8,874	5.1	8,524	3.8	9,164	3.4	3.2
20 - 100	8,767	5.0	8,925	3.9	9,224	3.4	5.2
over 100	2,026	1.2	2,148	0.9	1,941	0.7	- 4.2
TOTAL	174,204	100.0%	226,896	100.0%	270,868	100.0%	

Table 7
Percentage Distribution of Land by Farm Size and Tenure

Farm Size (Has.)	1950	1961	1971	Net Change in Area % 1950-71
0 - 2	5.4% <u>1/</u>	8.8%	10.4%	81.8%
Owner	(42.2) <u>2/</u>	(41.9)	(44.2)	90.4
Non-Owner	(57.8) <u>2/</u>	(58.1)	(55.8)	75.6
2 - 5	7.1	7.9	9.1	23.4
Owner	(75.9)	(79.6)	(76.6)	24.5
Non-Owner	(24.1)	(20.4)	(23.4)	19.8
5 - 10	6.5	6.7	7.6	11.1
Owner	(91.0)	(93.2)	(90.0)	9.8
Non-Owner	(9.0)	(6.8)	(10.0)	24.0
10 - 20	8.0	7.9	8.7	3.7
Owner	(95.1)	(95.6)	(93.9)	2.0
Non-Owner	(4.9)	(4.4)	(6.1)	28.1
20 - 100	23.1	24.5	25.5	4.4
Over 100	49.9%	44.2%	38.7%	-26.5%

1/ % land in farm size category.

2/ % of farms in tenure category.

T A B L E 8

ANNEX II.7

L A N D U S E P A T T E R N S

YEAR	ANNUAL CROPS	PERENNIAL CROPS	IMPROVED PASTURES --	NATIVE PASTURES	WOODLAND FORESTS AND OTHERS	T O T A L	
						HECTARES	%
1950 ^{1/}	25.7	10.1	11.5	32.8	19.9	1,519,320	100.0
1961 ^{1/}	31.2	10.1	6.6	31.2	20.6	1,581,428	100.0
1971 ^{1/}	33.6	11.3	7.8	30.4	16.9	1,451,895	100.0
1978 ^{2/}	39.7	14.6	7.6	22.5	15.6	1,542,458	100.0

^{1/} Source: Agricultural Censuses of 1950-1961

^{1/} Source: Annual Agricultural Statistics, 1978-1979 published by the Ministry of Agriculture.

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 ~~xxxxxxx~~ 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 I

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:

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- 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 regulation.

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 a guarantee of his freedom and dignity.

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CHAPTER 7

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.

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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 of residence, if known. Otherwise, a single announcement published in the Official Gazette, and two announcements published in two of the local newspapers of ~~major~~ ^{major} circulation shall suffice.

The ~~land~~ landholder or owner must notify the ISTA offices, 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.

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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 del Registro de la Propiedad Raiz). 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 pro-rated 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 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 ~~rent~~ 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;
- ~~222~~ (B) Continuity of production and productivity; and
- (C) Care and maintenance of land and 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 ~~XXXXXXXXXX~~ peasants.

CHAPTER 6

R ALLOCATION OF LAND AND OTHER PROPERTY

Article 13. 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 and in accordance with national economy interests, striving to achieve the following:

- (A) Creation of a reasonable margin of savings for ^{all} ~~and~~ 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, fixed 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,

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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 by 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

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Decree, and (the State) shall take possession of same in the manner established in Article 11.

Article 27. Landholders or owners of land and/or property whose acreage, taken either ~~area~~ 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 those 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 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 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. 228, 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 ~~as~~ 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.

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(signed by)

Col. Adolfo Arnoldo Najano Paños

Col. Jaime Abdul Gutierrez

Dr. Jose Antonio Morales Ehrlich

Dr. Jose Ramon Avalos Navarrete

Ing. Octavio Orellana Solis, Minister of Agriculture
and Livestock

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Non-Project Grant Agreement
(Agrarian Reform Support)

By this Agreement made and entered into as of the _____, the Republic of El Salvador (hereinafter referred to as the "Grantee"), and the United States of America, acting through the Agency for International Development (hereinafter referred to as "AID"), hereby agree as follows:

SECTION 1. The Grant. For the purpose of assisting the Grantee to stimulate activity and to support initial implementation of a comprehensive Agrarian Reform Program, AID, pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants to the Grantee THREE MILLION TWO HUNDRED AND FIFTY THOUSAND UNITED STATES DOLLARS (US\$3,250,000).

SECTION 2. Condition Precedent to Disbursement. Prior to disbursement under this Agreement, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, a statement of the name or names of the persons holding or acting in the office of the Grantee specified in Section 12, and a specimen signature of each person specified in such statement.

SECTION 3. Notification of Satisfaction of Condition-Precedent. When AID has determined that the condition precedent specified in Section 2 has been met, AID will promptly notify the Grantee.

SECTION 4. Terminal Date for Condition Precedent. If the condition specified in Section 2 has not been met within ninety (90) days from the date this Agreement is made and entered into, or such later date as AID may agree to in writing, AID, at its option, may terminate this Agreement by written notice to the Grantee.

SECTION 5. Disbursement. Disbursement of the funds made available under this Agreement will be made in one installment pursuant to a request for disbursement by the Grantee and subsequent to satisfaction of the Condition Precedent to Disbursement under Section 2. The request for disbursement will be submitted to the Mission Director, USAID Mission to El Salvador, on AID Form 1130-2 (Financing Request). In accordance with the request for disbursement, AID will deposit the funds into an account of the Grantee at a United States bank designated by the Grantee.

SECTION 6. Terminal Date for Requesting Disbursement. The Terminal Date for requesting disbursement of funds will be six (6) months from the date this Agreement was made and entered into, except as AID may

otherwise agree in writing.

SECTION 7. Special Accounts for Agrarian Reform Support.

- A. For the purpose of financing the local currency costs of expected agrarian reform support programs, the Grantee will establish two special accounts, and within two (2) weeks from the date of disbursement of funds under this Agreement, deposit therein currency of the Republic of El Salvador equivalent in amount to the United States dollar disbursement made under this Agreement and in accordance with the terms of Subsection B below. The highest rate of exchange which is not unlawful in the Republic of El Salvador on the date of dollar disbursement shall be used in determining the total amount required to be deposited in the account.
- B. Funds deposited in the Special Accounts shall be used as follows: (I) \$2,500,000 to finance local currency logistical support costs of the Ministry of Agriculture (MAG) related to implementation of Phase I of the Agrarian Reform Program, such activities to be more specifically described in the Activity Agreement to be entered into between the MAG and AID. The Activity Agreement will include a plan for the use of funds for logistic support, including a listing and description of the activities to be financed, cost estimates for individual elements, schedule for expenditures, and indication of organizational responsibilities. (II) \$750,000 to finance local currency costs of the Banco de Fomento Agropecuario (BFA) related to agricultural production credit requirements for new agrarian reform settlements, such activities to be more specifically described in the Activity Agreement to be entered into between BFA and AID.

Upon written approval of AID, funds may be transferred from one special account to the other; provided that not to exceed \$1.0 million equivalent in the aggregate shall be so transferred.

- C. Disbursement from the Special Accounts for agrarian reform support programs meeting the criteria set forth in Section 7. B shall be made by the Grantee in accordance with such procedures and at such times as determined to be appropriate by the Grantee; provided that all funds deposited in the Special Account shall be disbursed within eighteen (18) months from the date this Agreement is made and entered into.
- D. The Grantee will provide to AID, financial reports covering all cumulative deposits to and disbursements from the Special Accounts specified in Section 7. a. These financial reports will be prepared and submitted as jointly agreed between the responsible implementing agencies and AID but in any case, no less frequently than every three (3) months. The Grantee will provide

additional information and reports concerning activities related to this Grant, as AID may reasonably request.

- E. The Grantee will, at mutually agreed upon times, afford representatives of AID the opportunity to observe activities financed under the Special Accounts.

SECTION 8. Taxation. This Agreement and the amount to be granted hereunder shall be free from any taxation or fees imposed under any laws in effect within the Republic of El Salvador.

SECTION 9. Use of Funds. The Grantee agrees that the funds provided hereunder shall not be used to finance military requirements of any kind including the procurement of commodities or services for military purposes.

SECTION 10. Records. The Grantee agrees that financial records relating to the utilization of funds granted by AID under this Agreement and the funds deposited into the special accounts by the Grantee shall be kept in accordance with the Grantee's usual accounting procedures, which shall follow generally accepted accounting procedures. All such financial records shall be maintained for at least three (3) years after the final disbursement of funds from the Special Accounts, and shall be made available at any reasonable time to authorized representatives of AID for the purpose of examination and inspection.

SECTION 11. Communications and Language. Any notice, request, document or other communication submitted by either party to the other under this Agreement will be in writing or by telegram, cable or radiogram, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

Address for mail and cables:

Ministry of Agriculture
Los Heroes Boulevard
San Salvador, El Salvador

To AID:

Mail address:

USAID Mission to El Salvador
American Embassy
San Salvador, El Salvador

Alternate address for cables:

USAID/AMEMBASSY
San Salvador, El Salvador

All such communications will be in English, unless the parties hereto otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The English language version of this Agreement shall be controlling for purposes of interpretation.

SECTION 12. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of the Minister of Agriculture and AID will be represented by the individual holding or acting in the office of the Mission Director, USAID Mission to El Salvador, each of whom, by written notice, may designate additional representatives for all purposes other than revising project details. The names of the representatives of the Grantee, with specimen signatures, will be provided to AID, which may accept as duly authorized any instrument signed by such representatives in the implementation of this Agreement, until receipt of written notice of revocation of their authority.

In witness whereof, the Republic of El Salvador and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

SECTION 13. Special Covenant. The Grantee covenants to cause the Banco de Fomento Agropecuario to use reflows of credit funds provided under this grant for future lending to the agrarian reform sector.